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TRADE SECRET LAWS IN INDIA: A CRITICAL ANALYSIS

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Abstract

Trade Secret, according to the World Intellectual Property Organisation (WIPO) website, means rights over confidential information. The website further adds that such rights can be sold or licensed. It should be monetarily valuable because of it being a secret and only few people should know it. It is also necessary that the owner of such information has taken steps to keep the information a secret. Examples of confidential information (or trade secrets) include: data compilations, designs, blueprints, maps, algorithms, personnel records, ingredient lists, financial information etc. The jurists and judicial courts have often drawn intersectional circles of discussion between trade secrets and other legal regimes such as tort, contract law, property laws and other IPs such as copyright, patent etc.

This article studies the general concept of trade secrets, how international conventions protect them and how India has approached the same. In India, especially, there is no sui generis legislation for trade secrets or confidential information as of yet. The judicial courts have protected trade secrets under various different laws till now. However, there was an attempt made in 2008 (via National Innovation Bill, 2008) to introduce a sui generis legislation for the trade secrets. This article discusses the Bill in detail. This article also studies how the Indian judiciary has dealt with cases regarding trade secrets.

Keywords: Trade Secret, National Innovation Bill, India, Intellectual Property Rights, Contractual Law, TRIPS

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Introduction

Trade secrets are a very important part of any economy as they are the foundation over which various big business houses such as TATA, IBM etc. are built. The unique taste of COCA COLA, the luster in BBLUNT hair products (via their mysterious ‘Shine Tonic’) and the recipe for Maggi Masala etc. are certain examples of trade secrets. These secrets are the reason that these products and producers have gained certain good reputation in the market. Therefore, it is obviously necessary for these producers to protect such secrets. The need for a law for the same has been discovered time and again. Therefore, it is no shock that it is a matter of great debate around the world.

The concept of ‘Trade Secrets’

Trade Secret, according to the World Intellectual Property Organisation (WIPO) website, means rights over confidential information.² The website further adds that such rights can be sold or licensed.³ WIPO further defines certain essentials for a piece of information to qualify as a trade secret. It should be monetarily valuable because of it being a secret and only few people should know it. It is also necessary that the owner of such information has taken steps to keep the information a secret. Examples of confidential information (or trade secrets) include: data compilations, designs, blueprints, maps, algorithms, personnel records, ingredient lists, financial information etc. Any product or process not protected under Patent law can also be protected under trade secret legal regime.

Trade Secret and relevant international laws

Article 10bis of the Paris Convention, titled ‘Unfair Competition’, states that all member nations should provide protection against unfair competition to its nationals. Clause 2 of Article 10bis further describes any activity against honest practices as an act of unfair competition.

Taking inspiration from this provided position in Paris Convention, Trade Related Aspects of Intellectual Property Rights (hereinafter referred to as TRIPS) has also included certain provisions against unfair competition. The one most relevant here would be Article 39. The clause 1 of Article 39 states that to provide protection from unfair competition, member nations should also

² Trade Secrets, *available at*: <https://www.wipo.int/tradesecrets/en/> (last visited on Sept 15, 2023).

³ *Ibid.*

protect undisclosed information (trade secrets/ confidential information). The clause 2 of Article 39 states that all natural and legal persons can prevent any information under their control from being disclosed to, acquired or used by another person. The provision allows placing of prevention measures to ensure that such undisclosed information is not spread without their consent through any unfair means. Such unfair means may include breach of contract, inducement to breach, breach of confidence etc. Article 39 provides that for any information to be protected by the provision –

- i. It should not be commonly known or accessible to people in the relevant circles
- ii. It should have certain monetary/commercial value
- iii. It should be reasonably guarded by the person who controls it

The clause 3 of Article 39 states that the member nations should protect “undisclosed data submitted to them for approval of pharmaceutical or agricultural chemical products from unfair commercial use”. The member nations, however, have been given exceptions from the same in case the information is necessary for the protection of public.

Trade Secrets and other relevant legal regimes

- Trade Secret and Tort –

A tort is an action or omission of an action that causes injury or harm to another. It amounts to a civil wrong. Many scholars have tried to tie relations between trade secrets and tort. They argue that presence of a property may be denied, but one cannot deny the presence of confidence and good faith in matters of trade secrets. And as the essential for any tort is civil wrong, trade secret suits can be attended to under such law. However this presupposes the existence of a confidential relationship between two parties to a trade secret disclosure.

In the landmark judgment of ‘*E. I. DuPont deNemours & Co. v. Christopher*’⁴, the court applied tort law when all else seemingly failed. The defendant was hired to take aerial shots of the plaintiff’s methanol plant. When asked by the plaintiff to reveal the client who asked for such shots, the defendant refused to share such information. The plaintiff moved to the court stating that the plant was producing methanol through a secret process that could be revealed easily through the aerial shots taken by the defendant. The defendant argued that he had done nothing illegal at all and was only performing his job. It was a case that made the court deliberate for long as there was no civil or criminal wrong being committed on the face of it. The court stated that it

⁴ *E. I. DuPont deNemours & Co. v. Christopher*, 471 F. 2d 1012.

was evident that the trade secret was being misappropriated. They ultimately fell back on the law of tort and stated that the trade secret had been acquired through improper means by the undisclosed party. The court stated that “the airplane was the cloak and the camera was the dagger.”⁵

- Trade Secret and Contracts –

Another section of scholars has argued that trade secrets and contracts are co-existing laws, with certain scope of intersectionality between them. Their argument originates from the fact that various jurisdictions have recognized contractual measures as enough protection for trade secrets. Express agreements can be made in regards to trade secrets under contracts and therefore, can be legally enforced in a court of law at later stages if defected from. Implied agreements can also be protected under contract law.

The first problem that arises in this argument is that it presupposes that there exists a certain contractual relationship between the two parties to a dispute in question. It also eliminates the possibility that the trade secret has been received by the other party by mistake or accident.

- Trade Secret and Property –

Scholars argue that property rights can exist in trade secrets to highlight the owner’s rights in such information/secret, rather than to claim that a trade secret is a property. Thus, an aspect of property laws would be applicable on trade secrets.

Legal Purview of Trade Secret laws in India

There is no official or sui generis law for trade secrets in India. However, the judiciary has applied constitutional law, contracts law and many other facets of law when dealing with cases of trade secrets. Trade secrets have been defined as “a formula, practice, process, design, instrument, pattern or compilation of information used by a business to obtain an advantage over competitors within the same industry or profession.”⁶ The court has also stated that there is no expiry date for protection provided to a trade secret.

⁵ *Ibid.*

⁶ *Indian Farmers Fertilizers Co-operative Ltd. v. Commissioner of Central Excise*, (2007) 7 VST 6 CESTAT – New Delhi.

Section 27⁷ of the Indian Contracts Act, 1872 states that any agreement made to stop someone from conducting a lawful profession, trade or business is void. However, the provision also discusses an extraordinary exception. If someone sells the good will of their business then the buyer can restrain them from conducting similar business in the near future or distance (limitations as defined by the agreement between the seller and the buyer). This exception gives space and creates room for non-disclosure agreements and non-compete contracts to exist. Thus most of the trade secret suits discuss Section 27 of the Act.

In the judgment of '*Shri Gopal Paper Mills Ltd. v. Surendra K. Ganeshdas Malhotra*'⁸ the court discusses an agreement between an employer and employee. The plaintiff had a unit of manufacturing paper wherein they employed fresh graduates after providing them necessary training. The agreement stated that the graduates employed thereby would work for the plaintiff for a period of 20 years. The first 3 years were that of apprenticeship after which the plaintiff could dismiss the employee based on their work so far. The agreement forbade the employees or the fresh graduates from sharing confidential information they learned through their training or course of work. It further forbade the employees from getting invested in any other paper manufacturing enterprise during their course of employment. The defendant had started taking holidays on the account of being ill and when asked to come and provide an opportunity of certification of said illness, failed to do so. The defendant however in a letter stated that he wished to end his contract of employment with the plaintiff. The plaintiff didn't allow the same. The plaintiff stated that the defendant couldn't be allowed to leave the employment and join another enterprise so suddenly. The agreement also had provisions guarantying the interests of the plaintiff. The defendant claimed that the restraint on him, made through said agreement, was void under Section 27 of the Indian Contracts Act, 1872. The court in the case stated that exceptions were allowed under Section 27 of the Act. They added that the restraint imposed should be tested on two grounds –

- i. What is the restraint against?
- ii. Whether or not the restraint is justified

The court found that there was room for uncertainty between the period of 3 year apprenticeship and the further 17 years of employment. This gap allowed for the defendant to resign easily and thus, not be a party to the agreement. The suit was thus, dismissed even though the restraint in the

⁷ Indian Contracts Act, 1872 (Act 9 of 1872), §.27.

⁸ *Shri Gopal Paper Mills Ltd. v. Surendra K. Ganeshdas Malhotra*, AIR 1962 Cal 61.

agreement to protect the plaintiff's trade secrets was just and fair.

Another interesting judgment was given in the case of '*Superintendence Company of India Pvt. Ltd. v. Krishan Murgai*.'⁹ The plaintiff company had confidential techniques it applied in its business. The defendant was trained and well-learned in those techniques. He was made the branch manager of the New Delhi branch of the company. Under the agreement for the same it was stated that he would not be allowed to work with a rival company or start his own business in the same trade within two years of leaving the company and in the city of New Delhi. Thus a restraint was made and the time and place for the same was also well defined by the agreement in question. The defendant however opened the same business under the name of 'Superintendence and Surveillance Inspectorate of India'. The plaintiff filed a suit requesting damages on account of breach of contract and a permanent injunction on the defendant's business. The court held that the agreement was valid. The question thereafter raised was whether or not it was applicable on the defendant in the given situation. The court observed that the words 'after you leave' were used in the agreement, thus implying that the defendant should have left voluntarily for the covenant to be applicable on him. The defendant however had been dismissed from his position. Therefore it was held that he could run his business and not cause a breach of contract on his part.

The case of '*Urmi Juvekar Chiang v. Global Broadcast News Limited*,'¹⁰ has very fascinating facts and the judgment has also discussed intriguing ideas about trade secrets or confidential information. The plaintiff came up with an idea for a reality show in 2005. She named the show 'Work in Progress' and according to her, the show would have showcased real life people choosing and fighting one civic wrong across the country. She made concept notes and shared them with several production houses. The defendants started broadcasting a show called 'Summer Showdown' in 2007. The show ran parallel to the concept of 'Work in Progress,' creating a successful copy and amending certain aspects of the plaintiff's concept notes. The court in this case compared the concept notes of 'Work in Progress' and the show 'Summer Showdown'. There were numerous and significant similarities. However, the court stated that the plaintiff could not get protection for her concept notes under copyright law. Copyright law only protects the expression of an idea, not the idea itself. The noteworthy aspect of the judgment remains in the court's discussion on whether or not the concept notes were falling under the ambit of confidential information. The court stated that the plaintiff had shared her concept notes in confidence and

⁹ *Superintendence Company of India Pvt. Ltd. v. Krishan Murgai*, AIR 1980 SC 1717.

¹⁰ *Urmi Juvekar Chiang v. Global Broadcast News Limited*, 2008 (36) PTC 377 (Bom).

therefore, was allowed to seek damages. The production house should've taken a proper license to use the information provided to them by the plaintiff.

In the landmark judgment of '*Zee Telefilms Ltd. & Ors. v. Sundial Communication Pvt. Ltd.*'¹¹ the court again discussed confidential information. The plaintiff wrote a show 'Kanhaiyya'. They also wrote several episodic stories and plots for the show, along with detailed character lines and arcs. The show was very well developed conceptually. It was shared with various production houses as an offer. The defendant production house was shared the information with. The defendant went ahead and created a show 'Krishna Kanahaiya' on similar plot and with similar characters. The plaintiff argued that the concept and details of their show were shared with the defendant in confidence, and that such confidence has been breached by the defendant as they are taking advantage of the information for their own financial benefits. The court stated that certain elements should exist for a breach of confidence to exist –

- i. The information in question must have been of confidential nature
- ii. The information must be used by the accused without any proper authorization

National Innovation Bill, 2008

The National Innovation Bill, 2008¹² was introduced for the purpose of codifying laws regarding confidential information or trade secrets, amongst various other purposes. The Bill had various provisions defining the laws for trade secrets.

Section 2 (3) of the Bill defined 'confidential information' as "information, including a formula, pattern, compilation, program device, method, technique, or process" that is –

- i. a secret (the information must not be known generally or must not be readily accessible to people who deal with the subject-matter of such information)
- ii. Commercially valuable due to it being a secret
- iii. Subjected to reasonable measures of protection

The definition given by the Bill is very similar to the definition of trade secrets provided by the WIPO.

Thereafter, Chapter VI of the Bill laid down various provisions for trade secrets or confidential

¹¹ Zee Telefilms Ltd. & Ors. v. Sundial Communication Pvt. Ltd., 2003 (27) PTC 457 (Bom).

¹² National Innovation Bill, 2008, India, available at: <http://www.gnaipr.com/Acts/Draft%20Innovation%20Law.pdf> (last visited at Sept 15, 2023).

information. Section 8 discussed obligations of confidentiality. The first sub-section demanded that the terms and conditions regarding the confidential information should be explicitly discussed when contracting. The rights and obligations of the parties involved should also be set out clearly and explicitly. If agreed by the contracting parties, the rules and regulations given in Section 15 (d) of the Bill would have been applied. The third sub-section states that, notwithstanding anything written in the first sub-section, the rights and obligations in confidential information would exist due to surrounding circumstances.

Section 9 of the Bill discusses confidentiality obligations arising from a non-contractual relationship. The provision states that if any third party receives confidential information without the consent of the owner of such information, the third party would still be obligated to protect the confidential information from being disclosed to the public at large or anyone else.

Section 10 of the Bill stated that for the duration of the proceedings of a suit regarding misappropriation of confidential information, the court should set in place reasonable measures to protect the confidential information from further misappropriation or exploitation. Granting mandatory protection orders can also be included here.

Section 11 of the Bill stated the exceptions to what would be considered misappropriation of confidential information or trade secret. There are three exceptions provided. They are –

- i. The information in question was already available to the public at large.
- ii. The information in question was achieved through independent derivations done by the alleged misappropriation.
- iii. The information in question was disclosed in the favor of public interest.

Section 12 of the Bill stated that the a court would “grant such injunctions, including interim, ad interim or final injunctions, as may have been necessary to restrain actual, threatened or apprehended misappropriation of confidential information.” The injunction may become invalid if the information in question is falling under the ambit of Section 11. It has been further added in Section 12 that if an interim relief is granted in favor of the plaintiff and later the plaintiff loses the suit, he would be liable to compensate the defendant for any losses incurred by them due to the interim relief. The last sub-section stated that the appropriate government would provide reasonable mechanism for safe-guarding the confidential information through the injunction granted.

Section 13 discussed the mandatory damages to be paid by the defendant if proven guilty of breach of confidence. It states that if the defendant has financially used the confidential information, or is (directly or indirectly) responsible for the confidential information falling into the hands of a third party or the public domain; then he is liable to compensate the plaintiff in one of the following ways –

- i. damages that do not exceed the limit provided by the Appropriate government
- ii. damages as agreed upon in the contract between the two parties
- iii. damages including consequential losses

Section 14 stated that no action would be taken against a person who was acting with good faith. These were the only provisions in the Bill that were relevant to trade secrets or confidential information.

Conclusion

When defining ‘trade secrets’ we stumble upon three essentials that all sources agree upon for a valid trade secret. The essentials are –

- i. it should not be commonly known or accessible to people in the relevant circles
- ii. it should have certain monetary/commercial value
- iii. it should be reasonably guarded by the person who controls it

There is no sui generis legislation for trade secrets or confidential information in India. An attempt for the same had been made via the National Innovation Bill of 2008. However, the Bill was never enacted even after gathering generous and supportive responses. Therefore, in absence of a sui generis legislation the Indian judicial courts have depended mostly on Indian Contracts Act, 1872 to ensure that confidentiality obligations are fulfilled between two contracting parties. However, it is very hard to legitimately protect trade secrets under Indian Contracts Act, 1872 as witnessed in numerous cases discussed. The contract for the same should have appropriate conditions mentioned in the clauses. Tiny gaps in such contracts can lead to parties losing suits in the courts of law regarding their important trade secrets.

The only practical solution to all these problems would be a good sui generis legislation for trade secrets. The Indian legislation should work on the details and deficiencies in the National Innovation Bill, 2008 and attempt to bring it into action across India.
