

Trade Secrets: A Secret Still to Unveil

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Trade secret forms the core of all industrial activities, but as an IPR in the true sense is found in textbooks on intellectual property. In practice it still remains a secret for our intellectual property regime which has been indiscriminate in affording it any protection. It is yet to unveil itself; people are yet to realize its potential as an IPR. Regardless of the fact that trade secrets remain neglected they have distinguished advantages over other IPR. This paper analyses these advantages which it can accrue to country like India and provides how these advantages can be exploited effectively. It also analyses new developments in the field of trade secrets and their legal protection in India. The contemporaneous conditions in India are conducive and compelling to have a statutory law on trade secrets, even courts have also seen increased trade secret litigation in the recent past. Hence the paper suggests legislative protection of trade secrets and possible ingredients of such law.

Keywords: Developing countries, confidential information, protection, legislation

Trade secrets are capsules of information, ideas and knowledge which provide competitive edge to an enterprise over others; they can be the success formula if kept secret. The process of evolving trade secret takes years of experience, research and skill. For trade secrets, secrecy is the factor which attaches economic value to them, one good example is the composition of Coca-cola which is still a secret, so protection of trade secrets is important to maintain competitiveness in the market. Though they have great utility as intellectual property right (IPR) still they have remained neglected so far. However their legal protection can be traced back to 1851 in England and 1868 in USA¹, some have even traced its protection back to Roman law.² The term 'trade secret' is often used interchangeably with terms like 'undisclosed information', 'know-how' or 'confidential information', however there lies some basic conceptual difference between these terms. Legal protection of trade secrets is based on principles of equity, morality, fair business practices or commercial ethics.¹

In the recent past, enterprises have understood the importance of trade secrets which are being frequently sold and licensed as property. According to Magri, it is estimated that the majority of working technologies worldwide are protected through trade secrets rather

than patents. Effective steps are being taken by companies to protect trade secrets, and as a matter of practice companies are entering into non-disclosure agreements with employees, partners, trainees, and non-competition agreements with employees in particular. Nevertheless in absence of a specific legislation their initiatives are rendered inadequate. In the recent past, misappropriation of trade secrets by employees and/or competitors has increased.³ Companies in order to protect their trade secrets have even started spying personal lives of their employees. The recent cases of Indian BPO's, strongly appeal for a concrete legislation to protect trade secrets. The recent developments in the law of trade secrets, new issues and challenges form main concern of this paper. While discussing several aspects of trade secrets, the paper also outlines benefits which trade secrets can bestow on developing nations particularly. The paper also discusses the law existing on trade secrets in India, and the possible outline of a statutory law.

Conceptual Analysis

As a concept, trade secret exists in several laws worldwide and is protected in different forms as property, as IPR, under common law, law of contract, etc. It is recognized by different terms and every legal system has attached some or the other definitional peculiarity to it, however the Black's Law Dictionary defines 'trade secret' as 'a formula,

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process, device, or other business information that is kept confidential to maintain an advantage over competitors.’ Trade secrets can encompass designs, drawings, architectural plans, blueprints and maps; algorithms and processes that are implemented in computer programs, and the programs themselves; instructional methods; manufacturing or repair processes, techniques and knowhow; formulae for producing products; data compilations, including certain databases; business strategies, business plans, methods of doing business, marketing plans; financial information; personnel records; manuals; ingredients; information about research and development activities.⁴ Trade secret is often termed as ‘know-how’, undisclosed information or confidential information though there is a conceptual difference between these terms, every confidential information or undisclosed information may not be a trade secret, like wise all know-how may not qualify as trade secret.

Objectives of Providing Protection

Trade secret like any other IPR has immense commercial applicability. Their protection is justified on sound economic grounds which make an enterprise competitive. By affording protection, law can incentivize the development of these commercial secrets.⁵ In addition courts have noted that trade secret law exists to infuse a form of commercial morality, to impose certain ethical standards on business relationships.⁵ Trade secret encourages investment in un-patentable inventions and non-copyrightable works.⁶ It encourages innovation and may provide requisite protection for the development of more complex, research-intensive patents.⁶ It also fills the gap between patent and copyright protection.

Boon for the Developing World

Trade secret is an IPR which affords a non-technical simplified protection. It does not require registration with government, or observance of any procedure, as opposed to other forms of intellectual property (except copyright which becomes legally protected from the moment it comes into existence). The protection endowed is not limited by any time period but limited till a party can withhold the secret from entering the public domain. In a country like India these advantages count much and will attract small and even large enterprises who face difficulty in managing costs of expensive IP protection, like, patents⁷, however trade secret is often treated as weak

mode of protection when compared with patents. Trade secrets around the world protect the widest pool of knowledge, information and intellectual creations in contrast with any other form of IPR.

Trade secret can be developed irrespective of the size or magnitude of investment made by an enterprise. In many cases, it is treated as a good strategy for Small and Medium Scale Enterprises (SME’s) to resort to protection of trade secrets particularly when the technology is changing at a higher pace or when the secrecy of the information involved can be maintained for a longer duration. In India, SME’s contribute substantially to the GDP but still they have not been able to utilize the benefits of IPR in a significant way.⁸

Trade secret fills the gap in intellectual property law by providing legal shelter to non-patentable, non-copyrightable innovations.⁹ In regard to copyright, it is worth to discuss distinction between trade secret and copyright protection, copyright gives protection against copying and not merely use of information. But confidence protection is not tied to particular ways of using the material it is only concerned with information in substance and not in form.¹⁰

In *Burlington Home Shopping Pvt Ltd v Rajnish Chibber*¹¹, the Court while discussing the distinction between trade secret and copyright, reproduced a paragraph from the authoritative text of Paul Goldstein, ‘*Copyright - Principles Law and Practice*’ which provides, ‘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 copyright protecting the expression in these compilations and trade secret law protecting the underlying data.’

It can protect ethno-biological medicinal knowledge also. Since use of patents to protect such knowledge requires contributors to reveal part of the knowledge, much of which is sacred (However the sacred feature attached to information may impinge on its commercial applicability). If the protection is based on the trade secrets, then the knowledge need not be revealed at all.¹² However, trade secrets as a viable alternative have their own limitations and knowledge having no commercial value but only spiritual cannot be protected.¹² India has a huge pool of medicinal information practiced by vaidyas and hakims and passed on from generations to

generations, by the elders. There are ayurvedic scriptures which contain gallons of information having commercial applicability. We even have rich pools of indigenous knowledge in relation medicinal biodiversity. In fact Indian tradition from past has been maintaining the secrecy of such secrets.

Protection of trade secrets originated in England by judicial pronouncements of the English courts. This was later adopted by United States. Common law, principles of fair competition, tort and contract are genesis of trade secrets to which our courts and legal system are well accustomed, it will be easier for us to adapt and develop a sound system of trade secret protection.

In the light of great economic and corporate boom in our country we are pushed to provide a market with the highest level of rules of fair dealings possible to sustain this economic development. Providing legal protection to trade secrets will act as a move towards the same direction and will strengthen the confidence of entrepreneurs in the Indian market.

Protecting Trade Secrets in India

In India, like other areas of law in this area also, we are yet to develop our own jurisprudence, currently we are protecting trade secret under common law and have no legislative protection for the same, but India being a party to TRIPS Agreement is obligated to protect undisclosed information, the kind of protection and its modalities are left to the discretion of the member states - they can have a *sui generis* mechanism in place as provided under Article 10bis of the Paris Convention and Article 39(2) and 39(3) of TRIPS. There are some cases on trade secrets decided by Indian courts which are dealt herein.

Trade Secrets Litigation in India

In India, several cases in courts and tribunals have been filed dealing with trade secrets, confidential information and know-how, in these cases courts were being confronted with the issues of copyright, contract, law of injunctions, privilege communication, etc. Trade secrets can be broadly protected by an action of misappropriation under common law. Misappropriation of trade secrets may occur in two ways, first by way of breach of obligation of confidence, obligation of confidence which can arise expressly (when stipulated by contract between two or between employer and employee, or when while information was disclosed, the confidential nature

was expressly spelt out) or impliedly (if the circumstances are such that any reasonable man standing in the shoes of the recipient of the information would have realized that upon reasonable grounds the information was being given to him in confidence). The other way of misappropriation is the case of third party accessing confidential information in an unauthorized manner, like theft.

Indian courts have given due recognition to the common law principles like obligation of confidence to protect trade secrets and the courts while dealing with the cases have repeatedly pointed out that in the absence of legislation we are protecting trade secrets under common law. In *AIA Engineering Pvt Ltd v Bharat Dand and Ors*¹³, the Hon'ble High Court of Gujarat while dealing with trade secrets observed, 'It is no doubt true that under the common law, a servant can be prevented from diverting the trade secret and even in a given case, a third party can also be restrained from acting in any manner on the basis of receiving such trade secret.'¹³ Similarly in *John Richard Brady and Ors v Chemical Process Equipments P Ltd and Anr*¹⁴, the Delhi High Court in a case involving unauthorized use of trade secrets observed, 'It will also be in the interest of justice to restrain the defendants from abusing the know-how, specifications, drawings and other technical information regarding the plaintiffs' fodder production unit entrusted to them under express condition of strict confidentiality, which they have apparently used as a 'spring-board' to jump into business field to the detriment of the plaintiffs...or from using in any other manner whatsoever the know-how, specifications, drawings and other technical information about the fodder production unit disclosed to them by the plaintiffs.'

In *Daljeet Titus, Advocate v M Alfred A Adebare and Ors*¹⁵, the learned judge observed, 'I am in full agreement with the views expressed in *Margaret, Duchess of Argyll (Feme Sole) v Duke of Argyll and Ors*¹⁶, that a court must step in to restrain a breach of confidence independent of any right under law. Such an obligation need not be expressed but be implied and the breach of such confidence is independent of any other right as stated above.'⁹ In the end, the Court while granting injunction directed that the defendants would not be entitled to utilize the material of the plaintiff to which the defendants had access in a confidential manner. The defendants having worked with the plaintiff cannot utilize the agreements; due

diligence reports, list of clients and all such material which has come to their knowledge or has been developed during their relationship with the plaintiff and which is *per se* confidential.⁹

In case of trade secrets of banks, the Delhi High Court in one of the important cases, in the light of obligation of secrecy of banks towards their customers under the common law observed, 'The bank owes a duty of secrecy to its customer which arises out of the confidential nature of bank-customer relationship and is not limited to contractual and equitable obligations and is well established in bank's fiduciary duty towards its customers.'¹⁷ But the Court observed that if the customers decide to do trade with the employee of bank particularly even when the same joins the new bank, then the obligation cannot be pleaded since then no secrecy is hampered.

Meaning and Definition

Courts have frequently emphasized that all information in business would not be treated as 'trade secret' and 'every information or general knowledge of facts cannot be labeled as trade secret or confidential information...mere use of words, strategies, policy decisions or crucial policies repeatedly in all the items...does not acquire the position or character of secrecy.'¹⁸ The court further pointed out that human skills acquired by the concerned person in the field cannot be called as trade secret and observed 'Any one in any employment for some period would know certain facts and would come to get some information without any special efforts cannot be said to know trade secrets or confidential information.'¹⁸ '...routine day-to-day affairs of employer which are in the knowledge of many and are commonly known to others cannot be called trade secrets. A trade secret can be a formula, technical know-how or a peculiar mode or method of business adopted by an employer which is unknown to others.'¹⁷

The Customs Excise and Service Tax Appellate Tribunal while discussing about know-how¹⁹ observed, '...know-how is a parcel of closely-held information relating to industrial technology, sometimes also referred to as trade secret which enables its user to derive commercial benefit from it. 'Know-how' as an intellectual property, would mean a proprietary series of practical, non-patented knowledge, derived from the owner's experience and tests, which is secret, substantial, and identified. It is secret because it is not generally known or easily accessible.'¹⁹ Mere word 'know-how', as commonly

understood, will not make all know-how, that is, the processes involved in doing of a task, as intellectual property, unless it is a confidential know-how or a trade secret known only to the knower and is not in public domain, so that its commercial exploitation could be done only under a licence from the person having the 'know-how' which would be a special skill unknown to others that can be imparted for commercial exploitation.¹⁹

'Know-how in the nature of trade secret as an intellectual property would, therefore, be information including a formulae, pattern compilation, programme device, method, technique or process, that derives independent economic value, actual or potential, from not being generally known to, and not being readily ascertainable by other person who can obtain economic value from its disclosure or use, and is the subject of efforts that are reasonable under the circumstances, to maintain its secrecy.'¹⁹

Remedy

In case of infringement of trade secrets the remedy can be injunction or damages. For an action of injunction, the law of injunctions in India under the Specific Reliefs Act, 1877 is applicable and the requirements of *prima facie* case, balance of convenience and irreparable injury must be established, in many cases courts have refused to grant injunction for breach of obligation of confidence in absence of *prima facie* case or for insufficiency of evidence. The courts have observed that in order to obtain an injunction from the court there should not be concealment of material fact by the plaintiff before getting the equitable relief from the court.¹⁹ As per Section 41 (e) of the Specific Relief Act injunction which cannot be specifically enforced and supervised by the Court should not be granted. Section 14 (c) and (d) of the Specific Relief Act also prohibit grant of such injunctions.¹⁷

Proper Disclosure of Trade Secret

Proper disclosure of trade secret involved in the case is important for obtaining relief. In *Star India Case*²⁰, the Court pointed out that the trade secret involved should be brought into the notice of the court for claiming relief, to this counsel for the company highlighted the real and practical problem as to if the trade secret is revealed then it will be no more a secret, but court responded and said that it does not want to know the method or contents of the trade secret but the name or the item involving trade secret would be sufficient.¹⁸

Doctrine of Restraint of Trade and Trade Secrets

Section 27 of the Indian Contract Act, 1872, gives statutory recognition to the common law doctrine of restraint of trade. This section has attracted most of the trade secret litigation in India. Section 27 provides that every agreement by which a person is restrained from carrying on any trade, business or profession, is invalid. In *Wipro Limited v Beckman Coulter International SA*²¹, the Delhi High Court exhaustively dealt with the existing authorities on doctrine of restraint of trade and trade secrets in India. The Court initially referred to the case of *Star India Pvt Ltd*¹⁸, and quoted the observation of the Court therein that 'if the plaintiff had right to terminate the contract on the ground of misconduct it cannot be said that the defendant had absolutely no right to resign from the employment on account of better prospects or other personal reasons.'

Then court examined the observations made in *Taprogge Gesellschaft case*²², 'The distinction between the restraints imposed by a contract, operative during the subsistence of the contract and those operative after the lifetime of the contract is of a fundamental character...Again, the purpose for which a restraint is expected to serve determines the character of the restraint. For instance the restraints which operate during the term of the contract have to fulfill one kind of purpose viz. furthering the contract. On the other hand, the restraints operative after the termination of the contract strive to secure freedom from competition from a person who no longer works within the contract.', continuing, court quoted the observation of the learned judge from para 15 of the judgment, 'Generally speaking, the negative covenants operative during the term of the contract are not hit by Section 27 of the Contract Act because they are designed to fulfill the contract and not to restrict them. On the other hand, when a restriction applies after the contract is terminated, the restriction on freedom of trade, business or profession takes the form of restraint on trade, business or profession. This distinction which is of a fundamental nature has to be borne in mind.'

After examining the above case and other precedents, the Court observed, 'any agreement restraining an employee post termination from seeking employment elsewhere, as held in *Superintendence Co Ltd case*²³ would be in restraint of trade and would be hit by Section 27 of the Indian Contract Act, 1872.' Subsequently, the Court even

quoted the observation of the learned single judge in *Raj Chopra and Anr v Shri Narendra Anand and Ors*²⁴, that the Contract '...Act dealt with a particular subject, it was exhaustive on the same and it was not permissible to import the principles of the English law de hors the statutory provision unless the statute was such that it could not be understood without the aid of the English law.' and the Court relied on the observation of Supreme Court in *Gujarat Bottling Company Ltd and Ors v Coca Cola Co and Ors*²⁵ quoting from the judgment, 'Since the doctrine of restraint of trade is based on public policy, its application has been influenced by changing views of what is desirable in the public interest. The decisions on public policy are subject to change and development with the change and development of trade and the means of communication and the evolution of economic thought.'

The Wipro court was also confronted with an interesting issue as to whether there was a conflict between the Supreme Court decisions rendered in the case of *Niranjan Shankar Golikari*²⁶ and *Krishan Murgai*¹⁹, to this the Court answered again by quoting the observations made in *Taprogge Gesellschaft case*, '...The judgment of Supreme Court in *Niranjan Golikari* was in respect of the period covered by the contract of employment. The Judgment in *Krishan Murgai* arose, on the other hand, out of the facts which show that it applied to the period after the termination of the contract. The two decisions apply in different spheres and to different situations. There is no conflict at all between the two decisions. In *Niranjan Golikari*'s case, the Supreme Court did not hold that the post-employment restrictive covenant was valid. All that it was concerned was whether the implied negative covenant which applied during the term of employment could be enforced. Since there is no conflict at all, the question of choosing one of the two judgments by the subordinate courts does not arise....'

Thereafter the Court observed, 'Although the Supreme Court in *Gujarat Bottling* had refrained from entering into the question whether reasonable restraint is outside the purview of Section 27 of the Contract Act, in my view, this issue has already been settled in *Superintendence Co Ltd* (supra) wherein A P Sen, the Judge categorically observed that neither the test of reasonableness nor the principle that the restraint being partial or reasonable are applicable to a case governed by Section 27 of the Contract Act, unless it falls within exception.'²⁷

In the end court concluded that 'Negative covenants tied up with positive covenants during the subsistence of a contract be it of employment, partnership, commerce, agency or the like, would not normally be regarded as being in restraint of trade, business of profession unless the same are unconscionable or wholly one-sided.... The question of reasonableness as also the question of whether the restraint is partial or complete is not required to be considered at all whenever an issue arises as to whether a particular term of a contract is or is not in restraint of trade, business or profession.'²⁷

In Wipro the dispute involved an agreement between the employers which stipulated clauses to curb the menace of inducement of employees by any competitor employer. This agreement was challenged to be in restraint of trade. The Court held that since this agreement is entered between two employers and not between employer and employee hence a liberal view is to be taken and upheld the validity of such clause. This finding in fact provides a new direction and allows employers to enter into such agreements to curb the menace of misappropriation of trade secrets in future.

From the analysis of the existing case laws, it is apparent that Indian courts have always adopted a strict approach and first analysed whether the alleged information qualifies as a 'trade secret' and have repeatedly held that 'routine day-to-day affairs of employer which are in the knowledge of many and are commonly known to others cannot be called 'trade secrets'. Generally in cases of non-disclosure and non-competition agreements, employees have taken the plea of unequal bargaining power, but the courts have gone into the factual matrix to judge the merits of such argument. It is also frequently argued before the court that the employee has not acquired any confidential information and plaintiffs do face considerably while proving the contrary at interlocutory stage, which has often resulted in dismissal of such cases due to insufficiency of evidence to establish a *prima facie* case, as it happened in *AIA Engineering case*, the Gujarat High Court in absence of evidence of misappropriation of trade secret dismissed the case and even refused to even infer the alleged misappropriation in the light of 'non-disclosure of the means and source of acquiring the confidential information by the respondents'. So a legislation laying down the law for all such contingencies, standard of proof, in a detailed manner

is required. In *American Express v Priya Puri*¹⁷, it was argued on behalf of bank that even if the confidential information has been memorized by the employee in the course of his employment, an injunction restraining an employee can be granted relying on *Finishers Ltd v Holloway*²⁸, though court did not pass any remarks on this argument specifically, but recognition of such protection will attach a distinguished advantage to trade secrets. In large number of cases infringement of copyright protection was pleaded along with infringement of trade secrets. The courts in this regard have dealt with the *interface* and the difference between copyright protection and trade secret protection. In *Daljeet Titus*, the Court passed a wide order restraining the employee from utilizing any confidential information even other than what was protected by copyright.

Apart from the decisions of the Court, as a matter of caution, the companies in India are entering into non-disclosure agreements with employee, partners, clients and trainees (even law students are made to sign non-disclosure agreements by law firms for internship).

Interestingly in US, several courts have recognized the 'inevitable disclosure' rule, which permits a former employer to enjoin an employee from working for a direct competitor where the 'new employment will inevitably lead the employee to rely on the former employer's trade secrets'.²⁹ The courts use the doctrine of inevitable disclosure as an equitable tool to grant injunctions on competition in the absence of actual misappropriation.³⁰ However application of such doctrine may not fetch approval of the courts in India in background of prevailing labour conditions.

Statutory Recognition to Obligation of Confidence

In case of relationship between a lawyer and his client, Section 126 of the Evidence Act, 1872 provides for privilege communication, and imposes an obligation of confidence on lawyer. In *Daljeet Titus, Advocate v Mr Alfred A Adebare and Ors*³¹, the plaintiff argued this successfully and the Court accepted the argument that Section 126 imposes an obligation of confidence on a lawyer while dealing with the information provided by his client and by any act if the same is affected, then court can grant injunction and observed 'There can be little doubt that the information between a client and his advocate has the necessary quality of confidence and when it is imparted there is an obligation of confidence.' So the employees of Titus law firm were restrained from taking confidential information from the law firm in

the light of duty of confidence imposed. Hence in limited sphere of legal profession obligation of confidence is codified by Section 126.

The Securities and Exchange Board (hereinafter SEBI) of India has issued SEBI (Prohibition of Insider Trading) Regulations, 1992, which renders use and disclosure of confidential information by an insider³² subject to prosecution under the SEBI Act, 1992. In one respect, this regulation also crystallizes the obligation of confidence arising out of relationship between an insider and the company and in certain cases will protect information qualifying as 'trade secret'. However, a third party who makes use of this information is not made liable. In respect of computers and the cyber world, the Information Technology Act, 2002 also contains provisions for protection of confidential information.

Non-Competition Agreements and Competition Law

Anti-competitive agreements are basically governed by competition law. India has recently enacted Competition Act, 2002 and has put in place a proper competition law regime on modern lines. The Competition Act, 2002 seeks to regulate anti-competitive agreements. Interestingly the agreements in restraint of trade, impinging on employee freedom may amount to limitation of provision of services under Section 3 and will be anti-competitive under the Act. But Section 3 exempts agreements which are made in order to effectuate realization of IPR, however the list covers only those IPR which are protected by IPR legislations in India and there is no mention of trade secret.

Legal Aspects of Trade Secrets

Right to Information

The right to information is the right of modern times, a right to ensure good governance, by maintaining transparency in governance. In India, we have enacted the Right to Information Act, 2005, which confers a right to information to every citizen of India. However, that right is not absolute. Such right is qualified with exceptions, one exception being, it does not extend to any information relating to trade secrets nevertheless the same can be disclosed if in the opinion of appropriate authority is warranted in larger public interest.³³ In respect of trade secrets, the Act further imposes a restriction on disclosure of any information related to third party by the appropriate authority without the consent of such third party.³³

Patent and Trade Secret Distinction

Information eligible for trade secret protection may or may not be eligible for patent protection. Trade secrets unlike patents can include wider base of information. Trade secret protection can last in perpetuity as long as the information remains secret and maintains its value whereas a patent protection expires 20 years from its filing date.³⁴ In order to protect trade secret, uniqueness in the sense of patent law is not required. Further, the owner of a trade secret, unlike holder of a patent, does not have an absolute monopoly on the information or data that comprises the trade secret. In actual practice, patents are often secured for a central invention, while much that is learned in the process of bringing it into commercial production is tied up as secret 'know-how' by means of confidence undertakings.¹⁰ Recently in India patentability of computer software is in question, which however can be easily protected as a trade secret.

Criminal Remedies

In India, the case of misappropriation of trade secrets can be brought under criminal offences dealt under Indian Penal Code, 1860 like, theft (Section 378), criminal misappropriation (Section 403) and criminal breach of trust (Section 405). However, criminal route for good reasons is rarely used. Firstly, it is the government who has to prosecute the case, which places an unnecessary burden on the government of a dispute which is essentially civil in nature and even though private persons under Section 302 can launch prosecution, the discretion lies with the magistrate to allow it which makes such recourse uncertain. Secondly, burden of proof is higher than in civil cases³⁵ and thirdly, the remedy or relief which is granted by a criminal court makes less sense to business and commerce of an entrepreneur and does not curb the economic loss.

Electronic Evidence

There are recent cases of computer crimes in which in order to effectuate investigation, data needs to be collected from the computer. These computers often contain lot of information which may not be required for the case. One of such material is trade secret, and there is always a possibility that it may leak during the course of proceedings. To handle this problem, an effective solution is provided by German law, where the provisions related to surveillance provide that all materials obtained from computer for investigation are kept under judicial control and police is allowed to access that material which is relevant for them.³⁶

Lawyers and Attorneys need to be Cautious while Filing

Any action for trade secret infringement should be brought with all due care and caution; otherwise one may risk an adverse result. While filing a trade secret case, a lawyer must gather all the necessary information and then move for preliminary injunction. The appropriate strategy for lawyers in this type of situation is to wait until everything is in order—including the evidence and some initial discovery—before moving for the injunction. On the other hand, there are drawbacks of delay in moving for an injunction beyond a reasonable time.³⁷

Trade Secrets and Small & Medium Scale Enterprises

Trade secrets are widely used by SMEs. In fact, many SMEs rely almost exclusively on trade secrets for the protection of their IP (although in many cases they may not even be aware that trade secrets are legally protected).³⁸ Small scale industries in India occupy central position in Indian economy and development. The total output of SSI sector was US \$115.7 billion in 1999-2000 which is 32% of GDP.⁸ The SME's lack financial resources to obtain and maintain patents in India, an additional problem may arise in case the product has to be protected in foreign countries. Even it is difficult for them to undertake R&D activities for patents, which requires substantial funds. However for utilization of trade secret protection much will depend on the capacity to hold the secret, which may require good amount of funds and demand presence of proper managerial setup in the organization.

The BPO Incident

In the recent past India has become a hot spot for service sector, and several Business Process Outsourcing (BPO) Centres have opened throughout the country. BPO's in India receive work and confidential information from foreign clients. The lack of statutory protection is imposing challenges in protection of trade secrets, and is jeopardizing sourcing customer's intellectual property. In the year 2002, an ex-employee of an Indian software vendor, Geometric Software Solutions Ltd, made an attempt to sell proprietary software source code owned by SolidWorks, a US client of Geometric Software Solutions Ltd to the competitor of SolidWorks. Even though the ex-employee was caught red-handed in a sting operation he could not be effectively prosecuted in India because the source code was considered a trade secret and Indian law does not recognize 'misappropriation' of trade secrets. Further, the US

client did not have any contractual arrangements with the ex-employee whereby it could directly enforce its rights against the ex-employee.³⁹ A similar case happened, in 2004. These cases have served as a wake up call to the global as well as the Indian outsourcing industry.

Traditional Knowledge and SME's

Even for protection of our traditional knowledge that has commercial application, we need trade secret protection, since trade secrets as mentioned above have several advantages over other IPR. The same applies to SME's though trade secrets can provide a good protection but the enterprises in absence of legislation do not have option. Trade secret is an IPR which will suit the Indian conditions where all cannot afford to have technical and highly expensive IPR.

Protection for Trade Secrets: Need of the Hour**Outline of the Possible Legislation**

There is a pressing need of legislation in India; our law can be conveniently based on the principles evolved by the English court or the federal Trade Secrets Law of USA under the Uniform Trade Secrets Act, 1990, the Restatement (Third) of Unfair and the judicial pronouncements therein. Firstly, the codified law must define trade secret and its pre-requisites. Trade secret should include a secret with 'potential' or yet 'unrealized value'. Protection should be extended even to combination of information, since each individual element of the alleged trade secret may not itself be a trade secret but it is possible to argue that the combination creates an added economic value not generally known in the trade.⁴⁰ 'Reasonable efforts to protect' should be treated to be inferred from 'non-disclosure' agreements and even 'need-know' basis agreements. For ascertaining whether the knowledge is in public domain, industry's level of general knowledge and information's ascertain ability can be taken as factors. The codified law must recognize the tort of misappropriation which can be committed through improper means or breach of confidence. In the tort of misappropriation, offensiveness of a misappropriator's conduct and the Spoliation doctrine which means destruction or significant alteration of evidence, or the failure to preserve property for another's use as evidence in pending or reasonably foreseeable litigation and which allows the court to infer misappropriation from defendant's destruction of evidence, must be recognized.

A specialized body must decide cases pertaining to trade secrets as in cases of other IPR and the proceedings must be in-camera, unless it is required in larger public interest. Further disclosure to the other party for the purposes of *lis* should not be treated as public disclosure, the alleged violator must be duty bound not to disclose or use the knowledge which he has acquired during the proceedings and the documents of such cases submitted to the court particularly which disclose the trade secret should not be allowed to be assessed by general public. Under the Uniform Trade Secrets Act, 1990 of USA one of the interesting aspects is 'displacement doctrine' which propounds that if a cause of action 'conflicts' with the trade secrets misappropriation claim then it is 'displaced' or 'preempted'.³⁹ Third party liability particularly in the light of some cases of outsourcing in India is equally important, a third party should be made liable when the third party had the knowledge or there were reasons for him to know that what was received forms the trade secret information of another party. It has been held that the element of knowledge for third party liability is satisfied when a third party makes an unauthorized disclosure of trade secret information.³⁷ In imposing liability principles of agency and vicarious liability can also be brought in. Exceptions to protection of trade secrets should be laid down keeping in mind the exceptions laid down by the common law courts. If the misappropriation or breach of confidence does not result in actual damages, then in such cases the tortfeasor should not be left and a criminal liability must be imposed on the tortfeasor like theft.

Conclusion

Trade secrets are one of the forms of intellectual property which require considerably less resources and efforts, to acquire and protect. It is already explained how trade secrets can prove beneficial for developing countries like India and why we need a specific legislation for protecting them. The above outline of the codified law is just to induce thought process of our law makers while formulating the law and there may be valid dissents from the same. It is also agreeable that trade secrets have their own demerits and risks attached, often they are treated as weak IPR, and in certain situations it is not advisable to resort to them for protection. However, if provided legislative base and effective mechanism for enforcement, they can help in substantial manner.

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