

**Inadequacy of the Trade Secret's Protection Laws in
India
and Legal Regime Existing in U.S.**

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In the present scenario trade secrets protection is fundamental to encourage innovative steps, foreign investment and to promote healthy competition. Trade secrets give the commerce a spirited edge over the competitors and therefore one must ensure that he adequately protects his business related confidential information from his competitor. Trade secret as a new form of intellectual property is very significant and it is garnering wide importance because in the era of globalization, failure or success of any company depends on its secrets let them be policies related secrets or Information of their clients. Through this paper, the authors are putting an effort to highlight the laws dealing with trade secrets in India and their inadequacy in view of the legal regime existing in US. At the end authors discusses why there is a need of Sui Generis System in India for protection of the trade secrets.

Introduction

A trade secret simply refers to any data or information relating to the business which is not generally known to the public and reasonable attempts has been made to keep the information as secret and confidential. North American Free Trade Agreement (NAFTA) defines a trade secret as "information having commercial value, which is not in the public domain, and for which reasonable steps have been taken to maintain its secrecy."¹ Trade

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¹ Article 1711 of NAFTA

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.² In the case of *Burlington Home Shopping Pvt. Ltd. v. Rajnish Chibber*,³ Court held that a trade secret is information, which if disclosed to a competitor, would be liable to cause real or significant harm to the owner of the secret. It can thus include not only secret formulae for the manufacture of products but also, in an appropriate case, the names of customers and the goods, which they buy.

Article 39.2 of the Trade-related Aspects of Intellectual Property Rights (TRIPS) states three criteria to be considered any information as undisclosed information, these are (a) the information is not, as a body or in the precise configuration and assembly of its components, generally known among or readily accessible to persons that normally deal with the kind of information in question; (b) the information has actual or potential commercial value because it is secret; and (c) the person lawfully in control of the information has taken reasonable steps under the circumstances to keep it secret.

There may be various kinds of trade secrets, in this it may include financial records, lists of its customers, their contact details and even it may be the strategies or policies of a company.

² As per Section 1(4) of the Uniform Trade Secrets Act with 1985 Amendments

³ MANU/DE/0718/1995: 1995 (61) DLT 6

Trade Secrets Protection—Legal Position in India

In India trade secrets is a most deserted field as there is no proper policy framework for the protection of trade secrets. Trade secrets in India are protected mainly through contract law. 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 in this there is no provision of criminal remedy. As per Section 27 of the Contract Act confidential information must be highly confidential before it could be classified as a trade secret. Further in deciding whether information amounted to a trade secret, the following factors are relevant - (a) the status of the employee and the nature of his work (b) the nature of the information itself (c) whether the employer impressed the confidentiality of the information on his employees (d) whether the information could easily be isolated from other information which the employee was free to use.⁴

An employer can prohibit lawfully his employee from accepting, after determination of his employment, such a position where he is likely to utilise the information of secret processes and trade secrets acquired by him during the course of employment. He may also covenant to prohibit his employee from setting 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. In the *Burlington Home Shopping Pvt. Ltd. v. Rajnish Chibber*,⁵ it was observed by the Court that Trade secret law protects a wide array of business data, Customer lists and other compilations of business data may be copyrightable as fact works. In theory, copyright and trade secret law protect different elements of compiled business data, with

⁴ Pollock & Mulla, "Indian Contract and Specific Relief Acts" (Thirteenth Edn., Volume I, Lexis Nexis Butterworths Wadhwa, Nagpur, 2006), pg. 839

⁵ 1995 IV AD (Delhi) 732

copyright protecting the expression in these compilations and trade secret law protecting the underlying data. In fact, copyright and trade secret protection for compilations of business data frequently converge. Copyright protection for business directories often extends to the underlying data, and trade secret protection may extend to particular expressive arrangements of data. In this Defendant was restrained from using Plaintiff's database consisting of compilation of the addressed of the clients. Court held that if the Defendant is permitted to make use of the Plaintiff's database, it is sure to cause an injury to the plaintiff, which would be incapable of being estimated in terms of money.

In *Niranjan Shankar Golikari v. The Century Spinning and Mfg. Co. Ltd.*⁶, Supreme Court held that an injunction to enforce negative contract, which is restricted as to time, can be issued in order to protect the employer's interest. In this case the Defendant was appointed for a period of five years on the condition that during this period he shall not serve anywhere else even if he left the service earlier. Later on he got himself employed somewhere else at a higher salary. Supreme Court observed that, information acquired by the Appellant and knowledge disclosed to him during this period was different from the general knowledge and experience that he might have gained while in the service of the respondent company and that it was against his disclosing the former to the rival company which required protection. Therefore, it was held that the order to restrain him from divulging any and all information, instruments, documents, reports, etc., which may have come to his knowledge while he was serving the respondent company is justified.

A clause relating to confidentiality of information in an agreement was held valid in the *V.N. Deshpande v.*

⁶ MANU/SC/0364/1967: AIR 1967 SC 1098: (1967) 69 BomLR 535

*Arvind Mills*⁷. In this matter Court considered a clause relating to confidentiality of information and stated that, Clause 9 of the agreement prevents the Appellant from divulging any secret information of the nature mentioned in that clause after the termination of his service. The Defendant is not prevented from acquiring knowledge, which makes him a better employee for the public for future employment. It only prevents him from divulging information, which he has received as respondents' employee to another party. It is, therefore, 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.

For the trade secrets protection an attempt was made in India by passing the National Innovation Act of 2008. Chapter VI of the Act talks about Confidentiality and confidential Information and provides remedies. This act allows parties to contractually set out the terms and conditions governing rights and obligations in respect of confidential information, including with a view to maintain confidentiality and prevent misappropriation. Further Court can restrict any person or class of persons impleaded in an action not to disclose the Confidential Information referred to in the claim without prior orders of the court."⁸ Further Section 11 provides exceptions, in these conditions confidential information shall not have been misappropriated where, the Confidential Information was available in the public domain; or the Confidential Information has been independently 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 public interest by a court of law. But this draft couldn't come into existence.

⁷ MANU/MH/0080/1945: AIR 1946 Bom. 423: (1946)48 BomLR 90

⁸ Section 10 of the National Innovation Act of 2008

In the *American Express Bank Ltd. v. Ms. Priya Puri*⁹, view of the Court was that the details of customers are not trade secrets nor they are the property. It was observed that any person of ordinary intelligence would become familiar with the customers whom he might serve along a laundry route during a period of five months. Further, freedom of employment must not be unreasonably abridged, and a contract in restraint of employment, without some reasonable limitation, is like a similar contract in restraint of trade, contrary to public policy and unenforceable. On the basis of this Court rejected the injunction application of the plaintiff and held that freedom of employee cannot restricted or curtailed on the ground that he had employer's data and confidential information of customers.

The reason for upholding restraints against an employee is to prevent the proprietary rights of the employer if it is reasonable necessary in the case of trade connections or trade secrets, but it is not available if directed to prevent competition, or against the use of personal skill and knowledge acquired by the employee in his employer's business.¹⁰ The employer cannot restrain the exercise of extra skill and knowledge acquired by the employee during the course of his employment.¹¹ Further, the enforceability of a restrictive convent does not extend to the business of the employer other than the one the employee was employed in.¹² In *Zaheer Khan v. Percept D'mark (India) Pvt. Ltd.*¹³, Supreme Court held that the restraint cannot operate beyond the contract period. A restrictive convent extending beyond the terms of the contract is void and unenforceable. Thus, restraint would be void if it affects future liberty after the period of contract is over. The restraint, under the Section 27 has to be reasonable in the interest of the

⁹ MANU/DE/2106/2006: [2006] (110) FLR 1061

¹⁰ *Herbert Morris Ltd. v. Saxelby*, (1916-1917) All ER Rep. 305

¹¹ *Mason v. Provident Clothing and Supply Co. Ltd*, (1911-13) All ER Rep. 400.

¹² *Halsburys' Laws of England*, Fourth Edn., Vol. 47, para 28.

¹³ MANU/MH/1576/2003: AIR 2004 Bom 362

parties in order to prevent misuse of trade secrets or business connections. But what is reasonable is not clearly defined it depends upon the two factors of time and space. A contract not to divulge a trade secret may be reasonable though unlimited as to space or time, and a restraint imposed in order to give effect to such a contract would apparently be treated in the same way.

In the *Superintendence Company of India (P) Ltd. v. Sh. Krishan Murgai*,¹⁴ Supreme Court observed that, the restraint may not be greater than necessary to protect the employer, nor unduly harsh and oppressive to the employee. If there is any ambiguity in a stipulation between employer and employee imposing a restriction on the latter, it ought to receive the narrower construction rather than the wider the employed ought to have the benefit of the doubt. On the basis of the analysis Supreme Court in the matter held that restrictive covenant by an employee not to engage in a business similar to or competitive with that of the employer after the termination of his contract of employment is void.

Therefore, As per the decision of the Supreme Court in *Krishan Murgai*,¹⁵ in Indian law, a service covenant extending beyond the term of service is void, where in similar cases, the English law would allow restraint which is reasonable. The negative covenant in a contract of employment placing a restraint on the employee that he shall not serve in any other competitor's firm for two years at the place of his last posting after the employee left the company, would be void.¹⁶ But a term restricting an employee from disclosing trade secrets and confidential information after ceasing employment can be enforced.

Legal Regime Existing in United States of America

¹⁴ MANU/SC/0457/1980: AIR 1980 SC 1717

¹⁵ *Ibid*

¹⁶ *Taprogge GesellschaftmbH v. IAEC India Ltd.*, MANU/MH/0332/1988: AIR 1988 Bom. 157.

In the U.S., the relevant laws for prohibiting unauthorised commercial use of a trade secret are the *Uniform Trade Secret Act* (UTSA), and the *Economic Espionage Act 1996* (EEA).

Uniform Trade Secret Act defines "Trade secret" as an 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) (ii) is the subject of efforts that are reasonable under the circumstances to maintain its secrecy.¹⁷ To determine what amount or types of safeguards are reasonable to protect the secrecy of proprietary information, for this there is no clear cut formula, however *In Re Innovative Constr. Sys., Inc.*,¹⁸ the Seventh Circuit has said that such a determination "requires an assessment of measures, and the degree to which such measures would decrease the risk of disclosure. What may be reasonable measure in one context may not necessarily be so in another. In the *Economy Roofing & Insulating Co. v. Zumaris*,¹⁹ it was explained by the Court that: "there is virtually no category of information that cannot, as long as the information is protected from disclosure to the public, constitute a trade secret. We believe that a broad range of business data and facts, which if kept secret, provide the holder with an economic advantage over competitors or others, qualify as trade secrets.

¹⁷ §1(4) of the Uniform Trade Secrets Act (UTSA), drafted by the National Conference of Commissioners on Uniform State Laws, as amended 1985.

¹⁸ 793 F.2d 875, 884 (7th Cir. 1986)

¹⁹ 538 N. W.2d 641, 647 (Iowa 1995)

A trade secret may include elements that are in the public domain if the trade secret itself constitutes a unique, "effective, successful and valuable integration of the public domain elements".²⁰ 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 connection with discovery proceedings, holding in-camera hearings, sealing the records of the action, and ordering any person involved in the litigation not to disclose an alleged trade secret without prior court approval.²¹

Under the *Economic Espionage Act of 1996*, an information will be considered as Trade Secret if- (a) the owner thereof 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 public.²² The requirement 'not being generally known to the public or other persons' does not require that information be generally known to the public for trade secret right to be lost. If the principle person who can obtain economic benefit from information is aware of it, there is no trade secret.²³ 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 the *United States v. Genovese*,²⁴ it was held that a trade secret does not lose its protection under the Economic Espionage Act, if it is temporarily, accidentally or illicitly released to the public, provided it does not become 'generally known' or 'readily ascertainable through proper means'.

²⁰ *Rivendell Forest Prods Ltd. v. Ga.-Pac. Corp.*, 28 F.3d 1042, 1046 (10th Cir. 1994)

²¹ §5 of the Act

²² Section 1839 of the Economic Espionage Act of 1996

²³ Commissioners' comments UTSA § (1985)

²⁴ 409 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., whoever, with intent to convert a trade secret, that is related to or included in a product that is produced for or placed in interstate or foreign commerce, to the economic benefit of anyone other than the owner thereof, and intending or knowing that the offense will, injure any owner of that trade secret, knowingly steals, or without authorisation appropriates, takes, carries away, or conceals, or by fraud, artifice, or deception obtains such information, without authorization copies, duplicates, sketches, draws, photographs, downloads, uploads, alters, destroys, photocopies, replicates, transmits, delivers, sends, mails, communicates, or conveys such information, receives, buys, or possesses such information, knowing the same to have been stolen or appropriated, obtained, or converted without authorisation, shall be fined not more than \$5,000,000 or imprisoned not more than 10 years, or both.²⁵

Doctrine of "Inevitable Disclosure":

In US some Courts have recognised that trade secret misappropriation is inevitable if an employee with knowledge of a company's specialised 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, including the former employer's trade secrets.²⁶ In *B.F. Goodrich Co. v. Wohlgemuth*,²⁷ 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.

²⁵ Sec. 1832 of the Act

²⁶ David W. Quinto, Stuart H. Singer, "Trade Secrets - Law and Practice" (Oxford University Press, 2009) pg. 91

²⁷ 192 N.E.2d 99, 104-105, 137 U.S.P.Q. (BNA) 804, 807 (Ohio Ct. App. 1963)

In the *Pepsico, Inc. v. Williame Redmond*,²⁸ defendant (William Redmond), worked for PepsiCo from 1984 to 1994, Redmond became the General Manager of the Northern California Business Unit in June, 1993, and was promoted one year later to General Manager of the business unit covering all of California. Redmond's relatively high-level position at PCNA gave him access to inside information and trade secrets. Redmond, like other PepsiCo management employees, had signed a confidentiality agreement with PepsiCo. Later on he joined Quaker, a competing company. Against this PepsiCo filed a suit, seeking a temporary restraining order to enjoin Redmond from assuming his duties at Quaker and to prevent 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 clear threat of misappropriation of trade secrets and confidential information that could be enjoined under Illinois statutory and common 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.

Inadequacy of Effective Legal Regime and Need for a *Sui Generis* System to Protect Trade Secrets in India

Trade Secrets protection is very essential because it encourages innovations and promotes commercial ethics and it is also crucial for a company's growth as it promotes fair competition in the market. If there will be enough safeguards mechanism than due to this there will be more transparency in commercial transactions and this will definitely increase foreign investment

²⁸ (54 F.3d 1262, 1270 (7th Cir. 1995))

and trade. Due to effective regime or proper mechanism there will be no need to patent an invention, it can be protected through the laws of Trade Secrets therefore burden of patent litigation will be less. Further, as a result of effective regime there will be no violation of Fundamental right to privacy.

In India, there is no effective legislation or regime for protection of trade secrets, though Section 27 of the Contract Act provides civil remedy up to a certain limit. It restricts a person from disclosing information which he acquired during the course of his employment. But again there is no uniformity in the views of the Courts over this issue. Unlike US, there is no provision of criminal liability in India.

Therefore for the protection of trade secrets a clear and definite policy with regard to trade secrets protection is needed. A *Sui Generis System* as provided under Article 39 of the Trade-related aspects of Intellectual Property Rights (TRIPS) and Article 10 *bis* of the Paris Convention is required to tackle the problem of unfair competition. Being a member of TRIPS, India is obliged to make comprehensive rules and regulations to remove the uncertainty with regard to Trade Secrets protection. Further 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 as well as criminal liabilities should be put into practice.

Effective and stringent steps should be taken while keeping in mind the Innovation Bill of 2008 to provide a comprehensive legislation which would deal with the issues of defining liabilities of infringers, both in civil and criminal matters. Indian legislature can take a recourse to the provisions laid down under the UTSA and EEA in US.