

Legal Protection of Trade Secrets: Towards a Codified Regime

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Trade secrets protection has acquired increased significance in the present scenario especially in view of the opening up of the world market and enhanced competition worldwide. Moreover, the fact that trade secret protection is increasingly being preferred over patent protection as a method for protecting undisclosed information has added to its significance. This paper sketches the broad outline of the trade secret protection law that exists in India and highlights its inadequacy especially in view of the legal regime existing in other countries such as the US. The paper also focuses on the ambiguity of the common law remedy that is available for infringement of trade secrets which is manifested in the inconsistent line of principles laid down by the courts. It also deals with India's obligation under TRIPS to legislate on the question of 'undisclosed information'. The article attempts to underline the need to enforce a codified regime by analysing the law as it exists in various other countries.

Keywords: Trade secrets, undisclosed information, employer-employee conflict

Despite the practical importance of trade secrets to the business community, the law of trade secrets is still a neglected area in intellectual property analysis. This paper sketches the approach to trade secrets of different contracting parties to TRIPS and its increasing importance in the present scenario with special emphasis on the protection of trade secrets and mechanism related thereto.

What are Trade Secrets?

A trade secret is any valuable business information that is not generally known and is subject to reasonable efforts to preserve confidentiality. These are information that companies keep secret to give them an advantage over their competitors. Examples of trade secrets include customer identities and preferences, vendors, product pricing, marketing strategies, company finances, manufacturing processes and other competitively valuable information.

Trade Secret Protection Preferred over Patent Protection

Secrecy does not stop anyone else from inventing the same product or process independently and exploiting it commercially. It does not confer exclusive rights upon the owner and makes him

vulnerable when employees with this knowledge leave his firm. Trade secrets are difficult to maintain over longer periods or when a larger number of people are made privy to the secret. Moreover, a contract between parties is a suitable way of protecting trade secrets but, at times it would be difficult to enforce such agreements as one has to be careful that it does not restrict the employee's right to earn a living.

Despite this, manufacturers or producers prefer trade secret protection as opposed to patent as there is no fixed time period for which protection is granted and there are no cumbersome official formalities and cost involved. Further, while patents and copyrights require an individual to disclose one's information in the application process (information that eventually becomes public), trade secrets require the individual to actively keep the information secret. In spite of its increasing importance, the remedies or protections that are extended to trade secrets are highly inadequate and insufficient.

No Specific Laws for Trade Secrets in India

It is beyond doubt that intellectual property comprises of *inter alia* copyright, trademark, patent and trade secrets. India has enacted Copyright Act, 1957, which provides complete and comprehensive copyright protection in India. Further, it has enacted Trademarks Act, 1999, which repealed the Trade &

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Merchandise Marks Act, 1958. The Patents Act, 1970 extends protection to patents in India. But, it is very evident that there is no specific law for protection of trade secrets in India. As opposed to India, other contracting parties to TRIPS have enacted specific and comprehensive laws with the sole objective of protection of trade secrets. But in India, some indirect provisions from contract law, criminal law and copyright law protect trade secrets. It is submitted that these laws are not sufficient for adequate protection of trade secrets in India.

Common Law Remedy is Inadequate for Protection

A trade secret is described, as property though it is required to be differentiated from other real or personal property, as the possessor, in this case, is not conferred with any special right to use or enjoy. Therefore, if through accident or reverse engineering, the secret or information leaks out, then law provides no remedy. The common law remedy is available in case of trade secrets only when the secret or undisclosed information is lost through breach of contract or confidence. Protection of trade secret has been made an integral part of principles of equity and it has been held that protection would be available even in the absence of any contract. However, in this regard, as shall be dealt with subsequently, the position of law is not very clear and is definitely ambiguous. For, at the same time it has also been held that breach of contract and unauthorized use of the information has to be established for any remedy in the court of law.

This paper focuses on understanding and applying the law of trade secrets, non-disclosure agreements and covenants not to compete to these very real problems facing businesses today. Further, this paper also focuses on the recent spurt of cases like *Google v Microsoft* and problems involved in incorporating non-compete agreements in trade secret laws.

Why are Trade Secrets Important?

The United States Uniform Trade Secrets Act defines trade secret as information, including a formula, pattern, compilation, programme 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.¹

An information to qualify as a trade secret has to be confidential in nature. To be confidential, the information must have the necessary quality of confidence about it, namely, it must not be something which is public property and in public knowledge and maker of the document must have used his intellect and thus produced a result which can only be produced by somebody who goes through the same process.²

Trade Secret Protection Preferred over Patents

At the very outset, it is pertinent to state that it is beyond the scope of this paper to delve into the efficacy of patent law in India. Judges and lawyers have sometimes thought that because trade secret law provides less protection to the inventor than patent law does, no rational person with a patentable invention would fail to seek a patent; and therefore, trade secret law must protect a class of lesser inventions.³

David D Friedman in his celebrated work, 'Some economics of trade secret law' has comprehensively laid down most convincing arguments in favour of the increasing importance of trade secrets in the present scenario and reasons for its preference over patent protection.⁴ The authors completely subscribe to his views and reasoning and intend to provide a concise interpretation of the same. Trade secret protection is preferred over patent protection in the following three situations:

In the first situation, the inventor has a patentable invention but the cost that has been incurred by him on the invention is substantially low and he believes that the cost involved in obtaining patent would be higher than the cost incurred in invention. So, he would market the product without obtaining patent till he recovers the cost. In the instant case, deciding factor would be returns that are expected from the invention.

In the second situation, the inventor has a patentable invention but it is the belief of the inventor that competitors would be able to come up with the invention on similar lines in a period less than the period for which patent protection is provided. In this case, the deciding factor would be the confidence of the inventor in his invention, which may depend upon the technology involved, or the idea itself.

In the third situation, the inventor has a non-patentable invention and therefore, he cannot obtain

patent. But, by maintaining the trade secret he can introduce the product in the market and can prove the government wrong in not including his invention within patentable inventions by showing returns.

It is submitted therefore, that the trade secret law supplements the patent system and does not run contrary to it. Inventors would choose trade secret protection when they believe that patent protection is too costly relative to the value of their invention or that it would give them a reward substantially less than the benefit of their invention either because the invention is not patentable or because the length of patent protection is insufficient.

Protection to Trade Secrets becomes even More Important in view of Globalization

Since 1991, India has adopted a policy of globalization and liberalization, which encourages the entry of foreign corporations into India and also advocates the policy of removal of trade barriers. Under this policy, India is required to enact sufficient laws in order to extend adequate protection to the interests of the corporations. It is submitted that this policy cannot take effect unless India enacts laws protecting trade secrets that are at par with the laws of other countries.

Adequate protection is required in view of business planning and for safeguarding the rights of employers and employees. In order to effectively conduct their business, companies often must share their competitive and proprietary information with new hires, current employees, prospective and actual licensors and licensees, business acquirers, manufacturers, suppliers, vendors, corporate officers, directors, and so forth. Yet, we live in an era of corporate downsizing where there exists a general lack of loyalty between employer and employee and where officers, directors, and employees frequently change jobs. Protecting one's proprietary information in this context becomes an essential aspect of business planning. Can we say that in a business environment that exists in India, a specific trade secret law is not required?

The TRIPS Mandate

Article 39 of the TRIPS Agreement requires member states to protect undisclosed information (trade secrets) in pursuance of Article 10 bis of the Paris Convention, 1967. It must be noted though that nowhere in the text of Article 39 is the term 'trade secrets' or 'know-how' used. 'Undisclosed information' is one of the categories of intellectual

property as defined in Article 1(2) of TRIPS. The obligation established under Article 39(1) is limited to the protection of undisclosed information against unfair competition as provided in Article 10 bis of the Paris Convention. The act of unfair competition may be defined as:

'any act that a competitor or another market participant undertakes with the intention of directly exploiting another person's industrial or commercial achievements for his own business purposes without substantially departing from the original achievement.'⁵

Article 39(2) does not define what 'undisclosed information' consists of. It merely specifies the conditions that the information needs to meet in order to be deemed 'undisclosed' and protectable, namely, it should be secret, possess a commercial value and be subject to reasonable steps, under the circumstances, to be kept secret.⁶ Rather than treating such undisclosed information as a form of property, the agreement requires that a person lawfully in control of such information must have the possibility of preventing it from being disclosed to, acquired by, or used by others without his consent in a manner contrary to honest commercial practice.⁷

Interpretation

The TRIPS Agreement is the first multilateral instrument dealing with trade secrets or undisclosed information. Prior to it there existed only the general obligations in respect of unfair competition found in Article 10 bis of the Paris Convention. That link to the Paris Convention in Article 39(1) was used to justify the inclusion of this section in the TRIPS Agreement.⁸ Article 39(1) reads: 'In the course of ensuring effective protection against unfair competition as provided in Article 10 bis of the Paris Convention (1967)'. A plain reading of this provision might lead the reader to believe that only those WTO Members who were party to the Paris Convention of 1967 have obligations under this. But this is not the case, as even WTO Members not party to the Paris Convention must comply with Article 10 bis, as provided under Article 2(1) of TRIPS.

Article 39(2) is the operative part of the provision, specifying the conditions governing any disclosure of the information concerned:

(a) The information is secret in the sense that it is not, as a body or in the precise configuration

and assembly of its components, generally known among or readily accessible to persons within the circles that normally deal with the kind of information in question.⁹ This provision incorporates an objective standard of secrecy by providing that the relevant information must be 'not generally known' or 'readily accessible'. The extent of secrecy may be determined by comparing it with the knowledge of a person 'skilled in the art' who has access to normal sources of specialized information.¹⁰

- (b) The information must have commercial value because it is secret¹¹ i.e. the information must give a competitive advantage. The information need not necessarily be able to put into practice in a valuable way. The fact that competitors and/or consumers may perceive such information as having value because it is kept secret may be sufficient to give its holder a competitive advantage.
- (c) The information must have been subject to reasonable steps under the circumstances, by the person lawfully in control of the information, to keep it secret.¹² The provision is vague in as much as it does not identify the type of steps that could be taken, such as encryption, safes, division of work, contractual restrictions, etc.

Whenever these conditions are met, persons in control of the information must, under national law, have the possibility of preventing such information from being disclosed to, acquired by or used by others without their consent in a manner contrary to 'honest commercial practices'. This clearly indicates that the right to prevent such acts only arises when the means used are condemnable.¹³ That is, there is not an absolute protection against non-authorized disclosure, acquisition and use of information, but only against acts made in a condemnable manner.

India's Obligation under TRIPS

Being a signatory to the TRIPS Agreement, India is under an obligation to bring its intellectual property laws in conformity with international standards. This obligation is further emphasized by Article 51 of the Constitution which makes it a directive of State Policy, to foster respect for international law and treaty obligations and in dealings of organized peoples with one another.¹⁴ India has met with this

obligation to a large extent by enacting new and amending existing legislations on intellectual property laws.

However, unlike the US and other developed countries, India has no legislation dealing with trade secrets. In this regard, it is interesting to note that India, in complying with the provisions of TRIPS has legislated or amended the law on six out of the seven categories of intellectual property but has conspicuously left out trade secrets.¹⁵

Inadequacy of Trade Secret Law in India

In India, protection of trade secrets is largely common law based. The law relies on common law principles such as breach of trust and breach of confidence. The only statutory provision governing trade secrets law is Section 27 of the Indian Contract Act, which states that every agreement by which a person is restrained from carrying on any trade, business or profession, is invalid. This provision brings within its ambit non-disclosure and non-compete agreements, which are indispensable for the protection of trade secrets. Other avenues where the law on trade secrets may be located include the Securities Exchange Board of India (Prohibition of Insider Trading) Regulations, 1992, which renders the use and disclosure of confidential (undisclosed) information by an insider subject to prosecution under the Securities Exchange Board of India Act.

This clearly underlines the need for a comprehensive legislation on trade secrets, in compliance with Article 39 of TRIPS. A brief discussion on the law regarding trade secrets in other member countries will further elucidate this point.

United States of America¹⁶

The most widely used common law definition of a trade secret was set forth in the Restatement of Torts, Section 757 comment b (1939):

- b. 'Definition of trade secret'- A trade secret is any formula, pattern, device or compilation of information which is used in one's business, and which gives him an opportunity to obtain an advantage over competitors who do not know or use it.

In recent years, trade secret law in the US has largely become statutory. The Uniform Trade Secret Act (UTSA) has been adopted (sometimes with modifications) in most states. Nonetheless, and despite the UTSA's widespread adoption, the

Restatement definition retains vitality and is often referred to by the courts during the course of their deliberations in applying the UTSA.

The Economic Espionage Act (EEA) of 1996 provides for trade secret protection at the federal level. The EEA was enacted as a federal criminal statute. The EEA does not provide for a private civil right of action. Accordingly, a victim of trade secret theft seeking redress must persuade the federal prosecutor in its judicial district that their particular case is worthy of prosecution.

The European Community

In general, trade secrets are afforded a high level of protection in the European Community (EC). Under the European Patent Convention, trade secrets are generally referred to as 'know-how', which is defined as a 'body of technical information that is secret, substantial, and identified in any appropriate form.' Secret means 'not generally known or easily accessible.' The requirement that the trade secret be 'identified in any appropriate form' essentially means that evidence of the trade secret's existence must be fixed in a tangible medium (e.g., paper documents, electronic media, etc.) to be legally recognized.

Canada¹⁷

The law of trade secrets in Canada is based on English common law and is similar, in many respects, to the US law. Canadian courts have relied on the same factors set forth in the original Section 757, Restatement of Torts to define the existence of trade secret rights. Causes of action range from breach of contract, breach of fiduciary duty, breach of confidence and unjust enrichment.

Korea

In 1991, Korea also amended its laws to provide statutory protection for trade secrets. This law, effective from 15 December, 1992, was enacted during US litigation between GE and a Korean firm that had acquired GE trade secrets from a former GE employee.¹⁸

Japan¹⁹

Japan implemented its present, and first trade secret law on 1 June 1991. Prior to 1991, there was no specific recognition of trade secrets under Japanese law. Relief was potentially available under contract law, as well as unfair competition law, fiduciary law, and in rare instances, criminal law.

Trade secrets include any 'technical or business' information that has commercial value, is not in the public domain, and which has been 'administered' as a trade secret. Infringement occurs when a person procures a trade secret, by theft, fraud, or extortion or when there is an unauthorized use or disclosure of a lawfully acquired trade secret for unfair competition. An injured party may obtain injunctive relief and damages. The statute has similarities to the Uniform Trade Secrets Act.

Hence, it is evident that India lacks a substantive piece of legislation governing trade secrets. The absence of adequate protection for trade secrets in India can be attributed to the socialist ideology of the legislature, which undermines private rights such as intellectual property rights for the greater 'public interest.' This ideology is reflected in the stand taken by India during the negotiation of the TRIPS Agreement, wherein the Indian Government contended that trade secrets were not a form of intellectual property right. It was further argued that the protection against unfair competition under Article 10 bis of the Paris Convention would suffice, and that protection by contract and under civil law was to be preferred to intellectual property rules.²⁰

In the present era of MNCs, where companies give paramount importance to the protection of their trade secrets, it is imperative to have a legal regime that is conducive to globalization. Therefore, it is essential for India to take the necessary legislative step to assure conformity with the provisions of TRIPS, especially Article 39.

Ambiguity in Foreign Case Laws — Can We Rely on it?

At the very outset, it is submitted that not enough direct Indian case law has surfaced on the issue of trade secrets. Only Indian case which has surfaced on the issue of confidential information is *Diljeet Titus, Advocate & Ors v Alfred A Adebare*.²¹ As there is no specific law on trade secrets penalizing use of confidential information, the plaintiffs moved the High Court of Delhi for infringement of copyright. The High Court held that the element of 'control' had to be identified in every case for deciding upon the nature of information used. If the information was obtained in the course of contract of service and not contract for service then such information would get adequate protection. The Court did not delve into the issue of importance of pre-existing contract or the

distinction between trade secret and confidential information. So, this case cannot be considered as a strong precedent for the pressing issues in trade secrets.

Therefore, still Indian courts, when faced with the issue of trade secrets, would have to rely on foreign case laws. The purpose of this chapter is to enlighten readers of the position of trade secrets in laws of contracting parties to TRIPS and the ambiguity that exists in the interpretation. This chapter also focuses upon the importance of non-disclosure agreements and the position taken by courts in case of absence of any contract to that effect.

Early Case Laws: Importance Attached to the Principles of Breach of Confidence, Good Faith and Implied Contract

One would be surprised to know that the concept of trade secrets did exist in as early as 18th century. But, principles relating to trade secrets were enunciated only in later cases. In *Wyatt v Wilson*,²² Lord Eldon opined 'the matter or thing of which party has obtained knowledge, being the exclusive property of the owner, he has a right to interposition of the court to prevent any use being made of it.' The requirement of contract for non-disclosure was not required at this stage and in *Tipping v Clarke*,²³ it was held that everyone employed is under an implied contract that he will not make public that which he learns in the execution of his duty as an employee. This duty is further pronounced in view of the later judgment in *Sanders v Parry*,²⁴ which held that there was an implied duty upon an employee to serve his master (employer) with good faith and fidelity.

In *Saltman Engineering v Campbell Engineering*,²⁵ the expression 'consent' was used for the first time and it was held that if a defendant is proved to have used confidential information, directly or indirectly obtained from the plaintiff, without the consent, express or implied of the plaintiff, he would be guilty of an infringement of the plaintiff's right.

Subsequently, this very principle was given the name of 'springboard doctrine' and was held that the person cannot be allowed to use the information as a springboard for activities detrimental to the person who made the confidential communication.²⁶ However, in *Peter Pan Manufacturing Co v Corsets Silhouette*,²⁷ it was held that if the defendant has only knowledge of and has not wrongly used the information before it became public then the doctrine

does not apply to him and he is subject to no special restraint.

Finally, in *Saltman v Campbell*,²⁸ the very basis of the development of the law of trade secrets was enunciated and it was said that the law depends on broad principles of equity and that he who has obtained information in confidence shall not take unfair advantage of it. But, subsequently it was realized that there could not be universal applicability of this principle and importance of contract was emphasized.

Existence of Contract made Necessary

The position is not very clear as regards the applicability of principles of implied contract and breach of confidence. In the following cases, digressing from the existing position of law, the courts took a stand that the presence of a contract is necessary for claiming relief. In *Harrison v Project & Design*,²⁹ the court noticing the current position observed, 'the court should ensure that the injured party is not over-protected at the expense of legitimate expectation. Further, the court should not impute an undertaking that would restrict or inhibit the exercise of discretionary powers conferred on the party as to the disclosure in the absence of contract'.³⁰

In *Fraser v Evans*,³¹ it was held that there is no breach of confidence when there is no breach of contract. It was further held that a person to whom the duty of good faith is owed could only bring an action. It was also observed, 'In the absence of contract, it would be unfortunate to bind the conscience of the defendant in a particular way'.³²

But, in later cases, the courts reverted to the old position without even referring to the above mentioned cases³³ and thereby making the position of law on this issue vague and ambiguous.

No Established Law When Information is Improperly Obtained

In *Coco v A N Clark Ltd*,³⁴ it was held that equity would only intervene if the information has been communicated in circumstances importing an obligation of confidence. But, the case was silent as to the applicability of the principle in other circumstances like when the information is obtained surreptitiously. In *The Commonwealth v John Fairfax & Sons Ltd*,³⁵ the court recognized the difficulty that would be created when information is obtained improperly. Though the principle of breach of confidence was applied in this case, in subsequent

cases it was observed that no fiduciary relationship existed in such cases, hence there was no obligation.³⁶ The position is not clear as to the extent of the obligation in the above mentioned situation.

Exception of Public Interest and Policy also Raises Doubts

In *Norwich Pharmacal Co v Commissioners of Customs & Excise*,³⁷ it was held that public interest must be the criterion by which Equity determines whether it will protect information, which an individual claims is confidential.³⁸ Further, in *Ocular Sciences v Aspect Vision Care*³⁹, it was held that for public policy reasons an employee was entitled to use and put at the disposal of new employers all acquired skill and knowledge whether or not it was secret at the time the employee acquired it. Where there is a conflict between an employers' right to protect confidential information and this public policy then the latter prevails. Similarly, in *Faccenda Chicken Ltd v Fowler*,⁴⁰ the Court of Appeal held that the obligation of confidence existing post-employment was more restricted than that which operated during the currency of the employment contract.⁴¹ But in *Smithkline & French Laboratories v Secy to the Dept of Community Service & Health*,⁴² Gummow J observed, 'an examination of recent English decisions shows that so-called 'public interest' defense is not so much a rule of law and hence can be relied upon all the time. It would have limited application.'⁴³ Moreover, questions have been raised as to the content and vagueness of 'public interest'.⁴⁴

Can an Undeveloped Idea be Treated as a Trade Secret?

In *Coco v A N Clark Ltd*,⁴⁵ the court held that trade secret protection would be available to an oral idea and even an undeveloped idea. But, in *Fraser v Thames Television*,⁴⁶ Hirst J held that any less elaborately worked idea would not qualify for protection. Further, it was also held that the information must have potential commercial merit and should be expressed in medium. But, in later cases, protection was extended to undeveloped ideas.

Distinction between Trade Secrets and Confidential Information is not Clear

In *Faccenda Chicken Ltd v Fowler*,⁴⁷ the English Court of Appeal distinguished between trade secrets and two degrees of confidential information: 'highly confidential information' which will be protected after the termination of the employment relationship and 'less confidential information' which will not.⁴⁸

Goulding J held that the information would only be protected if it can properly be classed as a trade secret or as material, which, while not properly described as a trade secret, is in all the circumstances of such a highly confidential nature as to require the same protection as a trade secret.⁴⁹ In creating the trichotomy of 'trade secrets,' 'highly confidential information,' and 'less confidential information,' the Court created a new difficulty for other courts to identify where an employee's general knowledge ends and where the employer's confidential information begins.⁵⁰

This difficulty was well illustrated in *Montour Ltee v Jolicoeur*⁵¹ and *Monarch Messenger Services Ltd Houlding*⁵² where the courts on a similar fact situation of *Faccenda* held that all the confidential information obtained during the course of employment would be in the nature of trade secrets and have to be protected. Finally in *Ocular Sciences v Aspect Vision Care*⁵³, Laddie J rejected the notion that there exists any class of information that is so trivial or commonplace that an employee is free to disclose to anyone including a competitor. Such disclosure would breach an employee's implied duty of fidelity as postulated in *Hivac Ltd v Park Royal Scientific Instruments Ltd*⁵⁴ But, the later cases like *AT Poeten (Gloucester Plating) Limited v Horton*⁵⁵ and *Dranez Anstalt v Hayek*⁵⁶ again upheld the classification laid down in *Faccenda* without referring to the abovementioned cases.

The Whole Basis of Trade Secret Protection is Challenged on Grounds of Monopoly

In *Stephenson Jordan & Harrison Ltd v Macdonalds & Evans*,⁵⁷ the court observed, 'the claim for breach of confidence seems to be an attempt to acquire a monopoly of a branch of human knowledge which the law does not permit.' Further, in *Humphrson v Syer*,⁵⁸ the court observed that the disclosure to any member of the public would destroy the confidentiality of information. But, if it is not disclosed then it would definitely lead to monopoly.⁵⁹ These concerns and issues have still not been adequately addressed.

No clear Position as to the Basic Requirements of Trade Secrets

In *Coco v A N Clark Ltd*,⁶⁰ three basic requirements were laid down for an action of trade secret to succeed: (i) the information should have the necessary quality of confidence (ii) information

should have been imparted in circumstances importing an obligation of confidence (iii) unauthorized use of information. But, in *Thomas Marshall v Guinle*,⁶¹ Megarrey VC laid down new requirements without referring to earlier cases. These requirements were: (i) owner should believe that release of information would be injurious to his interests or advantageous to his rivals (ii) information should be secret according to owner (iii) belief of owner should be reasonable and (iv) must be decided in the light of usage and policies of particular industry or trade. Therefore, this case made basic requirements very subjective and attached a lot of importance to the owner. But, later cases have referred to both these cases without any consistency.⁶²

Hence, it is submitted that cases which have been decided on the issue of trade secrets, suffer from inconsistency and ambiguity and hence cannot be relied upon. It is submitted that Indian courts when faced with the issue of trade secrets, will have to place reliance upon such foreign cases, which themselves are ambiguous. Therefore, this situation makes it even more imperative for India to enact specific laws regulating trade secrets so as to evade these inconsistencies.

How are Trade Secrets Protected?

The topic of 'trade secrets' has found an important place in a number of discussions and debates being carried on by jurists and legal analysts. This concept has also recently been accepted by courts in India and all over the world as an integral component of intellectual property which has to be protected. However, noticing the recent trend of the judiciary and the business firms which possess these trade secrets, it can be clearly seen that even today most cases of disclosure of trade secrets are decided on the sole basis of violation of a non-compete agreement which is signed by an employee. Therefore, it can undoubtedly be perceived that non-compete agreements form an integral part of the method by which trade secrets are protected.

Non-Compete Agreements

After losing valuable information and several employees to competitors, employers all over the world require their employees to sign a 'non-compete agreement'. A non-compete agreement is an agreement between the employer and employee restraining the latter to work with the competitor of the former employer. This agreement restricts the

employee to divulge any trade secret of the former employer.⁶³ Therefore, it can be stated that non-compete agreements is the most widely used mechanism to prevent the divulgence of a trade secret by an employee or ex-employee of a particular company. This agreement takes the form of a restrictive covenant. Other restrictive agreements include non-solicit agreements⁶⁴, non-disclosure agreements,⁶⁵ and confidentiality covenants⁶⁶.

Definition of confidential information, exclusions from confidential information, obligations of receiving party, time periods, and miscellaneous provisions are few of the important elements which exist in a restrictive covenant such as a non-compete agreement for the protection of trade secrets of a company.

The essential question to be answered here is, when an employee who has had access to your key information and trade secrets walks out your door and into the door of your competitor, is it better to have an agreement restraining him from disclosing information to your competitor or is trade secret law adequate to protect the former employer?

Covenants such as non-compete agreements are contractual in nature. Valid covenants not to compete may prevent a former employee from working for a competitor, seeking out clients or copying ones products for a specified time and geographic region. Trade secrets protection on the other hand, need not have a time period specified. In some instances, the former employee does not even have to disclose the trade secret but merely be in a position where 'inevitable disclosure'⁶⁷ of the trade secret could occur. Several jurists and legal analysts support the system of trade secret law over the concept of restraining agreements.

However, as shall be discussed subsequently, it has to be noted that most cases regarding disclosure of trade secrets have been solely decided on the basis of the violation of the contract between the employer and employee. Furthermore, it has to be noted as discussed earlier in this paper that India does not have a concrete legislation with respect to trade secrets and therefore companies in India have to rely on such agreements to protect its trade secrets.

It is indeed interesting to note that even countries that have a statute with respect to the protection of trade secrets often rely on the necessity of non-compete agreements. In the recently most celebrated case of *Microsoft v Google*, the software giant,

Microsoft sued to stop Kai-Fu Lee, a top Microsoft executive, from going to work for their arch rival Google. Kai-Fu Lee helped Microsoft establish operations in Beijing and to develop its core search technology. Over the past few years, Lee had also been working on Microsoft's speech recognition system. On top of this, Microsoft claims that Lee had been responsible for the overall development of the MSN Internet search program. In short, he had intimate knowledge of company trade secrets including technology developments as well as business and marketing planning.

Microsoft alleged that Lee's defection to Google violated a non-compete agreement⁶⁸, signed in the year 2000 which stated that if he left Microsoft he could not work for any competitor for a year in areas that would 'overlap' with his roles at Microsoft. In the instant case it was argued by Microsoft that Lee had violated a non-compete agreement signed in the year 2000. The agreement required Lee to forgo any employment with any direct competitor of Microsoft. Notwithstanding this agreement, Lee quit Microsoft for its competitor Google. Microsoft therefore claimed that he violated the agreement and prayed for an injunction prohibiting him from working for Google. The Washington Court, after considering the arguments presented by both parties passed a temporary injunction barring Mr Lee from working for Google. Therefore, in the instant case the injunction was granted on the basis of violation of contract law and not on the basis of disclosure of trade secrets.

Indian Law

The validity of agreements such as non-compete agreements, non-disclosure agreements etc. have to be examined at the altar of Section 27⁶⁹ of the Indian Contract Act, 1872. The Supreme Court in *Niranjan Shankar Golikari v Century Spg & Mfg Co, Ltd*⁷⁰ enumerated the tests to determine the validity of agreements in terms of Section 27. In the instant case, a foreign producer collaborated with a company manufacturing tyre cord yarn by an agreement which stated that the company would maintain secrecy of all technical information. In pursuance of the agreement, the respondent company signed a non-disclosure agreement with the appellant, at the time of his employment. Clause 9 of the agreement provided that during the continuance of his employment as well as thereafter the employee shall keep confidential and prevent divulgence of any and all information,

instruments, documents etc., of the Company that might come to his knowledge. Clause 17 further provided as follows:

'In the event of the employee leaving, abandoning or resigning the service of the company in breach of the terms of the agreement before the expiry of the said period of five years he shall not directly or indirectly engage in or carry on of his own accord or in partnership with others the business at present being carried on by the company and he shall not serve in any capacity, whatsoever or be associated with any person, firm or company carrying on such business for the remainder of the said period...'

The agreement was held to be valid. The defendant was accordingly restrained from serving anywhere else for the duration of the agreement. The restriction imposed in the present case was limited as to time, the nature of employment and as to area, and cannot therefore be said to be too wide or unreasonable or unnecessary for the protection of the interests of the respondent Company. The Court held that there is an implied term in a contract of employment that a former employee may not make use of his former employer's trade secrets. But subject to this exception, he is entitled to compete. The learned judge distinguished this case from the decision laid down in the case of *Gopal Paper Mills v Surendra K Ganeshdas Malhotra*⁷¹, where an injunction to enforce a negative covenant during the period of employment as the agreement was for a period of 20 years and its terms were also unconscionable.

More recently, in the case of *M/s Ambiance India Pvt Ltd v Shri Naveen Jain*⁷², the plaintiff sought an injunction to restrain the defendant from continuing in the employment of M/s Indigo Orient Limited and to divulge information, know-how and trade secrets which the defendant had acquired during his employment with the plaintiff-company. The defendant was employed by the plaintiff-company as a fabric technologist. Vide an agreement signed in the year 2003, he was appointed as a Client Executive. According to the plaintiff, the agreement between the plaintiff and defendant provided that during the continuance of his employment, the defendant shall not engage directly or indirectly in any other occupation, business or employment or any similar business or occupation and would not divulge anything which may adversely affect the business of

the plaintiff company. It was also provided that during his tenure and for three years thereafter, the defendant shall not reveal any trade information of the plaintiff and for a period of two years after the termination of the service, he would not directly or indirectly take any employment or deal with the plaintiff's present or past customers, vendors, importers, agents, prospective customers, etc. the defendant left the plaintiff's company in the year 2004 terminating the agreement and subsequently joined one of the customer's of the plaintiff, namely, M/s Indigo Orient Limited of UK. This act of the defendant is alleged to be in violation of the agreement signed in the year 2003.

The Court relied on the judgment of the Delhi High Court in the case of *Krishan Murgai v Superintendence Co of India*⁷³, which stated that:

'An employee, particularly, after the cessation of his relationship with his employer is free to pursue his own business or seek employment with someone else. However, during the subsistence of his employment, the employee may be compelled not to get engaged in any other work or not to divulge the business/trade secrets of his employer to others and, especially, the competitors. In such a case, a restraint order may be passed against an employee because Section 27 of the Indian Contract Act does not get attracted to such situation.....'

The Court held that in the instant case it has not been indicated as to what trade secrets and confidential information has been divulged to others. The court further held that in a business house, the employees discharging their duties come across so many matters, but all these matters are not trade secrets or confidential matters or formulae, the divulgence of which may be injurious to the employer. If the defendant on account of his employment with the plaintiff has learnt some business acumen or ways of dealing with the customers or clients, the same do not constitute trade secrets or confidential information, the divulgence or use of which should be prohibited. The court therefore held that the restrictions imposed upon the defendant in the agreement, therefore, were void and unconscionable.

Therefore, it can be clearly noticed that the law regarding trade secrets in India is guided solely by the existence of a non-compete agreement and its violation is treated as a violation in contract law. Furthering this problem is the question of employer-employee conflict with respect to such agreements.

Employer-Employee Conflict

The inherent interest of the employer to protect his trade secrets clashes with the right of an individual for unhampered and effective occupation and livelihood. There are cogent socio-economic arguments in favour of either position. Society as a whole greatly benefits from technological improvements and the businessman has no alternative but to protect these technological advancements. It must be recognized that modern economic growth and development has pushed the business venture beyond the size of the one-man firm, forcing the businessman to a much greater degree to entrust confidential business information relating to technological development to appropriate employees. While recognizing the utility in the dispersion of responsibilities in larger firms, the optimum amount of 'entrusting' will not occur unless the risk of loss to the businessman through a breach of trust can be held to a minimum.

On the other hand, any form of post-employment restraint reduces the economic mobility of employees and limits their personal freedom to pursue a preferred course of livelihood. The employee's bargaining position is weakened because he is potentially shackled by the acquisition of alleged trade secrets; and thus, paradoxically, he is restrained, because of his increased expertise, from advancing further in the industry in which he is most productive.⁷⁴

Conclusion

Protection of trade secret has acquired great importance in the present scenario due to the emergence of different circumstances where it is preferred over patent protection. Moreover, in view of the adoption of the policy of globalization by the Government of India and the existing business environment, trade secret definitely needs specific legislation for its protection.

Further, a specific legislation acquires even more importance in view of the ambiguity that exists in foreign judgments and decisions on the issue of trade secrets. No consistent line of principles has been laid down for setting them as persuasive precedent for

Indian Courts to follow. Moreover, in keeping with the mandate of Article 39 of the TRIPS Agreement, it is imperative for India to enact a legislation dealing specifically with the issue of trade secrets. In our opinion, the proposed legislation should incorporate provisions regarding the following:

- Definition of trade secrets, misappropriation, improper means.
- Protection to be extended in the absence of non-compete or non-disclosure agreements.
- Third party liability.
- Standard format for non-compete and non-disclosure agreements.
- Exceptions to be made in public interest.
- Overriding effect of the Act on other existing laws such as Indian Contract Act.
- Civil and criminal remedies in the nature of damages and injunctive relief.

It is distressing to accept the fact that Indian law does not place any sort of relevance upon the growth of new and developing IPR laws in the world. A new trade secret legislation is, therefore, the only way to ensure strong and effective IPR protection which would in turn open up new and profitable avenues for the business scenario in India to prosper.

References

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- 6 UNCTAD, *Resource Book on TRIPS and Development* (Cambridge University Press, New York) 2005, p. 521.
- 7 *Guide to Uruguay Round Agreement* (Kluwer Law International, The Hague) 1999, p. 216.
- 8 Gervaris Daniel, *The TRIPS Agreement: Drafting History and Analysis* (Sweet & Maxwell, London) 1998, p. 185.
- 9 Article 39(2)(a).
- 10 Gervaris Daniel, *The TRIPS Agreement: Drafting History and Analysis* (Sweet & Maxwell, London) 1998, p. 185.
- 11 Article 39(2)(b).
- 12 Article 39(2) clause (a), (b) and (c).
- 13 UNCTAD, *Resource Book on TRIPS and Development* (Cambridge University Press, New York) 2005, p. 528.
- 14 Seervai H M, *Constitutional Law of India*, Vol 1 (Universal Book Traders, Delhi) 4th edn, 1997, p. 305.
- 15 India has taken the following legislative steps to comply with its obligation under TRIPS: Copyright Act, 1957 amended in 2000, The Trademarks Act, 1999, The Geographical Indications of Goods (Registration and Protection) Act, 1999, The Designs' Act, 2000, The Semi Conductor Integrated Circuits Layout Design Act, 2000, The Patents Act, 1970 amended in 1999 and 2002, Protection of Plant Varieties and Farmers' Rights Act, 2001.
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- 27 [1963] All ER 402; *US Surgical Corp v Hospital Product International*, [1983] 2 NSWLR 157.
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- 34 [1969] RPC 41; *Thomas Marshall v Guinle*, [1979] 1 Ch 237; *House of Spring Gardens Point Blank*, [1983] FSR 213.
- 35 (1980) 147 CLR 39 at 50; Opinion of Eady L J in *Lord Ashburton v Pape*, [1913] 2 Ch 469 at 475.
- 36 *Franklin v Giddins*, [1978] Qd R 72; *Boardman v Phipps*, [1967] 2 AC 46 at 89-92; *Consul Development Pvt Ltd v DPC Estates Pvt Ltd*, (1975) 132 CLR 373 at 399-400; *Lac Minerals Ltd v International Corona Resources Ltd* (1989) 16 IPR 27.
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- 38 The same was also upheld in *Attorney General v Guardian Newspapers Ltd* [1988] All ER 545; *Moorgate Tobacco Co Ltd v Philips Morris Ltd*, [1991] All ER 341; *Initial Services Ltd v Pueterils*, [1968] 1 QB 396.
- 39 [1997] RPC 289.
- 40 [1986] 1 All ER 617.
- 41 *Printers & Finishers Ltd v Holloway* 1085 RPC 239.
- 42 [1990] FSR 617.
- 43 Relied on *Wolf Mountain Coal Limited v Netherlands Pacific Mining Co Pvt Ltd*, (1988) 31 BCLR (2d) 16; *Johnson v Agnew*, [1980] AC 367.
- 44 *British Steel Corp v Granada Television Ltd*, [1981] All ER 417 at 455 where Lord Wilberforce recognized the difficulties attached to the exception of public interest. He pointed out, 'There is a wide difference between what is interesting to the public and what it is in the public interest to make known. The line between the two is very fine and is often misused.'
- 45 [1969] RPC 41; *Fraser v Thomas Television*, [1983] 2 All ER 701; *Boardman v Phipps* [1966] 3 All ER 721.
- 46 [1983] 2 All ER 701.
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- 48 *Coin-A-Matic (Pacific) Ltd v Saibil et al*, (1986), 13 CCEL 59 (BCSC) where the Court held that a solicitation of the ex-employer's clients was part of a permissible general solicitation it is obtained through 'less confidential information'; *White Oaks Welding Supplies v Tapp* (1983), 42 OR (2d) 445 (HC).
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- 50 *Poeton Ltd v Horton* [2001] FSR 169; *FSS Travel v Johnson* [1999] FSR 505.
- 51 (1988) 19 CIPR 25 (Que SC).
- 52 (1984) 2 CPR (3d) 235 (Alta QB).
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- 60 [1969] RPC 41; *Thomas Marshall v Guinle*, [1979] 1 Ch 237; *House of Spring Gardens Point Blank*, [1983] FSR 213.
- 61 [1979] 1 Ch 227.
- 62 *Thomas Marshall v Guinle*, [1979] 1 Ch 237; *House of Spring Gardens Point Blank*, [1983] FSR 213.
- 63 Vandana Pai and Ramya Seetharaman, Legal Protection of Trade Secrets, *Supreme Court Cases 2* (2004) 22.
- 64 It is an agreement prohibiting people from soliciting one's customers for a limited period of time.
- 65 Non-disclosure agreement is a contract in which the parties promise to protect the confidentiality of secret information that is disclosed during employment or another type of business transaction.
- 66 Confidential covenant restricts employees from disclosing confidential information. This is usually included in a non-compete agreement.
- 67 The 'inevitable disclosure' doctrine is as old as the law of trade secrets. It is a coined term used to describe the entry of injunctive relief to prevent the threatened misappropriation of trade secrets. The trade secret owner is entitled to injunctive relief to protect the trade secrets at risk of it being disclosed. United States courts have recognized this doctrine, 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.
- 68 In signing the non-compete agreement, Lee agreed: (1) '...not to accept employment or engage in activities competitive with products, services or projects...of Microsoft...I worked on or ...learned confidential or proprietary information or trade secrets while employed. (2) 'All litigation arising from the non-compete agreement would occur in the State of Washington'.
- 69 Section 27. Agreement in restraint of trade, void: Every agreement by which anyone is restrained from exercising a lawful profession, trade or business of any kind, is to that extent void. Exception 1: Saving of agreement not to carry on business of which good will is sold - One who sells the goodwill of a business may agree with the buyer to refrain from carrying on a similar business, within specified local limits, so long as the buyer, or any person deriving title to the goodwill from him, carries on a like business therein, provided that such limits appear to the court reasonable, regard being had to the nature of the business.
- 70 AIR 1967 SC 1098.
- 71 AIR 1962 Cal 61.
- 72 2005 (81) DRJ 538.
- 73 AIR 1979 Del. 232.
- 74 Halligan R Mark, Trade secrets and the inevitable disclosure doctrine, <http://www.rmarkhalligan2.com/trade/articles.asp?id=next¤tId=2> (18 April 2006)