

# **TRADE SECRETS PROTECTION REGIME IN INDIA: THE CURRENT SCENARIO**

## **ABSTRACT**

*Trade Secrets are a vital part of the Intellectual Property Rights of any Business unit. Be it a company or an individual venture, there are certain secrets that are behind the success and reputation of any commercial venture. There are many companies in the world that entirely rest on their trade secrets. In such a scenario it becomes vital to protect these secrets in order to secure the business interests of companies. Protection of Trade Secrets is not only essential from a company's point of view but it's also important from the International point of view, as trade Secret protection also incentivizes the Foreign Direct Investment which is essential for the growth of any economy. However, unlike copyrights or Trademarks, there is no specific legislation that deals with Trade Secrets. In the present Era of Right to Information it becomes very difficult to keep these vital secrets out of the reach of the invaders that could most probably deteriorate the company's growth and good will. The Courts in India have time and again laid down that 'trade secrets are vital for the growth of any company and thus they should be protected.' The present work aims at exploring the world of Trade Secrets vis-à-vis the laws that govern and protect them in India.*

## **1. INTRODUCTION**

In today's highly competitive business environment it becomes highly crucial for any business enterprise to cope up with the growing demand of the consumers. In order to achieve that, companies strive hard to develop new and innovative commodities to fulfill the growing demand of the consumer. There is a rat-race between various producers that aims to make a new and innovative good before the other competitors. There is certain 'information' that the company uses in such improvement and innovation in commodities and that information is a 'Trade Secret'. WIPO defines a trade secret as: "any confidential business information which provides an enterprise a competitive edge may be considered a trade secret". Trade secret covers

Manufacturing Secrets and Commercial Secrets. Any vital information that is not generally known to the public at large and that confer some sort of economic benefit on the owner may be enclosed under the ambit of Trade Secrets. A trade secret may refer to a practice, process, design, instrument or a compilation of data or anything which is vital for the growth of the owners business. Northern American Free Trade Agreement (NAFTA), defined Trade Secret as “*Information having commercial value, which is not in the public domain, and for which reasonable steps have been taken to maintain its secrecy*”. In the case of *American Express Bank Ltd. v. Priya Puri*<sup>1</sup>, the Delhi High Court defined Trade Secret as formulae, technical know-how or a method of business adopted by an employer which is unknown to others and such information has reasonable impact on organizational expansion and economic interests.

A trade secret may lack any precise definition but there are three factors that are common in all definitions which are:

- i. It must not be accessible by general public or by any other person who deals in such information or for whom such information may have a commercial value.
- ii. It must have a commercial value as a secret and the disclosure of which could be detrimental to the owner.
- iii. The lawful owner takes all the reasonable efforts to maintain the secrecy of such information.

Any information possessing the above mentioned three traits may be defined as a Trade Secret. These secrets sound simple but are actually of paramount importance to any business unit. A trade secret is information which if get disclosed to a competitor then would cause a real harm to the real owner of the Secret.<sup>2</sup> There are many enterprises that are very much concerned about the protection of their Trade Secrets in order to secure their business *per se*. Many a times, the competitors try to breach these secrets by various unfair means and causes detriment to the original owner. Thus companies often sign a confidentiality agreement with the employees to maintain the confidentiality of their Trade Secrets.

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<sup>1</sup> *American Express Bank Ltd. v. Priya Puri* (2006) HI LLJ 540.

<sup>2</sup> *Burlington Home Shopping Pvt. Ltd v. Rajnish Chibber* (1995) DLT 61.

In *Lucas County Board of Commissioner v/s. Ohio Environmental Protection Agency*<sup>3</sup>, the hon'ble court held that *"the moment any secret information is disclosed it loses its every spirit as trade secret. Ever since the advantages in the information economy are rapidly growing it is giving rise to the trade secrets to becoming Intellectual Property of Choice. The policy of trade secret law is to protect, maintain and promote standards of commercial ethics and fair dealing and it encourages innovations as well. The law for protecting the trade secret is developed from the common law of unfair competition developed in nineteenth century by English Courts."*

A common question that many a times arises is regarding the need for protection of Trade Marks. Well, quite simply, any such business information the disclosure of which could cause a detriment to the original owner is required to be protected in order to safeguard his interest. Many competitors try to breach these secrets by either hiring the employees of the original owner or through various other unfair practices and uses the information so received either to copy the original product or to innovate it and sell as a better product than the original one which may cause a detriment to the original owner's business. Trade secrets protection seeks to maintain and promote standards of business ethic and Fair dealing. A major objective of trade secret protection is to provide an incentive for businesses to innovate by safeguarding the substantial time and capital invested to develop competitively advantageous innovations, both technical and commercial. If a company knows that after vast research they would have the sole information on a particular subject matter which they could use for their merit, they would work even harder in order to accomplish themselves. No firm would ever want to reveal their crucial business secret to the world at large which consequently could evolve huge number of competitors in the market that could easily use the hard earned secret of the original company for their own benefit.

A trade secret is something without which a company loses its market value and its reputation and eventually its business. For Instance, take the case of the renowned soft drink "Coca Cola". The recipe of such a simple looking drink is perhaps the biggest trade secret in the world. The company makes huge efforts to protect their secret. Now if the recipe of this drink comes out in public, many other companies could use to make identical drinks and may sell it at low prices. These companies would easily 'copy-paste' the hard earned formula and could earn millions in

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<sup>3</sup> *Lucas County Board of Commissioner v. Ohio Environmental Protection Agency* (2000) 88 Ohio 166.

one go. Wouldn't it be unjust with coca-cola? It is this injustice that Trade Secret Laws aims at protecting.

## **2. SUBJECT MATTER OF TRADE SECRETS**

A trade secret may be any type of information such as formulae, devices, patterns, financial information, business plans, client lists, unannounced products and so on that an enterprise considers to be valuable and offers it an advantage over its competitors.

The subject matters which have been awarded trade secret protection is extraordinarily broad. Almost any information or method used in business can be a trade secret if it is not generally known and proper precautions are taken to retain secrecy.<sup>4</sup>

Specific information for which trade secret protection has been granted include a chemical process, a welding process, a formula for pressurized shaving cream, a precision tape recorder-producer, a storage system for strategic materials, a brick for lining cement kilns , a process for making compressed cotton bath sponges, a portable freight container, and a scrap metal recovery process.<sup>5</sup>

## **3. MAINTAINING TRADE SECRET PROTECTION**

The maintaining and protecting confidential subject matter as a trade secret that adopt employee hiring and termination policies designed to protect confidential information. Carefully consider the potential liabilities before hiring a prospective employee who is contractually bound or otherwise restricted by former employers as to confidential subject matter. Also, review with all parting employees the scope of the restrictions on their future use of the employer's confidential and proprietary information.<sup>6</sup>

A nondisclosure provision should be included in the employee's contract of employment which spells out subject matter areas which are held by the employer to be confidential. Additionally, a contractual provision providing for reasonable restrictions on the competitive activity of a former

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<sup>4</sup> *Kewanee Oil Co. v. Bicron Cor* (1974) 4 U.S. 470

<sup>5</sup> *Smith v. Dravo Corp* (1953) 7<sup>th</sup> Cir. 83.

<sup>6</sup> *Ibid.*

employee upon his or her termination is advisable. Such a restriction will typically be enforced by the courts if it is reasonable as to duration, geographical extent, and scope.<sup>7</sup>

Provide employee access to confidential information only on a "need to know" basis. Areas where confidential information is kept should be segregated from free access areas, with limited access provided only to those with a need to know the confidential information. Additional measures can be employed in limiting access to such confidential areas, such as the use of electronic security, pass keys or simply color-coded identification badges.

#### **4. LAWS GOVERNING TRADE SECRETS IN INDIA**

The legacy of Intellectual Property rights in India began in 1990s when India became one of the signatories of the Trade Related Aspects of Intellectual Property Rights (TRIPS) Agreement. This convention gave impetus to the Indian Legislature to draft laws on the subject of IP. It laid down the basic framework for the legislators to draft on various IP rights. One such subject matter in the agreement was 'Undisclosed Information'. Article 39 of the TRIPS Agreement provides for the protection to Undisclosed Information i.e. could be interpreted to include Trade Secrets as well. All the member countries were required to legislate on these matters. However, till date, India has not witnessed any specific Legislation dealing specifically with Trade Secrets. In 2008 an attempt was made in this direction in the form of The New Innovation Bill, 2008 that included the provisions for the protection of Trade Secrets but unfortunately that bill could not be passed in both the houses and thus it still is only a mere piece of paper. Hence till date, India lacks any specific legislation on Trade Secrets.

Nevertheless, it does not mean that courts have negated the protection of Trade Secrets or other confidential information. Time and again, courts have upheld the secrecy of such confidential information and have issued various guidelines in this matter as well. Trade Secret are protected in India in context of 3 approaches. These are:

- i. Common Law Principles of Equity
- ii. Breach of Confidence

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<sup>7</sup> Natalie Jones, *Post Termination Restrictions: How Useful Is A Stick Without A Carrot?*, TAMIMI & CO. (May 2013), <https://www.tamimi.com/law-update-articles/post-termination-restrictions-how-useful-is-a-stick-without-a-carrot/>.

### iii. Contractual Obligations

In *Saltman Engineering case*<sup>8</sup>, it was held that “.....maintenance of secrecy, according to the circumstances in any given case, either rests on the principles of equity, that is to say the application by the court of the need for conscientiousness in the course of conduct, or by the common law action for breach of confidence, which is in effect a breach of contract.” That is to say that protection of Trade Secrets majorly depends on the contractual obligations of the parties. Applying the Principles of Equity and Common law principles of breach of confidence, a Trade Secret invasion can be remedied.

## 4.1 EQUITY

In the infamous case of *John Richard Brady v. Chemical Process Equipments P. Ltd.*<sup>9</sup>, it was observed that in the absence of any contract, if a person is made known of some essential Trade Secret that he may use, say, in the absence of the owner, he who has received such information in confidence, is not entitled to use that secret for his own benefit. This lays down that undue enrichment at the expense of other person’s detriment is contradictory to principles of Equity which need to be remedied.

## 4.2 BREACH OF CONFIDENCE

There is a broad and developing equitable doctrine that he who has received information in confidence shall not take unfair advantage of it or profit from the wrongful use or publication of it. He must not make any use of it to the prejudice of his who gave it, without obtaining his consent or, at any rate, without paying him for it. It has for long been clear that the courts can restrain a breach of confidence arising out of a contract or any right to property..... The ground of equitable intervention is that it is unconscionable for a person who has received information on the basis that it is confidential subsequently to reveal that information. Acceptance of information on the basis that it will be kept secret affects the conscience of the recipient of the information. In general it is in the public interest that confidences should be respected, even where the confider can point to no specific financial detriment to himself. If a defendant is proved to have used confidential information, directly or indirectly obtained from a plaintiff,

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<sup>8</sup> *Saltman Engineering Co. Ltd. v. Campbell Engineering Co. Ltd.*, 1948 (65) R.P.C. 203

<sup>9</sup> AIR 1987 Delhi 372.

without his consent, express or implied, he will be guilty of an infringement of the plaintiff's rights.<sup>10</sup>

In another case, *Seager v. Copydex Ltd.*<sup>11</sup>, the plaintiff, in the course of discussion with the defendants of a carpet grip described as 'the germ of the idea' for a different form of carpet grip which the plaintiff had devised. Later the defendants developed and marketed the carpet grip which was unwittingly based on the plaintiff's alternate type of grip. The Court of Appeal concluded that the plaintiff's idea was 'the springboard' which enabled the defendants to devise their own grip and held that the defendants were liable for breach of confidence.

An obligation of confidence may exist where there is no contractual relationship between the parties. Where a plaintiff sues, relying upon breach of confidence, he must establish three elements. These are:

- i. that the information was of a confidential nature;
- ii. that the information was communicated in circumstances importing an obligation of confidence; and
- iii. that there has been an unauthorized use of the information to the detriment of the person communicating it (i.e. the plaintiff)<sup>12</sup>

Therefore, it is submitted that the protection of trade secrets does not always necessarily stem from the owner of such secret having a right *per se* in respect of the same but from the implied obligation to maintain confidence by virtue of the nature of trade secrets in general.

Another and mostly commonly used protection for trade secrets is the contractual obligations. Thus we must discuss it in a little detail.

## **5. CONTRACTUAL OBLIGATIONS**

When a contract is entered between the owner of the trade secret and the employee of the business holding and protecting the trade secret, it is an obligation upon the employee to protect the secret and to ensure that he does not disclose the trade secret to any other person. Such an

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<sup>10</sup> COPINGER AND SKONE-JAMES ON COPYRIGHT 720-21 (13th Edn.).

<sup>11</sup> (1967) 2 All ER 415.

<sup>12</sup> *Zee Telefilms Ltd. v. Sundial Communications Pvt. Ltd.* 2003 (27) PTC 457 (Bomb).

agreement between the owner and employee is known as 'confidentiality agreement'. It is also essential to note that such an obligation may be in implied or express form in the agreement. Many companies nowadays enter into a confidentiality agreement before employment. Such agreement may either be a separate individual confidentiality agreement or it may be a part of the concrete employment agreement. Any breach of the confidentiality clause can be challenged in the eyes of law.

In *Niranjan Shankar Golikari v. Century Spinning*<sup>13</sup>, it was held that negative covenants in employment agreements pertaining to non-disclosure of confidential information operative during the period of the contract of employment and even thereafter, are generally not regarded as restraint of trade and therefore do not fall under Section 27 of the Indian Contract Act, 1872 as a former employee should not be allowed to take unfair advantage of the employer's trade secrets which are vital for business.

Post service restraint in maintaining confidentiality and also carrying on any other business for a limited period is permissible under the exception to Section 27 of the Contract Act, as was held in *Homag India Pvt. Ltd. v. Mr. Ulfath Ali Khan*<sup>14</sup>.

In the case of *Tipping v. Clarke*<sup>15</sup>, the Court was of opinion that everyone employed is under an implied contract not to disclose it anywhere in the public which is the thing he learnt in execution of his duty as an employee.

In *Sanders v. Parry*<sup>16</sup>, it was held that there was implied duty upon an employee to serve his master with good faith and fidelity.

The employee is mandated to take reasonable steps to keep all the confidential information in confidence except and to the extent when disclosure is mandatory under any law in force. The employee further agrees that he/she shall not discuss or disclose the confidential information of the company to any person or business unrelated to the company.

In a case of *V.N. Deshpande v. Arvind Mills*<sup>17</sup>, wherein a clause in the agreement which prevents the appellant from revealing any secret information of nature mentioned in that clause after

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<sup>13</sup> AIR 1967 SC 1098.

<sup>14</sup> M.F.A. No. 1682/2010 C/W M.F.A. No. 1683/2010 (CPC) decided on 10.10.2012, Karnataka High Court.

<sup>15</sup> *Tipping v. Clarke* [1843] 2 Hare 393.

<sup>16</sup> *Sanders v. Parry* (1967) 1 W L R 753.

termination of his service. The defendant was not prevented from acquiring information which makes him better employee for the public for future employment. It only prevents from revealing any secret information, but he received as Respondents employee to another party. It was held by the Hon'ble court that the words use in agreement was proper and injunction granted was reasonable.

In *Bhrahmaputra Tea Co v. E Scarth*<sup>18</sup>, an attempt was made to restrain a servant from competing for five years after the period of service, the Calcutta High Court stated that: “Contracts by which persons are restrained from competing, after the term of their agreement is over, with their former employers within reasonable limits, are well known in English Law, and the omission to make any such contract an exception to the general prohibition contained in Section 27 indicates that it was not intended to give them legal effect in this country”.

In *Hi Tech Systems and Services Ltd. v. Suprabhat Ray*<sup>19</sup>, the Supreme Court restrained the respondents from acting as sales agent of other companies, saying that they had acted in breach and they were in process of utilizing trade secrets and confidential information.

In *Escorts Const. Ltd v. Action Const*<sup>20</sup>, the Delhi High Court restrained Escorts from manufacturing, selling or offering for sale the Pick-N-Carry Mobile Cranes that were a substantial imitation or reproduction of the industrial drawings of the plaintiffs, or from using in any other manner whatsoever, the technical know-how.

In *Burlington Home Shopping Pvt. Ltd. v. Rajnish Chibber*<sup>21</sup>, the Delhi High Court had restrained carrying on of any business including mail order business by utilizing the list of client/customers included in the database of the petitioner.

In *Diljeet Titus v. Mr. Alfred A. Adebare*<sup>22</sup>, the defendant, an advocate, was working at the plaintiff's law firm. On termination of employment, the defendant took away important confidential business data, such as client lists and proprietary drafts, belonging to the plaintiff. The defendant contended that, he was the owner of the copyright work as it was done by him

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<sup>17</sup> *V.N Deshpande v. Arvind Mills*, (1946) 48 Bom LR 90.

<sup>18</sup> *Bhrahmaputra Tea Co. v. E Scarth* (1885) 11 Cal 545

<sup>19</sup> *Hi Tech Systems and Services Ltd. v. Suprabhat Ray* G.A. No. 145 of 2015, CS No. 192 of 2014.

<sup>20</sup> *Escorts Const. Equipment Ltd v. Action Const. Equipment P. Ltd* [1990] Delhi 73.

<sup>21</sup> *Burlington Home Shopping Pvt. Ltd. v. Rajnish Chibber* (1995) DLT 61.

<sup>22</sup> *Diljeet Titus v Mr. Alfred A. Adebare* (2006) PTC 609.

during his/her employment since the relation between parties was not that of an employer and employee.

The Delhi High Court rejected this contention and ruled that the plaintiff had a clear right on the material taken away by the defendant. Accordingly, the Delhi High Court restrained the defendant from using the information taken away illegally. It should be noted that the Delhi High Court did not prohibit the defendant from carrying on a similar service. The defendant was only restrained from using the information he took, as this was necessary to protect the interests of the plaintiff. The relationship between the parties was in the nature of a contract of service.<sup>23</sup>

In *American Express Bank Limited v. Priya Puri*<sup>24</sup> the defendant was working as the Head of Wealth Management for the plaintiff bank for the North India region. Upon the defendant serving her notice for termination of employment, the plaintiff bank instituted allegations of sharing trade secrets, confidential information and possessing intellectual property of the plaintiff. The plaintiff consequently filed a plea for injunction against the defendant.

The Delhi High Court rejected this plea on the ground that “*The inconvenience caused to the defendant shall be much more in case the injunction as prayed by the plaintiff to be granted in his favor*”.

The Court further observed that in order to claim copyrights, the plaintiff should have abridged, arranged and/or done something “*which would show that they have done something with the material which is available in public domain so as to claim exclusive rights on that*”.

## 6. OTHER PROTECTIONS

Apart from the aforesaid principles of English law, there are certain legislations that minutely provide for the protection of confidential information and Trade Secrets may be brought within their ambit. These are:

- i) Section 27 of the Indian Contract Act, 1872 bars any person from disclosing any information acquired from a contractual *vinculum juris*.

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<sup>23</sup> PRITI SURI AND NIKITA VED, ENFORCING EMPLOYEE NON-COMPETE COVENANTS 70 (Asia Law India Investor) (2008).

<sup>24</sup> *American Express Bank Limited v Ms. Priya Puri* (2006) FLR 2061.

- ii) Section 72 of the Information Technology Act, 2000 provides for the remedies, whereby a person may be punished with imprisonment along with a fine if he is found to have secured access to any electronic record, book, register, information document, or other material without the consent of the person concerned and if such first person discloses such information further.
- iii) The Information Technology Act, under Section 43A provided for "Compensation for failure to protect sensitive personal data." Sensitive personal data is further defined in the rules promulgated under this Act and include passwords, financial data, and biometric data etc.
- iv) The Securities Exchange Board of India (Prohibition of Insider Trading) Regulations, 1992, renders the use and disclosure of confidential information by an insider subject to prosecution under the Securities Exchange Board of India Act.

The uncertainty of the judicial decisions over the non-compete clauses has resulted in the development and taking recourse to a concept called "garden leave" in the corporate industry, having its genesis in England, under which, employees are paid their full salary during the period in which they are restrained from competing. However, when the validity of "garden leave" clauses came for consideration before the Bombay High Court, it was argued that "*the Garden Leave Clause is prima facie in restraint of trade and is hit by Section 27 of the Contract Act. The effect of the clause is to prohibit the employee from taking up any employment during the period of three months upon the cessation of the employment*". The Bombay High Court, accepting the argument, held that obstructing "an employee who has left service from obtaining gainful employment elsewhere is not fair or proper". However, the concept of garden leave has gained popularity recently in India and practiced across various companies.<sup>25</sup>

## 7. CONCLUSION

From the above discussion, it is clear that at present, the protection of trade secrets lies precisely on the judge-made law. There is no explicit legal regime governing trade secrets in India. The protection of trade secrets is derived from the common law principles of equity and confidence.

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<sup>25</sup> *VFS Global Services Private Limited v. Mr. Suprit Roy* (2008) (2) Bom.

Though with time, certain statutes, especially the Indian Contract Act, 1872, has come to rescue the protection of trade secrets still there is a dire need for a specific legislation dealing with trade secrets. In the absence of a specific trade secrets law, the courts have time and again ruled in favor of the proprietor of information as literary work as defined under copyright law, which many a times does not lead to complete justice. However, there is no denial in the fact that even in the translucent protection of these branches of law, trade secrets are still not efficiently protected.

A possible protection, for the time being, can be ensured in the form of amending the Indian Penal Code, 1860 in order to impose criminal liability in the instances of Breach of Confidence and Disclosure of trade secrets, as it exists in various jurisdictions across the globe. The presence of a criminal law, apart from the civil remedies as discussed above, acts as a sufficient deterrent to restrict the *mala fide* practices of trade secret disclosures.

Further, the Companies Act, 2013 may also be amended to include provisions that take due diligence with respect to trade secrets into its ambit. With such a provision, the companies can be much vigilant and pro-active in protecting their trade secrets. The companies may also establish strong psychological loyalty amongst its employees, to ensure that nondisclosure and/or non-compete agreements is more effective and thus safeguarding its trade secrets is easier.

Though the aforesaid changes may be effective in short-run but without a doubt, India needs a proper framework of legal regime in this area to ensure protection in long run. In today's highly competitive world, a strict trade secret protection regime is the need of the hour.