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UNRAVELING THE CONSPICUOUSNESS OF TRADE SECRETS CONCEALED BY A VEIL

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"Competition—ruthless, unforgiving, to-the-death competition—is a crucial feature of capitalism."

- Jim Stanford.

Abstract

The world we live in today is highly globalized, connected, and capitalist, with which comes competitiveness among corporations to cater to the demands of consumers. As the market grows and the world gets more connected, the competition among corporations grows further, resulting in strife and ruthless, cutthroat competition among them to subdue their competitors.

Corporations can go to great lengths to do so, no matter how unethical or deplorable it gets, as the main goal for them is to amass profits, for which they need to have an edge over their competitors. This "edge" comes from providing unique or better goods and services than the rest of the competition. Innovation has become a sine qua non of the corporate world, offering corporations a decisive edge over their rivals. The benefits of innovation are manifold and can present themselves in various ways. To foster this innovation, the protection of intellectual property is a must.

Among the numerous types of intellectual property, trade secrets have now developed as a key technique for protecting private knowledge. They give enterprises a particular advantage over their competitors. Trade secrets are an important instrument for safeguarding confidential and exclusive information. They do work for a business as a powerful tool to gain a competitive edge, but they have several potential downsides that might jeopardize their financial viability.

In this research paper, we will examine the fascinating subject matter of trade secrets and their prominence within the complex tapestry of the modern economic environment, focusing on their

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inherent obscurity, flexible use, and the challenges surrounding their protection.

Keywords: Intellectual Property, Trade Secrets, Non-disclosure agreement, Patent Rights

Research objectives

To understand trade secrets' nature, scope and significance as intellectual properties, To shed light on internationally recognized governing principles of trade secrets, To differentiate between trade secret laws and patent rights, To determine whether trade secrets are more than just non-disclosure agreements and the scope of trade secret laws in India.

Research questions

What are trade secrets, their origins, significance, nature and scope?

What is the difference between trade secrets and patents?

Are trade secrets more than Non-Disclosure Agreements (NDA), and to what extent are their principles applicable in India?

Research methodology

An in-depth examination of the available literature, an evaluation of pertinent legal frameworks and cases, and a look at international accords and conventions are all part of the methods used to undertake this study. With an emphasis on important legal texts like the Restatement of Torts and the Uniform Trade Secrets Act (UTSA) in the United States, the historical history, meaning, and scope of trade secrets will be examined. The Economic Espionage Act (EEA) and the Trade-Related Aspects of Intellectual Property Rights (TRIPS) Agreement, which offers worldwide perspectives on trade secret protection, will also be taken into account in the research.

Trade Secrets- History, definition, and scope

The business world opens as the sun rises and individuals begin their day, exposing a relentless quest for achievement and an ongoing competition to outdo one another. The morning habit of picking up a newspaper and reading the news exposes the extremely competitive world in which businesses battle for dominance, and individuals adopt a variety of techniques to get an advantage over their competitors. To safeguard these advantages, businesses rely upon the most effective defence law to offer against the immoral, corrupt, and savage practices incorporated by their competitors to gain a lead. That defence is intellectual property rights.

Intellectual properties are intangible creations created through human intellect, such as inventions; literary and artistic works; designs; symbols, names, and images used in commerce. IPRs such as patents, copyrights, and trademarks protect these intellectual inventions from being wrongly profited without authorization once they are out in public forums. Among the intellectual property rights lies the concept of trade secrets. What differentiates trade secrets from the abovementioned types of IPRs is that they protect intellectual properties before they are out in public forums hence the term "secret" used in their classification.

There is a belief that the inception of trade secrets as intellectual properties emerged in Roman times when there were laws enacted to protect slaves from being corrupted by someone else through a claim known as *actio servi corrupti.*[3] This belief, however, is disputed among legal historians due to a lack of evidence. In modern times, trade secrets as a concept of IPR developed through common law in Anglo-American jurisprudence. This was unlike other types of IPRs, which traditionally developed through statutes in various trade doctrines dating back to the Renaissance. English and American courts first recognized cause of action for damages arising from the misappropriation of trade secrets in 1817[4] and 1837,[5] respectively. Granting injunctive relief against threatened or actual misappropriation of trade secrets by American courts further developed this concept.[6]

Although not stated explicitly, the protection of intellectual properties through trade secrets has been referred to obliquely in the Paris Convention For Protection Of Intellectual Property Rights 1883, which set out basic principles for the protection of intellectual properties among signatory states.[7] The foundation for a detailed explanation of what constitutes a trade secret lies in the Restatement of Torts, issued in 1939 by the American Law Institute. Section 757 of the document provides a crystal clear definition of trade secrets which remains influential to date due to its incorporation in the common law. American courts relied on the definition of trade secrets provided in the Restatement of Torts until the enactment of the Uniform Trade Secrets Act (UTSA) published by the Uniform Law Commission in 1971. Through the enactment of this act, The US became the first country in the world to grant legal sanctity to trade secrets.

[3]Ernie Linek "A Brief History of Trade Secret Law" *BIO Process International* (2004), https://bannerwitcoff.com/_docs/library/articles/briefhistory1.pdf.
[4] *Newberry* v. *James*, 1817 35 E.R. 1011.
[5] *Vickery* v. *Welch*, 1837 36 Mass. 523.
[6] "Trade Secrets: History" *Digital Business Law Group*, https://www.digitalbusinesslawgroup.com/internet-lawyer-trade-secrets-history.html (last visited on June 14th 2023).
[7] World Trade Organisation; Module 7 Undisclosed Information, Unfair Competition And Anti-Competitive PRACTICES (2021), https://www.wto.org/english/tratop_e/trips_e/ta_docs_e/modules7_e.pdf.

According to UTSA 1971, "Trade secret" means information, including a formula, pattern, compilation, program, device, method, technique, or process, that:

(i) Derives independent economic value, actual or potential, from not being generally known 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 subject of efforts that are reasonable under the circumstances to maintain its secrecy.

This definition expands upon the definition provided in the first Restatement of Torts by extending the protection of trade secrets to an owner who has yet to use his/her trade secret.

The Economic Espionage Act (EEA) of 1996, passed by the US Congress, further extended federal protection of intellectual property to trade secrets and broadened the scope of what is covered under the definition of "trade secrets". The definition provided in EEA is much more detailed as it extends legal protection to existing and emerging technologies. In addition, the act omits the necessity of the trade secret, referred to as undisclosed information, to be valuable to others and merely requires it to be of value to the owner to be classified as a trade secret. Furthermore, the EEA is more complete in dealing with theft and unauthorized duplication against all existing and upcoming technologies. Unlike UTSA, which stipulated violations against intellectual property rights on trade secrets as civil wrongs, the EEA made these violations criminal offences that can be punishable by fines, imprisonment, and forfeiture of property.

On a global scale, the internationally recognized definition of trade secrets has been further persuaded through the criteria outlined in the Trade-related Aspects of Intellectual Property Rights (TRIPS) Agreement, 1994. TRIPS mandates that member nations protect "undisclosed information," also known as trade secrets, as long as it satisfies three requirements:

1. It must be kept secret, have a commercial value as a result of its secrecy, and
2. Be subject to reasonable safeguards to protect its secrecy.
3. This information must be shielded from unauthorized acquisition, disclosure, or use that is not in line with ethical business conduct.

International governing principles

With the emergence of industrialization, technological prowess grew astronomically during the 18th century. This meant mass production of goods started taking place through machines efficiently and cheaply. Imperialism considered the highest stage of capitalism, was at its peak here as European powers had colonized territories all around the globe, and in the meanwhile,

emergence of the new world on the North American continent during this time as an economic powerhouse also meant growth in global trade. With the world getting more globalized and competition among countries and companies for economic dominance growing stronger, there was a need for multilateral international agreements to govern global trade in a free, fair, and ethical manner. Amongst these multilateral agreements was the signing of the Paris Convention for the Protection of Intellectual Property Rights in 1883.

The Paris Convention is an international convention for the international protection of industrial property that was signed by a union initially consisting of 11 member countries on March 20, 1883, in Paris. It was a binding agreement on signatory countries because mandated cooperation among members was necessary to make the convention effective in ensuring the international protection of industrial property. The Paris Agreement establishes many principles concerning essential matters concerning the protection of industrial property. Although the convention did not recognize trade secrets as distinctive intellectual properties, its provisions indirectly provided for safeguarding such secrets and mandated member countries of the union to make efforts to do so.

Article 10*bis* of the Paris Convention mandates that member countries ensure effective protection against unfair competition practices that contradict honest practices in industrial or commercial matters.[8] It encompasses a non-exhaustive inventory of unfair competition practices that members must prohibit. These practices involve any actions that lead to confusion, through any means, with a competitor's establishment, goods, or industrial/commercial activities. It also includes making false allegations during the trade that tarnish a competitor's establishment, goods, or industrial/commercial activities. It also covers the use of indications or claims in trade that have the potential to mislead the public regarding the nature, manufacturing process, characteristics, suitability for their intended purpose, or quantity of goods.

The Agreement on Trade-Related Aspects of Intellectual Property Rights, including Trade in Counterfeit Goods (TRIPs Agreement), 1994, is another major international agreement that protected the intellectual property rights of trade secret holders among member states. TRIPs Agreement signatories must comply with obligations imposed under the Paris Convention as mentioned under Article 2, and in addition to national treatment guaranteed in the Paris Convention, the agreement also allows the grant of most-favoured-nation treatment specified by

[8] The Paris Convention, 1883.

Article 4. This agreement binds all 164 World Trade Organisation members (WTO) members.

Article 39 of the TRIPS agreement provides terms for the protection of undisclosed information. Article 39(2) of the TRIPS Agreement stipulates that member nations must be able to safeguard undisclosed information for commercial use. Article 39(3) emphasizes the necessity to protect information provided to the government for regulatory purposes from unauthorized access and disclosure.[9] Even though TRIPS does not specify a particular method for protecting trade secrets, member nations typically enact separate trade secret laws, include trade secret provisions in their laws governing unfair competition or contracts, and/or rely on accepted legal principles.

Advantages

"The secret of business is to know something that nobody knows"- Aristotle Onassis.

In a landmark decision of 1974,[10] The United States Supreme Court emphasized the critical importance of trade secrets in fostering innovation and fair competition. The court ruled that trade secrets are protected under common law, emphasizing the importance of adequate safeguards to ensure their confidentiality. This important decision highlighted the importance of trade secrets in stimulating technical innovation and protecting competitive interests. The ruling emphasized the basic relevance of trade secrets in preserving a healthy economic landscape and the need to maintain secrecy as a critical part of trade secret protection.

Trade secret law has particular advantages over patent and trademark law in that it allows for the secrecy of vital information. *Non-disclosure* is the fundamental concept on which trade secrets operate. It is a necessary condition of trade secret protection to guarantee that the relevant intellectual property stays confidential and is not disclosed to the public. As a result, trade secret law creates a separate and independent framework for protecting intellectual property, acting as an alternate mechanism to patent and trademark law. Trade secrets cover a wide spectrum of valuable and private information, the intrinsic worth of which stems from its restricted access and lack of public understanding or distribution.

A corporation benefits from trade secrets in a variety of ways, including confidential preservation, a competitive advantage, economic protection, indefinite life, flexibility, and legal protection. Trade secrets, as valuable assets, contribute to innovation and market expansion.

[9] TRIPS Agreement, April 1994.

[10] Kewanee Oil Co. v. Bicron Corp., (1974) 416 U.S. 470.

1. **Confidentiality is the principle**- The most significant benefit of trade secrets is their capacity to maintain confidentiality. Companies can maintain a competitive advantage over competitors by withholding vital details. Trade secrets include various valuable data, including production techniques, formulae, customer lists, marketing tactics, and patented technology. Maintaining the confidentiality of such important information means that a corporation keeps exclusive control, allowing it to position itself favorably in the market.
2. **Economical-** Trade secrets are generally a more cost-effective method of intellectual property protection than other methods to protect intellectual property. Unlike patents, which require a tedious and costly application procedure, trade secrets can be developed and maintained without being officially registered. Trade secrets are an appealing choice, especially for small and medium-sized firms (SMEs) with limited financial resources because, unlike Patent and Copyright, it does not require a tedious and costly process.
3. **Long-Term Protection and Control-** Unlike patents or copyrights, which have expiration dates, trade secrets provide confidentiality for an indefinite period. This indefinite protection protects ideas that might only qualify for patents for a short time. Furthermore, trade secrets give corporations flexibility by allowing them to choose to reveal their inventions to a restricted audience. This power allows firms to determine what information to make public and what to keep private, striking a fine balance between preserving a competitive advantage and reaping collaborative benefits. Finally, trade secrets enable businesses to protect vital knowledge while preserving a competitive advantage and maximizing the effect of their discoveries over an indefinite period.

Disadvantages

Among the stories of invention and market rivalry, there are dark stories of fraud and exploitation, particularly when it comes to intellectual property and trade secrets. Some people engage in deceitful practices, turning to unethical tactics to get trade secrets, jeopardizing the business world's confidence and integrity. Trade secret law can be used as an effective way to protect one's treasured intellectual property. However, despite its attraction and potential for financial profit, the realm of trade secrets is not immune to the darker sides of human nature. The pursuit of dominance and success may often overwhelm values of justice and ethical behaviour, resulting in a widespread climate of mistrust, greed, and suspicion.

The effectiveness of Trade Secrets as an intellectual property right comes with its limitations

when compared to other forms of IPRs. Trade Secrets can only be used for the protection against unauthorized disclosure of protected information by a person to whom access to this information was granted or against a person who derived that undisclosed information through illegal means. Trade secrets do not protect a competitor who derives similar intellectual property independently or through reverse engineering. In cases where the intellectual property has to be protected from a competitor coming up with the same intellectual property or against reverse engineering, obtaining a patent right is considered to be a safer option.

In *Kewanee Oil Co vs. Micron Corp*, the US Supreme Court observed that "a trade secret law does not offer protection against discovery by fair and honest means, such as by independent invention, accidental disclosure, or by so-called reverse engineering, that is by starting with the known product and working backwards to divine the process which aided in its development or manufactures".

Similarly, In *Bonito Boats, Inc. v. Thunder Craft Boats, Inc.,*[11] the US Supreme Court restating the observation stated in *Kewanee Oil Co vs. Bicorn Corp* noted that trade secret laws do not prevent the public or a competitor from reverse engineering a product that is available in the public domain. The court also observed that "the protections of state trade secret law are most effective at the developmental stage before a product has been marketed and the threat of reverse engineering becomes real". Once the product is out in the public domain, protection of it through trade secret law is rendered weak as one of the critical requirements of trade secrets is that there are efforts put in to maintain its secrecy.

Coming to the effects of trade secret laws on society at large, there is no denying that implementing protection of intellectual property through such concepts is correlated with the socio-economic and political system being practised in a country. Intellectual property rights as a concept are correlated with the economic system of capitalism. Intellectual property law introduces a unique form of the commodity within capitalism, known as abstract objects, which has the potential to facilitate further expansion of the system. Through the creation of these abstract objects, intellectual property law incorporates creative labour into the production process.

Trade secret law, in particular, brings several demerits of capitalism with it. Trade secrets are

[11] Bonito Boats, Inc. v. Thunder Craft Boats, Inc., (1989) 489 U.S. 141.

meant to protect undisclosed information of economic value from the general masses to amass profits. This undisclosed information is an abstract object which is viewed as a commodity. This is directly in line with Karl Marx's view on capitalist wealth, which he describes as 'an immense accumulation of commodities'. Aside from possessing economic value, this undisclosed information can hold other information of importance for people's purposes at large such as healthcare, critical technology, educational material etc.

With the rise of capitalistic powers in the Western world, many developing nations were subdued into agreements such as TRIPS and later WTO that ensured strict intellectual property rights were provided to individuals and corporations alike belonging to signatory states to regulate global trade. Only when countries such as India signed these agreements could they receive the benefits of foreign investments through a seal of approval provided by Western powers. For countries like these, information possessed by powerful corporations that could have benefited the population at large could not be used because they were being stored as trade secrets, protected by laws being forced upon them by Western powers.

Trade Secrets vs. Patents

Trade secrets and Patents both aim to protect intellectual property, but both offer different means to do that. Trade Secrets and Patents come with dissimilarities that can be linked to apples and oranges.

The scope of trade secrets is undeniably broader than patents; it covers a wide range of information under its umbrella, including formulas, business strategies and even recipes. Every innovation from a human's mind can be protected as a trade secret. A patent has narrow criteria in which the innovation or the information has to fit to be protected.

Trade secrets have the potential for an indefinite protection period, provided tight secrecy is maintained. Contrarily, patents are limited by time limits, often lasting two decades, after which the protected innovation becomes common knowledge. Consequently, trade secrets benefit from a unique advantage in terms of long-term protection by avoiding the time constraints imposed by patents.

Although, when it comes to legal protection, patents do have an edge over trade secrets. Once a

trade secret is disclosed, protection is often lost forever. A firm may bring suit, but "putting the genie back in the bottle" or proving damages (which in theory may be perpetual) is often difficult. Courts may issue injunctions to attempt to limit the damage.[12] As a result of their different legal systems and security measures, trade secrets and patents have significant differences.

Patents, which are based on formal registration and examination procedures, provide inventors with exclusive rights and protect unique, non-obvious, and practical innovations for a certain amount of time. Contrarily, trade secrets depend on secrecy and cover a wider range of private information, lasting as long as secrecy does. Trade secrets are exempt from administrative review, but their safeguards depend on upholding tight secrecy and proving misuse in court cases.[13] A thorough examination of elements, including subject matter, durability, disclosure, enforceability, and the strategic goals of intellectual property holders, is required when deciding between patents and trade secrets.

Are Trade Secrets Just Non-Disclosure Agreements?

Non-disclosure agreements (NDAs) play a crucial role in protecting trade secrets. Trade secrets are valuable, confidential business information that gives a company a competitive advantage. NDAs serve as a legal tool to safeguard trade secrets by establishing a contractual obligation for parties to maintain the confidentiality of such information. They help protect a company's valuable intellectual property, maintain a competitive advantage, and enable businesses to share sensitive information with confidence.

In India's case, where there is no specific legislation to cover the protection of trade secrets, NDAs are the best legal option an owner of a trade secret can opt for when disclosing a trade secret without violating the universally accepted requirement of keeping reasonable safeguards to maintain the secrecy of the subject intellectual property. NDAs explicitly outline the receiving party's obligation to maintain the trade secret's confidentiality. By signing the NDA, the recipient acknowledges their responsibility to keep the information confidential and agrees not to disclose it to unauthorized individuals or entities. The receiving party is generally prohibited from using confidential information for any purpose other than the specified purpose mentioned in the agreement.

[12] Katherine Linton, "The Importance of Trade Secrets: New Directions in International Trade Policy Making and Empirical Research" JICE (2016), https://www.usitc.gov/publications/332/journals/katherine_linton_importance_of_trade_secrets_0.pdf

[13] *Ibid.*

NDAs are usually used by employees while divulging confidential information to employers in pursuance of conducting business. Information provided in the normal course of employment, which is known to many other employees, does not amount to confidential information and thus does not require an NDA. In the case of *Ambience India vs. Shree Naveen Jain,*[14] it was noted that "a trade secret is some protected and confidential information which the employee has acquired in the course of his employment and which should not reach others in the interest of the employer. However, routine day-to-day affairs of employers, which are in the knowledge of many and are commonly known to others, cannot be called trade secrets."

Non-disclosure agreements are recognized and governed by the Indian Contract Act of 1872. Since Indian contract law is primarily governed by the Indian Contract Act of 1872, which is a civil law statute, breaching NDAs generally does not amount to a criminal wrong but rather a civil wrong. This means the legal ramifications of violating NDAs are civil, amounting to compensation for damages. In exceptional circumstances, If the breach involves criminal acts, such as theft, forgery, or cheating, it can potentially be prosecuted under the relevant provisions of the Indian Penal Code or other specialized laws. However, the breach itself amounts to just a civil wrong violating section 73 and section 74 of the Indian Contract Act amounts to compensation for unliquidated and liquidated damages, respectively.

More than NDAs are needed to act as trade secret laws themselves. NDAs only form a part of protecting trade secrets as the key requirement of ensuring taking reasonable efforts to maintain the secrecy of undisclosed information. Several other key elements must be present to define what constitutes a trade secret and what legal requirements are present to constitute the misappropriation of such intellectual properties.

Scope in India

"A trade secret is information which, if disclosed to a competitor, would be liable to cause real or significant harm to the secret owner."- Delhi High Court in the case of American Express Bank Ltd. Companies[15] all over the globe have started embracing the idea of trade secrets as they realize their potential as invaluable assets with the advent of globalization and the quickening escalation of competition. However, whether they are effectively prepared to protect themselves from trade

[14] M/S. Ambiance India Pvt. Ltd. v/s Naveen Jain (2004) CS (OS) No. 837.
[15] American Express Bank Ltd. vs Ms. Priya Puri (2006) IIILLJ 540 Del.

secret misappropriation emerges. While the United States pioneered laws particularly aimed at trade secret protection, resulting in considerable advances in this sector, India, on the other hand, lacks a dedicated legislative framework governing the safeguarding of trade secrets.

In the absence of any specific legislation, India relies on equity principles, legal responsibilities, and doctrines to address trade secret misappropriation. These provisions' effectiveness and enforceability, however, still need to be more constrained. Alternative risk-reduction strategies are used by Indian businesses, including non-disclosure agreements (NDAs), confidentiality terms in employee contracts, and physical and electronic security measures.

In the lack of a specific trade secret law, India relies on clauses from other statutes to regulate trade secret protection. Notably, a big part is played by the Information Technology Act of 2000. The right to compensation is established under Section 43A of this act when improper processing of sensitive information results in unjustified loss or benefit. Additionally, the same act's Section 72 states that breaching confidentiality is a criminal offence. The Indian Penal Code covers crimes involving breaches of trust, while the Code of Civil Procedure protects documents necessary for efficient judicial decision-making. Aside from that, the 1992 Securities and Exchange Board of India Act deals explicitly with the penalties for insider use and unauthorized publication of sensitive information. In India's legal system, these clauses from legislation offer some legal remedies for trade secret misappropriation, but is that enough?

Conclusion

In conclusion, the prominence of trade secrets concealed by a veil provides a paradox with nuanced implications for business endeavours, scientific advancement, and legal frameworks. Trade secrets are highly sought-after intangible property that are frequently hidden behind a shroud of secrecy using tools like non-disclosure agreements and proprietary technology. Businesses may benefit from this covert protection, but it also raises questions about transparency, fair competition, and power relationships.

Additionally, trade secrets' prominent character creates difficulties when it comes to legal systems and intellectual property laws. Due to the reliance on maintaining secrecy for trade secret protection, it can be challenging to enforce legal remedies when trade secrets are stolen. The lack of openness surrounding trade secrets makes it difficult to prove theft or unauthorized use, obstructing firms' efforts to seek justice and fair compensation. This conundrum highlights the

need for strong legal frameworks that deftly strike a balance between trade secret protection and accountability.

In conclusion, protecting trade secrets is still essential for organizations to maintain their competitive edge, but their prominence prompts important questions. A difficult balance must be struck between protecting intellectual property, encouraging fair competition, and encouraging innovation. We can create an atmosphere that encourages innovation while guaranteeing justice and accountability in the commercial sphere by deftly tackling these difficulties through open legal frameworks, responsible disclosure practices, and a focus on social welfare.

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