Protection of Trade Secrets/Undisclosed Information

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Under Article 39 of TRIPS, Members are obliged to ensure protection of undisclosed information through systems developed through appropriate legislations. Considering the vast repository of undisclosed knowledge, practices and products possessed by large number of our vaidyas, hakims, artisans and artists, paper explores the possibility of India’s bringing in a sui generis system of protection of undisclosed information/trade secrets. Besides, it defines trade secrets, discusses TRIPS and trade secrets, and methods and practices followed for protection of trade secrets in India and abroad.

While the 1970 Patents Act helped the Indian pharmaceutical industry to become a vibrant and globally competitive segment, particularly in the area of bulk drugs production, it also led to a proliferation of a large number of manufacturing and marketing units all over the country reaching figures as high as over twenty thousand. In the changed scenario of global competition, the majority of these companies will become, if they are not already, unviable, sick and bankrupt, since they lack technology strengths, economies of production scales, infrastructure and finance. One of the reasons for such a development has been the practice of unlicensed transfer of production technology from the original producers to several start-up companies during the last three decades.

For the effective manufacture of products, whether they are patented or not, it is essential to have, in addition to licences for the use of patents, the details on the production know-how, which are largely in the realm of undisclosed information or trade secrets.

What are Trade Secrets?

Unlike other forms of intellectual property, trade secrets are essentially internal instruments, the responsibility for their protection remaining with the owner of the secrets. They are not disclosed to any one including the government and are kept confidential. The most quoted trade secret and the one which has established the credibility that trade secrecy can be ensured is the case of the Coca-Cola formula, which is kept locked in a bank.

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vault in Atlanta, can be opened only by a resolution of the Company’s board and is known to only two employees at the same time. The public has no access to the names of those employees and they are not allowed to fly on the same airplane. It is obvious that such extreme systems and standards for protection of trade secrets are neither necessary nor practised by many other corporations.

**TRIPS and Trade Secrets**

While it is still a moot point as to whether ‘trade secrets’ is a form of intellectual property, the general opinion at the GATT negotiations was the unauthorised use of ‘confidential’ information, belonging to others, is an unfair practice. On the basis of such a contention, Article 39 of TRIPS stipulates that undisclosed information, often treated as synonymous with trade secrets, can be protected as provided for in Article 10 bis of the Paris Convention. Under Clause 2 of Article 30 of TRIPS, all members shall protect undisclosed information from commercial exploitation and under clause 3, data or information submitted to the government for regulatory or other approvals have to be protected from leakage to or theft by third parties. Even though TRIPS does not define ‘trade secrets’, it is generally accepted that information that is not generally known or accessible to persons other than those to whom it is divulged, has commercial value because it is a secret, and the owner of the secret has every intention to treat it as a secret, would constitute a trade secret. For example, process details, drawings, compositions, formulae, business models and information on inventions on which patent applications have not been filed or even those which may not qualify for patents, would all be treated as trade secrets.

**Methods of Protecting Trade Secrets**

While TRIPS includes provisions for the protection of trade secrets, under the general term ‘undisclosed information’, it is silent on the modalities of achieving this and has left it to the individual members as to how to provide such protection. Many countries including USA, have legal instruments to protect trade secrets. The nature and methodology used differ, in some cases, it falls under privacy laws, in others under unfair competition and in yet others under breach of contracts, trust or confidence. It has to be appreciated that trade secrets *per se* cannot be legally protected, since they are secrets; what is enforceable with the consequential effects of breach of trust or legal contracts. There have been several litigations in recent times on this issue. For example, the source code of Windows, kept as a trade secret by Microsoft, against which Bristol Technology filed a suit terming it as an anticompetitive practice by denial of free access, was decided in favour of Microsoft. Very recently, a company in Singapore, got a court injunction against three of its former employees from starting a business for 18 months, in any area where trade secrets acquired during their employment will be used. The court ruled that the non-disclosure agreements signed by them were valid, binding and
enforceable. However, if a competitor, who had no access to the secret, but decoded by reverse engineering the secret from a product obtained lawfully, there is no violation of trade secrets, since he has discovered the secret independently.

In USA, the relevant law for prohibiting unauthorised commercial use of a trade secret by a third party is the Uniform Trade Secret Act (UTSA). In addition, a federal law, the Economic Espionage Act 1996 (EEA) gives the Attorney General sweeping powers to criminally prosecute a person for appropriating trade secrets. The EEA has provision to punish both the provider as well as the receiver of unauthorised trade secrets.

Since the maximum number of trade secrets appropriation takes place through current or past employees, corporates, as a rule, enforce a non-disclosure agreement on every employee at the time of joining, so that, breach of contract can be used as the legal instrument for prosecution in case of violation. Some MNCs prevent through a contract, former employees from working for a competitor for a limited period of time.

The various ways to ensure that trade secrets are kept as secrets include marking all documents “confidential”, limiting access to trade secrets and critical materials to only identified employees, maintaining computer security and insisting that all persons to whom the secrets are to be divulged sign non-disclosure agreements. Without these precautions, no information can be deemed to be secret and as such will not enjoy any legal protection, even when appropriate legislations exist for such protection.

Trade Secrets Protection in India

Even though as part of her obligations under WTO, India will accept the provisions under Article 39 of TRIPS, which defines the need to protect undisclosed information, there is at the moment no legislation to prevent its violation, outside the normal recourse to breach of contract provisions. With regard to Article 39(3) of the TRIPS Agreement, many of the documents submitted to the government are not strictly bound by secrecy clauses and illegal access to such trade secrets are common.

Apart from the need for prevention of illegal use of trade secrets, India has yet another relatively unique situation, where a large repository of knowledge and practices are locked up with our traditional vaidyas, hakims, artists and artisans, which remain as trade secrets and have current or potential commercial value. Their protection is vital for the survival of these systems and practices, which depends on ensuring that they are not exploited unauthorisedly and without compensation by third parties.

Can India Legislate a Sui Generis System for Protection of Trade Secrets?

To protect the vast repository of undisclosed information and knowledge kept as trade secrets by their practitioners, India should consider a pro-active legislation under a sui generis system as
provided for under Art. 10 bis of the Paris Convention and Articles 39(2) and 39(3) of TRIPS. Formal legislations on the lines of USTSA, need to be brought in. Such legislations, even if they are difficult to enforce, except through complex litigations, still will deter illegal transfer of trade secrets by people who have access to them as part of their employment duties. These steps along with provisions under breach of contract or non-disclosure agreement, would go a long way in developing a culture in the industrial circles to respect trade secrets and undisclosed information as proprietary assets of their owners.