

Legal and Judicial Policy for Trade Secret Protection in India

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Abstract

The paper deals with intellectual property dimension of trade secret law in international, comparative and Indian context. The foundation of trade secret law is laid under Article 10bis of the *Paris Convention*, 1967 and Article 39(2) and 39(3) of *Trade Related Aspects of Intellectual Property Rights (TRIPS) Agreement*, 1995. This is supplemented by the United States law on *Uniform Trade Secret Act*, 1979 and *Economic Espionage Act*, 1996 world over as a model laws. India has no specific trade secrets law although forceful attempt has been made for the enactment of *National Innovation Act*, 2008 but could not be finally enacted. The onset of *National Science and Technology Policy*, 2013 and *Intellectual Property Policy*, 2016 have made specific reference for the development of a robust trade secret law in India. However till date the trade secret law is guided by an array of contract law, equity and common law and breach of confidence laws. It was only recently that trade secret law has received attention under copyright, patent, information technology and right to information laws of in India. The paper is an attempt to analyze the range and coverage of trade secret law along with the judicial doctrines which have developed through precedent based law to govern innovativeness and competitiveness in India.

Keywords: Trade Secret, Undisclosed Information, Innovation & Competition, Economic Espionage, Common Law, Equity Principles

1. INTRODUCTION

The foundation of trade secret law is grounded in Article 10bis of the *Paris Convention*, 1967 and Article 39(2) and 39(3) of *Trade Related Aspects of Intellectual Property Rights (TRIPS) Agreement*, 1995(Former,2011)¹. The Indian trade secret law is governed by *Indian Contract Act*, 1872, common law doctrine and precedent-based law in the absence of any particular enactment. The specific law was endeavoured under proposed legislation on *National Innovation Act*, 2008 but could not enacted finally (Nomani, 2013)². The trade secret as an intellectual property (IP) creates human intellect innovativeness and competitiveness and technological improvements (Cornish,1996)³. This creativity is represented is non-rivalrous competition and limited for use by another (Romer, 1990)⁴. In order to protect the vast repository of 'undisclosed information' and knowledge trade secret is considered a pro-active *sui generis* legislation (Nomani, 2000)⁵.

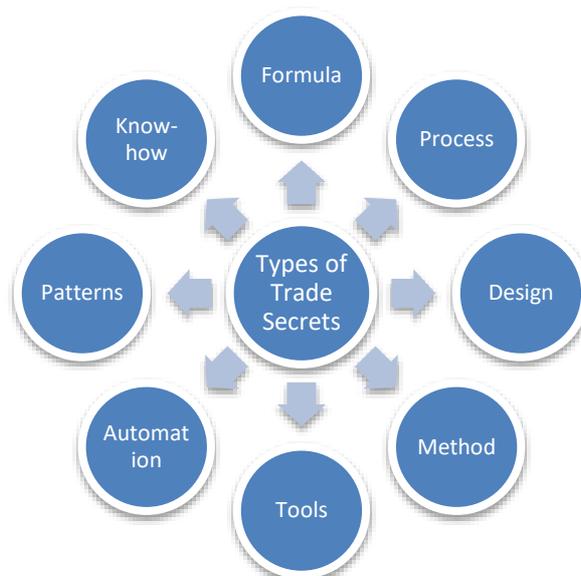


Figure 1: Types of Trade Secrets

The trade secrets, as innovation rights, can be amazingly profitable to development, survival and consumer justice (Nomani, 2009)⁶. Every organization must guarantee that they satisfactorily secure their business forms, specialized skill and secret data from contenders (Nomani & Rahman, 2011)⁷. A trade secret may allude to training, process, plan, instrument or a gathering of information or data identifying with the business which is not commonly known to general society. The proprietor sensibly endeavours to keep trade secret by monetary enthusiasm as against the contenders (Nomani & Rahman, 2011)⁸.

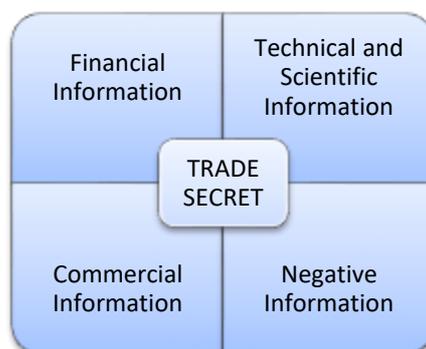


Figure 2: Contours of Trade Secrets

In this context, the Delhi High Court decision in *American Express Bank Ltd v Priya Puri* (III LLJ 540 Del) is significant. The Court defined trade secrets as “...formulae, technical know-how or a peculiar mode or method of business adopted by an employer which is unknown to others.’ Such information has a reasonable impact on the organizational expansion and economic interests.” Similarly, in the case of *Anil Gupta v. Kunal Dasgupta* (97 2002 DLT 257), the Delhi High Court further ruled that 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.

2. MATERIALS AND METHODS

The study seeks to deepen knowledge of Indian trade secret laws in the frame work of *Paris Convention*, 1967 and the *TRIPS Agreement*, 1995. It assesses the pragmatic discourse of Indian trade secret laws adopted through judicial doctrines. The methodology partake established canons of statutory interpretation. It also undertakes the comparative law method by synergising trade secret legislations in to competition and innovation protection laws under emerging IPR regime (Nomani, 2012)⁹. The qualitative and quantitative research is also culled out in fostering role of trade secret protection laws in the development of international and bilateral trade and

investment (Nomani & Ahmed, 2019)¹⁰. Thus the material and method of study consists of the Indian common law technique along with the statutory and legal interpretation of judicial precedent and principles.

3. RESULTS

Although India does not have a specific codified legislation to protect trade secrets and confidential information, or technical knowhow of value to the owner, yet the Indian courts have preferred to construe trade secrets as equitable rights and brought them to be protected under different specific Indian legislations viz; *Indian Contract Act, 1872*, *Copyright Act, 1957*, *Competition Act, 2002*, and under the noble auspices of equity and common law and action for breach of confidence. The global development of trade secret law, are not well established and uniformly protected around the world (Nomani & Rahman, 2011)¹¹. However it provides a *grund* norm for the national trade secret laws in many ways (Cohen & Guterman, 1998)¹².

3.1 Trade Secret & International IP Laws: For the protection of certain information, not readily available in the public domain or easily accessible and which are of immense commercial value, there are certain international mechanisms viz. Article 10bis of the *Paris Convention, 1967* and Article 39(2) and 39(3) of *TRIPS Agreement, 1995*. Similarly, under Article 39 of *TRIPS Agreement, 1995*, it is the duty of the member nations to enlarge the protection to *natural and legal persons* wherein and whereby they have the sole control, interest and right over such information. It is also provided in the 1995 Agreement that the information cannot be disclosed, acquired or used by others without the prior consent of the owner, and it must not be used for a similar commercial purpose or practice. Therefore, the natural corollary which follows from this is that the member nation states should develop domestic policy and legislation under their legislative framework, including but not limited to the formulating of specific laws within their IP regime. In reference to the term "possibility", discussed in here, it should always be inferred to mean the possibility of developing legislative framework within their own legal system and not necessarily having a specific IP legal regime (Blair & Cotter, 2005)¹³. Article 39.2 of *TRIPS Agreement, 1995* elucidates that the legislative framework has to be developed to bring the protection of trade secrets under the definition of breach of contract and breach of confidence. The enticement by the third parties to illegally gain undisclosed information would constitute a breach and is not considered as honest commercial practices. The TRIPS Agreement protects against unfair competition and allows member States to address Trade Secret through developing a specific legal regime or through the common law system (Nomani & Raj, 2016)¹⁴. That is why we find huge variances in the measures and legal scheme a developed by the nation states in protection of their trade secrets. However, the view adopted by the *General Agreement on Tariffs and Trade (GATT), 1989* in their discussion paper on India specifically enunciates that trade secrets cannot be accorded the IP status and thus cannot be protected under the IP rights, as it specifically includes within its ambit the disclosure, publication and registration, while the former takes care of secrecy and confidentiality secrets (Raina, 2015)¹⁵.

3.2 Trade Secret Law in India: The trade secret is comprehensively dealt under *Indian Contract Act, 1872* through restrictive covenants. As per Section 27 of the *Indian Contract Act, 1872*, any agreement that is in restraint of trade or of exercise of a lawful profession is considered to be void, as much as it amounts to a breach of a valid contractual obligation. Injunction relief is one the legal remedies available to the proprietor by prohibiting a contractor, employee, seller or other party from revealing a trade secret. It also requires the restitution of the damages for all confidential and proprietary material, and the court also upholds reimbursement for any losses caused by the disclosure of trade secrets (Singh, 2005)¹⁶. This is evident in *Richard Brady v. Chemical Process Equipments Pvt. Ltd* (AIR 1987 Delhi 372). In this case, the court, in the absence of a contract, had objectively invoked a broader equitable jurisdiction and awarded an injunction to that effect. The case relates to a machine invented indigenously, and solely for the purpose of large scale fodder production by the plaintiff. The defendants were required under the contract to supply the thermal panels to the Plaintiff. During the course of production, all the necessary technical details, drawings, design specifications and material know-how of the machine and its functioning was shared by the plaintiff to the defendant. The Plaintiff had by way of an agreement, accorded to supply specialised thermal panels to the Defendants. The Defendants did not place any order for the same and it was subsequently found out by the Plaintiff that the defendant had started their own fodder production unit. The plaintiff filed a suit alleging misappropriation of know-how, sketches, designs and technical specifications against the defendant.

3.3 Trade Secret under National Innovation Act, 2008: As discussed already, protection and regulation of trade secrets in India as such is not covered under any specific legislation. The *National Innovation Act, 2008* proposes various initiatives and collaborations involving key stakeholders including government viz. public, private or public-private encouraging innovation (Nomani, 2018)¹⁷. It seeks to protect sensitive and confidential

information through codification and consolidation of the confidentiality legislation. The proposed law manages competitive innovation insurance through damages for harms for infringement of trade secrets, solutions for securing privacy confidentiality and commitment of secrecy. Be that as it may, the bill slipped by and didn't turn into a law. The *National Science & Technology Policy*, 2013 and *IPR Policy*, 2016 accommodates the sanctioning of a trade secret law. Albeit no time span has been accommodated the accomplishment of this target, however, one can be sure there will be systematized codified trade secrets law in the not so distant future in India (Nomani, 2017)¹⁸. This may ideally fuse the best highlights of the U.S. *Uniform Trade Secret Act*, 1979, and The *Economic Espionage Act*, 1996 enacted with an end goal to give a comprehensive, far-reaching and lawful structure to secure protect trade secrets (Brant, & Lohse, 2013)¹⁹.

4. DISCUSSIONS

The Indian Courts on numerous events delineated the idea of trade secret through common law doctrine of precedent. The trade secret jurisprudence in India have been developed through judicial pronouncements over the years are based on the Common law principle of equity, which amongst others includes the duty to not reveal confidential information under non-disclosure agreement by an employee for the period he is employed.

4.1 Judicial Enforcement Of Trade Secret Under Contract Law: In *Brahmaputra Tea Co v. E Scarth* (1885 11 Cal 545) an employee of the company restrained by the Calcutta High Court from starting a competing business for five years after his period of service was over .But under English Law this was an exception to the general rule and the same was not intended to be given effect as prohibition contained in Section 27. The Supreme Court, observing that restriction through injunction is not unreasonable to the extent that it puts a restraint on the question of time, the nature of employment and also as to the question of territorial jurisdiction in upholding the rights of the respondent company upheld this noble principle again in *Niranjan Shanker Golikari v. Century Spinning & Manufacturing Co Ltd.* (AIR 1967 SC 1098).

Similarly, the Karnataka High Court in the *V.V Sivaram v. Foseco India Limited* (2006(1) KCCR 429) upheld the order of the trial court and issued an injunction against the defendants (appellants in this case) for breach of confidence. Twelve years after leaving the plaintiff company, the defendants started the similar business and started producing similar products as that of the plaintiff and tried to pass it off as such as they were in possession of confidential know-how. Taking cue from the earlier decisions, the court held that it was incumbent upon the courts to protect the rights and interests of the plaintiff and held that a former employee can be restrained from disclosing confidential information. Thus, it can be inferred from these landmark decisions of the Supreme Court that as a general rule the company is not always entitled to restrain its previous employee, but when it comes to the important question of trade secrets, it can go for injunction issued against the opposite. The loss or compensation is calculated on the basis of the business expense of the exclusive details focused solely on a notion of sale between inclined seller and inclined buyer with the aid of way of alleviation.

4.2 Judicial Enforcement of Trade Secret under Information Technology Law: The legal system has been innovative in keeping up with the technical advances apparent from the passage of the *Information Technology Act*, 2000 and its corresponding modifications that cover the stealing of classified information via the online route and require strict fines, restitution and incarceration. Important in this regard is Section 72 of the *Information Technology Act*, 2000, which is though limited in its scope to provide protection only with respect to electronic records. Notwithstanding criminal liability under the IT Act, Sections 405-409 of the *Indian Penal Code*, 1860 which identifies with criminal breach of trust and Section 418 can likewise be invoked for infringement of trade secret. This principle has been very succinctly upheld by the Bombay High Court in the *Pramod, Son of Laxmikant Sisamkar v. Garware Plastics and Polyester* case (1986(3) Bom. CR 411). The court made a departure from the above decisions in holding that in this case held that it was still untimely to affirm that the specialized knowledge has in any way used by the petitioners as the company has yet not started the production and that merely on apprehension the petitioners cannot be punished. The court set aside the order of the trial court and held that "it is well settled that criminal prosecution is a serious matter and would amount to harassment of the accused and also to the abuse of the process of the court if without sufficient grounds it is allowed to proceed". It further made an observation that the legal remedies available should not be misused and abused by harassing or settling personal scores or to punish the accused.

4.3 Judicial Enforcement of Trade Secret and Copyright Law: Computer Databases and compilations have been defined as literary works, are copyrightable, and are accorded copyright protection under section 2(o) of the *Copyright Act* 1957. It is assumed that over the span of their activity, organizations routinely gather information which they orchestrate deliberately or efficiently and can be gotten to electronically for instance, so

as to examine business benefit or client conduct, or basically to keep up a stock of products. Along these lines, databases are a significant instrument for organizations, permitting them to run easily and plan their future improvement and protectable under copyright law. In *Burlington Home Shopping Pvt Ltd v. Rajnish Chibber* (61,1995 DLT6), it was decided by the Delhi High Court that the data base compilations done by the companies are to be accorded copyright protection and thus, any unauthorized would tantamount to infringement.

In this manner, the legal approach for the trade secrets protection assurance can be reasoned from the Court's translation of NDAs, NCC, and limitation of exchange under Contract law. Consent to limiting a worker from contending or competing with his erstwhile employer after the end of services may not be permitted by the courts. This is supported by *Govindan v. Gopalakrishna* (AIR 1955 Mad 391), wherein it was upheld by the court that despite the compiled database content is very miniscule in totality, yet law will come to its. Thus, it is crystal clear that the law restricts anyone from misappropriating and stealing from other person's labour or skills or technical know-how or intelligence and which protection has been accorded under Indian Copyright Law, which mandates that every effort should be made to protect the innovative character of the knowledge, intellectual skill-set, technical know-how, (Singh,2010)²⁰.

5. CONCLUSION

India has signed the *Paris Convention*, 1967 and *TRIPS Agreement*, 1995 and thus, it is incumbent to develop a sui generis law on trade secret and undisclosed information. The proposed law namely the *National Innovation Act*, 2008 has rightly adopted three layered approach in this regard. Right off the bat, it embraces to energize development through an innovative advancement and a supportive network encouraged by public, private or public-private partnership. The subsequent goal is advancing a National Integrated Science and Technology Plan. The third task is arranging and solidifying a law classification to help protect the technical know-how, confidential information, trade secret and innovation. A comprehensive enactment on the lines of the *Uniform Trades Secrets Act*, 1970 should be actualized to discourage the unlawful exchange of trade secrets as a major aspect of work obligations in the companies. Therefore, the need of the hour is to adopt the abovementioned three pronged approach alongside NDAs and NCCs would go far in devising a foolproof plan in building up a culture of trade secret protection in all respects to its owners.

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