

TRADE SECRETS AND CONFIDENTIAL INFORMATION REGIME:
A CRITICAL ANALYSIS



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MASTER OF LAWS

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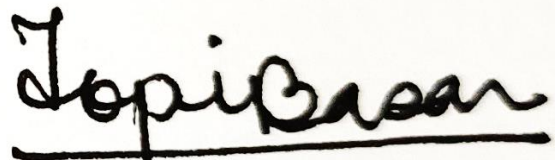
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SUPERVISOR CERTIFICATE

It is to certify that Ms. Devoleena Hazarika is pursuing Master of Laws (L.L.M.) from National Law University, Assam and has completed her dissertation titled “TRADE SECRETS AND CONFIDENTIAL INFORMATION REGIME : A CRITICAL ANALYSIS” under my supervision. The research work is found to be original and suitable for submission.

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DECLARATION

I, DEVOLEENA HAZARIKA, pursuing Master of Laws (L.L.M.) from National Law University, Assam, do hereby declare that the present dissertation titled “TRADE SECRETS AND CONFIDENTIAL INFORMATION REGIME: A CRITICAL ANALYSIS” is an original research work and has not been submitted, either in part or full anywhere else for purpose, academic or otherwise, to the best of my knowledge.

A rectangular grey box containing a handwritten signature in blue ink that reads "Devoleena Hazarika".

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PREFACE

Trade secrets and confidential information are vital to a company. It can be anything from a business strategy to a manufacturing method or even distribution or supplier lists etc that a company tries to protect. a trade secret can be any information that has some value attached to it and disclosure of whose would mean loss to the company and injury or harm to the owner of such trade secrets. Owners of trade secrets make use of non-disclosure agreements and confidentiality agreements to protect their trade secrets. In India , though we do not have a separate legislation , howsoever there are laws that provide provisions as to confidentiality , restraint of trade and anti-competitive agreements. The research study talks about the infringement of trade secrets, misuse and remedies available against such misappropriation.. There are also pros and cons of having a trade secret law. The study tries to highlight the imbalance of the interests of both the employer and an employee of an enterprise. Different international mechanisms and foreign jurisdictions adhere to define and protect trade secrets which are further talked about in the study in detail.

The dissertation seeks to examine various aspects of trade secrets and impacts of a trade secret law on business and the society at large. The dissertation also analyses the need to have a separate effective legislation for trade secrets that deals with every aspects whilst bridging the gap between the employer and employer and balances their interested with fairness.

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TABLE OF CASES

1. Anil Gupta vs. Kunal Das Gupta

2. *Ambiance India Pvt Ltd vs. Naveen Jain*
3. *American Express Bank Lts. vs. Priya Puri*
4. *Bombay Dying and Manufacturing Co. Ltd vs. Mehar Karan Singh*
5. *Brahmaputra Tea Co. vs. E Scarth*
6. *Burlington Home Shopping Pvt. Ltd. vs. Rajnish Chibber*
7. *Cattle Remedies vs. Licensing Authority*
8. *Coca Cola vs. Williams, Dimson, Duhany*
9. *Control Paint (India) Ltd. vs. Sanjay Sribastab & Ors*
10. *Diljit Titus vs. Mr. Alfred A. Adebare & Ors*
11. *Faccenda Chicken Limited vs. Fowler*
12. *Genetics India Pvt Ltd vs. Shailendra Shiv*
13. *Gopal Paper Mills Ltd vs. Surendra K Ganeshdas Malhotra*
14. *Govidan vs. Gopalakrishna*
15. *Kewanee Oil Co. vs. Bicron Corp*
16. *Nationwide Mutual Insurance vs. Mortensen*
17. *Niranjan Shankar Golikari vs. The Century spinning And Mfg. Co.*
18. *Pramod s/o Laxmikant Sismakar & Uday Narayanarao Kirpekar vs. Garware
Plastics & Polyester Ltd. & Anr*
19. *QBE-Management vs. Dymoke*
20. *Richard Brady vs. Chemical Process Equipments Pvt Ltd*

21. *Ritika Pvt Lts vs. Biba Apparels Pvt Ltd*

22. *Saltman Engineering Co. vs. Cambell Engineering Co.*
23. *Sandhya Organic Chemicals Pvt Lts vs. Umited Phosphorus Ltd*
24. *Vickery vs. Welch*
25. *Waymo vs Uber*
26. *Zee Telefilms Ltd. vs. Sundial Communications Pvt Ltd*

1860 – Indian Penal Code
1872 - Indian Contract Act
1939 - Restatement of Torts
1957 - Indian Copyrights Act
1970 - Indian Patents Act
1985 - The Uniform Trade Secrets Act
1992 - The Securities Exchange Board of India (Prohibition of Insider Trading)
Regulations
1995 - The Third Restatement of Unfair Competition
1996 - The Economic Espionage Act
2000 - The Information Technology Act
2002 - The Competition Act
2016 - The Defend Trade Secrets Act

	AIR	All India Reporter
1	Anr	Another
2	APPI	International Association for the Protection of Intellectual Property
3	Co.	Company
4	Corp.	Corporation
5	DTSA	Defend Trade Secrets Act
6	EEA	Economic Espionage Act
7	EU	European Union
8	FDI	Foreign Direct Investment
9	GATT	General Agreement on Tariffs and Trade
10	HC	High Court
11	ICA	Indian Contract Act
12	Inc.	Incorporation
13	IP	Intellectual Property
14	IPC	Indian Penal Code
15	IPR	Intellectual Property Rights
16	KFC	Kentucky Fried Chicken
17	Ltd.	Limited
18	MNC	Multinational Corporation
19	OECD	Organization for Economic Co-operation and Development
20	ORS	Others
21	Pvt.	Private
22	SEBI	Securities and Exchange Board of India
23	TRIPS	Agreement on Trade-Related Aspects of Intellectual Property Rights
24	TRO	Temporary Restraining Orders

25	US	United States
26	UTSA	Uniform Trade Secrets Act
27	Vs.	Versus
28	WTO	World Trade Organization

TABLE OF CONTENTS

	Page No.
Certificate	
Declaration	
Acknowledgement	
Preface	
Table of Cases.....	i-ii
Table of Statutes.....	iii
Table of Abbreviations.....	iv-v

CHAPTER I INTRODUCTION

1.1 Introduction of Research Topic.....	6-7
1.2 Statement of problem.....	7
1.3 Aim.....	7
1.4 Objectives.....	8
1.5 Scope and limitations.....	8
1.6 Literature Review.....	8-9
1.7 Research Questions.....	9-10
1.8 Research Methodology.....	10
1.9 Research Design.....	10-12
1.10 Hypothesis.....	12

CHAPTER 2 TRADE SECRETS AND CONFIDENTIAL INFORMATION: TERMINOLOGIES DEFINED

2.1 Definition of trade secrets.....	13-14
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2.2 Definition of confidential information.....	14-16
2.3 Interrelationship between trade secrets and confidential information.....	16

CHAPTER 3 TRADE SECRETS: NATURE, DETERMINANTS, LICENSING AND PROCESS OF LITIGATION

3.1 Nature of trade secrets.....	17-18
3.2 Essential determinants of a trade secret.....	18
3.3 Licensing of trade secrets.....	18-19
3.4 Trade secrets and the process of litigation.....	19

CHAPTER 4 TRADE SECRET : HISTORICAL BACKGROUND, JUSTIFICATIONS , APPROACHES AND THEORIES

4.1 Historical Background of Trade Secrets and Trade Secret Law.....	20-23
4.2 The philosophical justification of trade secrets.....	23
4.2.1 Labor value theory.....	23-24
4.2.2 The original position theory or the veil of ignorance.....	24
4.3 Economic justification to the protection of trade secrets.....	24
4.4 Approaches to the study of Trade Secrets.....	25
4.4.1 Contract based relational approach.....	25-26
4.4.2 Unfair competition based relational approach.....	26
4.4.3 The Personhood Approach.....	26-27
4.4.3 The Varying property Right Approach.....	28
4.5 THEORIES OF TRADE SECRET.....	28

4.5.1 Exclusivity Theory.....	28
4.5.2 Integrated Theory.....	29
4.5.3 Bundle Theory.....	29

CHAPTER 5 TRADE SECRET LAW: ADVANTAGES, CRITICISM AND SOME FAMOUS TRADE SECRETS

5.1 Advantages of trade secret.....	30
5.2 Criticism of trade secret.....	31
5.3 Impacts of trade secret law.....	32
5.4 Some famous trade secrets.....	33-35

CHAPTER 6 TRADE SECRET MISAPPROPRIATION

6.1 Meaning of trade secret misappropriation.....	36
6.1.1 Loss of trade secret protection.....	36-38
6.2 Trade secret and corporate espionage, Inevitable disclosure doctrine and the Springboard Doctrine.....	38-42
6.3 Measures to protect trade secrets.....	43
6.3.1 Non-disclosure and confidentially agreements.....	44
6.3.2 Civil and criminal remedies.....	44-45

CHAPTER 7 TRADE SECRETS AND IP

7.1 Interface between trade secrets and patents.....	46-48
7.1.1 Comparison between trade secret and patent.....	48
7.1.2 Choosing trade secrets over patent protection.....	48-50

7.2 Interface between trade secrets and copyrights.....50-51
7.2.1 Trade secrets and contract law.....51-52
7.3 Trade secrets and trademarks.....52

CHAPTER 8 TRADE SECRETS IN INTERNATIONAL MECHANISMS AND DIFFERENT COUNTRIES

8.1 Trade secrets in International Mechanism.....53-57
8.2 Trade secret in India.....58-65
8.2.1 Trade secrets and the Indian Judiciary.....65-69
8.2.2 Future of trade secrets in India.....70
8.3 Trade secrets in other jurisdictions.....70-75

CHAPTER 9 RECOMMENDATIONS & SUGGESTIONS...76-78

Chapter 10 CONCLUSION.....79

BIBLIOGRAPHY.....LXXX-LXXXI

1.1 Introduction of research topic

According to the Black Law Dictionary, “trade secret is any formula, process, device or other business information that is kept confidential to maintain an advantage over the competitors. It is the information which includes formula, pattern, compilation, programme, device, method, technique, or process, that derives independent economic value from not being generally known or readily ascertainable.”¹

Trade secrets are a vital part of Intellectual Property rights of a company. The trade secrets have a direct relationship to the growth of the company. Usually, trade secrets refer to various aspects such as device, instrument, data, design, formula, practice, etc. depending on the genre of business and are not meant to be disclosed to any third person. For instance, the popular beverage company Coco Cola’s Coke formula, KFC’s fried chicken that the company says “secret herbs” is a formula that is maintained as trade secrets. Information that can be kept as a trade secret includes formulas, patterns, compilations, programs, devices, methods, techniques, or processes.

Some examples of trade secrets include customer lists and manufacturing processes. The economic value of the information can be “actual or potential”.

The trade secrets are protected by way of non-disclosure agreements and non-compete agreements. In, many countries, the law protect trade secrets against unfair competition. In case of any trade secret infringement or misappropriation, the wrongdoer is held criminally guilty and remedies are available against such act which can be an order of injunction, paying of attorney’s fees, delivery of infringed material and also passing of orders like Anton Pillar that seeks to preserve evidences.

¹ Black’s Law Dictionary, *Bombay Dyeing & Manufacturing Co. Ltd. v. Mehar Karan Singh*, 2010 (112) BOM LR 3759, ed 8

In the case of *Cattle Remedies vs. Licensing Authority*², the Division Bench of Allahabad High Court had observed trade secret as a form, of IPR.

India does not have its own legislation for trade secrets just like South Africa. The courts rely on the principles of common law, equity and breach of confidence principle. Whenever there is any dispute related to trade secret that knocks at the doors of the court of law seeking for justice. Courts rely on past court decision in such cases and also on decision by the foreign courts. Owners of the trade secrets try protecting their sensitive information by means of signing non-disclosure agreements with the people who are to have knowledge of such information, which is vital for their business continuation. The owners rely on other important legislations that protect trade secrets in some way or other.

However there is a need to have a separate legislation that solely deals with trade secret and its every aspect is given adequate and equal importance.

1.2 Statement of Problem

The problem to be stated is how trade secrets get stolen and how they are to be protected. The paper focuses on trade secret unauthorized use, disclosure, its misappropriation as well as remedies. It also deals with the challenges and limitations of trade secret protection. The paper tries to seek and understand the need for a trade secret law in India.

1.3 Aim

The basic aim of the study is to know about different aspects of trade secrets, trade secret protection and laws that pertain to protect trade secrets .

² 2007 (2) AWC 1093

1.4 Objectives

Following are the research objectives :

- To define what is trade secret and confidential information.
- To explain the nature of trade secrets , reasons as to their protection and practical challenges faced whilst protecting them.
- To explain trade secret misappropriation and its prevention
- To understand the measure that can be taken up to protect trade secrets.
- To understand what is corporate espionage and how it puts business at stake and at the verge of losing their vital sensitive information.

1.5 Scope and Limitation

The concept of trade secrets either has a totally negative outlook or a totally positive outlook, one who is benefited or the one benefitted does not see the other aspect. The paper tends to light upon both its negative and positive effects and reason for acceptance and various laws that adhere to protect trade secrets in various countries specifically in India.

1.6 Literature Review

Trade Secrets: Law and Practice

Authors : David W. Quinto and Stuart H. Singer

Publisher: OUP USA; Second Edition (24 May 2012)

The book is a masterpiece to learn so much about trade secret. It deals with every aspect of trade secrets. It tries to examine the concept from a litigator's point of view.

it mentions about USA's trade secret law and practice and the development in the states of the US post the enactment of the UTSA. The book further provides which information maybe a trade secret. The book is a must and a resource book for practicing litigators and law students.

The Law and Theory of Trade Secrecy: A Handbook of Contemporary Research

Authors : Rochelle C. Dreyfuss , Katherine J. Strandburg

Publisher: Edward Elgar Pub (September 30, 2012)

The book is a must for every litigator ,laws student and anyone who wishes to know about and in interested in the concept of trade secrets. It has laid its focus on trade secrecy and its protection . it further tries to explore new and different dimensions of trade secrets and the technical knowhow processes. It emphasizes the confidential relationship that parties to the trade secrets share.

The Law and theory of Trade Secrecy also deals with the growing importance of trade secrets. It provides doctrinal, theoretical and comparative approaches to the study of trade secrets. The book also puts forward the impacts of trade secrets on society and innovations.

1.7 Research Questions

- How are trade secrets protected in India?
- Can patents and trade secrets co-exist?
- Which among the two is better? A patent protection or a trade secret protection?

- Is there a need to have a specific legislation in India that strictly adheres to issues to trade secrets?

- Are the terminologies “trade secrets and confidential information” look alike or they differ from each other ?

1.8 Methodology of Research

The research paper is descriptive and conclusive. The Methodology followed in the research was to rely on several existing studies and secondary sources of data books, articles, e-sources and decided case laws.

1.9 Research Design

The researcher has divided the study into eight chapters that can be summed up as follows:

The Chapter 1 titled “ Introduction” deals with the introduction of the research topic. It further includes statement of the problem, aims, objectives, scope and limitations, literature review, research questions. research methodology, research design and hypothesis.

The Chapter 2 titled “Trade Secrets and Confidential Information” focuses on defining trade secrets and confidential information . It tries to define the terminologies based on the acts and cases that are concerned with “trade secrets”. The chapter also focus on finding similarities and similarities between the two look alike terms “trade secrets” and “confidential information”. It then talks about the illegal and unauthorized use of trade secrets and confidential information.

The Chapter 3 titled “Trade Secrets: Nature, Determinants, Licensing and Process of Litigation: focus on the nature of trade secrets. It provides as to what determines a trade secret. It further deals with the licensing of trade secret and the process of litigation in case there is a trade secret infringement suit in the court of law.

The Chapter 4 titled “Trade Secrets: Historical Background, justifications, approaches and theories” tries to draw back to the time and how the concept of trade secrets originated. It tries to provides philosophical and economic justification to the concept. the chapter further focuses on various theories that try to define trade secrets .

The Chapter 5 titled “ Trade Secrets : Advantages, Criticism and some famous trade secrets “ focuses on the pros and cons of a trade secret and trade secret laws. it seeks to talk about advantages of having trade secret laws and also criticized it on various grounds, The chapter further talks about some famous trade secrets that are worldwide known and still kept hidden as a secret for years. The chapters discusses about these trade secrets in details.

The Chapter 6 titled “Trade Secret Misappropriation” will be focusing on ways a trade secret is infringed putting it at the verge of losing trade secret protection. The chapter tries to define the meaning of trade secret misappropriation. The chapter also explains why corporate espionage poses a major threat to the companies and their trade secrets. the inevitable doctrine and the springboard doctrine is also mentioned in the chapter. The chapter will further deal with measures that can be taken to protect one’s trade secrets including the use of non-disclosure and confidentiality agreements Civil and criminal remedies against a trade secret are also talked about.

The Chapter 7 titled “Trade Secrets and IP” will be dealing with Trade secrets’ interrelationship with other forms of IPR including patents, copyright and their interface. The chapters also talks about protection of trade secrets as provided under the contract law.

The Chapter 8 titled “Trade Secrets in international mechanisms and in different countries” tries to deal with the concept of trade secrets , its definition , recognition and protection under different mechanisms in the global community, those including WTO, TRIPS Agreement etc. it further deals with trade secret related aspects in different jurisdictions like that of the US, UK etc.

The Chapter 9 titled “Conclusion and Suggestions” deals with the concluding remarks that concerns the study of trade secrets and confidential information and thereafter tries to suggest appropriate recommendations that helps with trade secret protection.

1.10 Hypothesis:

1. A separate legislation will be beneficial for both the trade secret owner and his employees.
2. It will reform the confidential relationship between the employer and his employee and bridge the gap that exists between them.
3. The prevalence of employee rendering no service to anyone other than the course of his employment will hamper his interests as an individual. The non-disclosure of confidential information would mean less number of innovations and lack of public access to free knowledge and information.
4. Reverse engineering and independent discovery would put the trade secret at a risk of losing its trade secret protection.
5. Corporate espionage poses as a major threat to business growth and good will of a company.

CHAPTER 2: TRADE SECRETS AND CONFIDENTIAL INFORMATION: TERMINOLOGIES DEFINED

2.1 Definition of trade secrets

As per WIPO, a “trade secret may be defined as any sensitive business information that provides a business house a competitive edge. It encompasses industrial secrets and

commercial secrets and its violation includes an unauthorized use of the trade secret by a person who isn't the trade secret holder and is regarded as an unfair practice.”

The USPTO defines “trade secret as a type of intellectual property; it is in reference to the business ownership of a formula, compilation, pattern, device, program, method, technique or process which provides a competitive edge”.

Any information that is economically advantageous and is a necessity for the proper and profitable continuation of a business entity doesn't not always receive quality protection under regulated frame of IPRs those including patents, trademarks, copyrights and designs but fall under the unregulated ambit of “trade secrets”.

A trade secret can be anything from a business plan to a trick in the processing or production of a commodity or even customer list. Trade secret maybe a formula, physical device , pattern , idea, process or any technical information which may be used in the manufacturing process or any database that is not in knowledge of the public due to subsequent commercial benefit .It confers some sort of economic benefit on owner. Trade secret protection continues as long as the information is considered as a trade secret. Once the information gets leaked or disclosed, the trade secret is no longer a secret and ceases to have any further protection.

Examples include KFC chicken recipe involved, Coca Cola etc.

Trade secrets may include sales methods, consumer profiles, advertising strategies, manufacturing processes, distribution methods, and business strategies etc., anything that is economically beneficial to a business house.

2.1.1 Information as Trade secret

In the case of *Bombay Dying and Manufacturing Co. Ltd. Vs Mehar Karan Singh*³, the Bombay HC has laid down six factors that classify any information as trade secret.

- (a) The extent to which information is known outside the business.
- (b) The extent to which the information is known to the people inside the business example employees.
- (c) The precaution taken by the trade secret holder or owner in guarding the secrecy.
- (d) The affected savings and the value to the trade secret holder in having information against competitors.
- (e) The effort or money spent in obtaining and developing such information.
- (f) The time and money taken by others to acquire and duplicate such information.

2.2 Definition of confidential information

Confidential information is any information that is of a sensitive nature and seeks nondisclosure. Confidential information may be any information that is important for a business house. But it may not have any connection with the manufacturing process or the product whereas trade secret is the plan, strategy, method etc. which the business house considers to keep as a trade secret. Confidential information may include trade strategy, customer's list, supplier's list etc that is important for a business's growth.

14

Categories of confidential information based on the amount of confidentiality :

In *Faccenda Chicken Limited vs. Fowler*⁴, the court classified confidential information into two categories based on their amount of confidentiality:

³ 2010 (112) BomLR375

⁴ 1986 IRLR 69

- (a) information that may be highly confidential in nature and;
- (b) information that may be less confidential in nature.

The court held that only after cessation of a person's employment term, the information could be protected if it is classified properly as a trade secret or that the confidential information is of such highly confidential in nature that it is to receive the same level of protection as that of a trade secret.

Illegal and unauthorized use of confidential information

In *Zee Telefilms Ltd. vs. Sundial Communications Pvt Ltd.*⁵, the Bombay HC laid down three part test that the plaintiff is to satisfy when he alleges illegal or unauthorized use of confidential information-

- (a) The information was communicated with confidence
- (b) Such information was confidential in nature
- (c) There was unauthorized use of such information which is detrimental to the person who communicated.

In *Genetics India Pvt Ltd vs. Shailendra Shiv*⁶ the court observed that there is no reason to question the confidentiality of an information when the pleadings are itself crucial in nature.

Any trade secret related dispute should suffice that the information is sensitive and confidential. There should be no lacuna due to which the wrongdoer escapes liability and the injured party is deprived of justice. It is on part of the plaintiff to prove that he made sufficient reasonable efforts to maintain the secrecy of the information and any failure to prove will risk losing the quality of the confidentiality.

⁵ 2003 (27) PTC 457 (BOM)

⁶ 2011 (47) PTC 494

2.3 Trade Secrets and Confidential Information: Interrelationship and differences

The terms 'trade secret' and 'confidential information' are used interchangeably. However, the two terminologies might look similar but they have differences in reality. The commercial value and importance of a trade secret is generally higher than as compared to that of confidential information.

To distinguish between the two, a trade secret may be any device, process, plan, idea, anything that is meant for continuous usage or data that generates profit which is of repeated use and is of a competitive advantage whereas the area of confidential information is somewhat limited to events in conduct of a business, it is information that is of some value and are sensitive in nature usually received in confidence from the owner, and unless without the prior approval of the owner, such information cannot be used or disclosed for any other purpose out of the contract, unless expressly or implied agreed to.

“All trade secrets are confidential information but not all confidential information can be a trade secret.”

In *Ritika Pvt Ltd vs Biba Apparels Pvt Ltd*⁷ it was held that for the court to grant injunction orders against the defendant, it is mandatory in part of the plaintiff that he has ownership of the trade secret that has been infringed. Injunction orders against an unspecified trade secret cannot be passed by the court.

16

CHAPTER 3- TRADE SECRETS: NATURE, DETERMINANTS, LICENSING AND PROCESS OF LITIGATION

3.1 Nature of trade secrets

(a) Economically valued :-

⁷ Del HC DE 0784 2016

Trade secrets are generally business secrets that are somewhat economically beneficial or advantageous to the business entities and are not known to the public, and are basically under a contract to not disclose the secret that may bring about a potential harm in the success of the company.

For ex : Coco Cola has set up their company years ago, it took them decades to be worldwide known and bring about better user friendly products at reasonable prices whilst meeting with user expectations, however the specific formula of the ingredients used to make the drink is a part of their trade secret and it is not known or to be known to the public. In case the secret is disclosed or gets disclosed, it will be out of their contract norms and bring about loss to their companies as competitors are in a subsequent motive to create the same. This can be said from the fact that there have already been duplicates or replicas of the products in the markets of the known brands, but they stand out to be different for the user who has been using their product from a long time frame. Trade secret disclosure might cause huge losses to the company profits and be a reason for their downfall of shares in the market.

(b) Issue of similar products :

There are often issues wherein similar products with similar ingredients or similar process of manufacture or production is used, bringing about confusion in the minds of the user, leading to brand duplication and losses to the goodwill of the company. Thereby trade secrets act as the vital part of the company's growth.

For ex : the use of specific or special herbs in the making of KFC's fried serves as the best example . KFC is well known worldwide for its scrumptious fried chicken and it uses some secret herbs that is actually a formula that the company protects as its trade secret.

(c) Helps in bringing Foreign Direct Investment :-

Trade secret and their protection also helps in bringing about FDIs to a country for the foreign investors need assurance that their trade secrets will be well protected, maintained and recognized in the significant country before making any substantial amount of investments in the same.

3.2 Essential determinants of a trade secret

The definition of trade secrets is not uniform. Legislations and many court decisions have interpreted in ways that vary from one another. Some interpretations have narrowed the scope of trade secrets and their protection whereas some gave them a broader new dimensional area to put emphasis to. Some important determinants to decide whether some information falls under the ambit of trade secrets are-

1. Potential or real value of such information and the efforts taken to develop such information and protect it.
2. The extent to which measures have been taken to maintain its secrecy
3. The value of such sensitive information in the ordinary course of business
4. The extent to which information is available to the knowledge of its employees

3.3 Licensing of trade secrets

A trade secret owner always has the risk of losing his secret that which forms a basic requirement that the information is actually confidential in nature and he is drawing out some real or potential value out of it which is not generally known to others , for they may replicate it, which is also known as “black box dilemma”.

For his trade secret to be kept a secret, he is to make sure he has non-disclosure agreements signed and properly read and followed by his employees where he also states its exceptions and acts that would be prohibited so as to maintain un disclosure. It should also mention the acts wherein the people in knowledge if the information is to be refrained from making

statements about the trade secret in public, provided the owner himself keeps the secret securely and makes reasonable efforts to protect the secrecy.

3.4 Trade secrets and the process of litigation

A trade secret owner is always in a 'black box dilemma' wherein he is to share his trade secret along with the risk of its disclosure. He is to make sure there is no halt in his business and to keep it running in his absence, he is to share the information with his employees, but provided he has to go for non-disclosure agreement and that he takes reasonable measures to maintain his trade secrecy.

In case of any trade secret related dispute, the owner of such trade secret is to make sure that throughout the entire litigation process i.e., before, during and after the trial, hearing or settlement, he is vigilant.

The court may pass protective or sealing orders to protect his trade secret during the litigation process. Protective order against disclosure of trade secret to the public may include restricting the use of the secret for litigation purpose only. It can also limit as to who can review materials that relate to the trade secret in dispute. The court has powers to pass sealing orders that places the hearing or the trial in motion under seal. It can also restrict the public from entering into the courtrooms. The court has the power to pass orders that seeks to preserve evidences from being tampered within or complete destruction of such infringed material. Example – the Anton Pillar Order.

CHAPTER 4 TRADE SECRET : HISTORICAL BACKGROUND, JUSTIFICATIONS, APPROACHES AND THEORIES

4.1 Historical Background of Trade Secrets and Trade Secret Law

Traditionally, businesses from ages has have known to harbor various business secrets that claim their products to those of the competitors, offering them a known and widely used stage amongst the public. These assertions have later laid a foundation for the industrial people to capitalize their trade secrets in the country. The continuous demand from the public brings about better innovations that has to meet their expectations, price reasonability and also stand out to be way better than the competitor.

Innovations to do better and that are user friendly and popular often come in contact with similar features, designs ,characteristics or nature, that makes competition tough and to survive in the market, the business entities are to be involved in improvements and latest innovations that are up to customer's demand and expectations.

Trade secret is a wholly new concept. Patents already existed long back when there were open letters sent by the Queen. Secret confidential information was kept hidden using traditional means of lock and key system.

According to some scholars, the history of a legal trade secret protection can be dated back to the Roman era wherein any slave found stealing his master's trade secret and selling it to his rival was prohibited.

Post Roman era, in the Renaissance period, the concept of trade secret protection gained popularity because it sought to protect business owners and later got codified during the period of industrial revolution by the European nations to deal with newfound business related ethics.

Back in the year 1837, trade secrets were recognized for the first time by the US courts in the case of Vickery v Welch⁸.

⁸ 36 Mass. 523 (1837)

Later in 1837 ,a collective body of common law was developed which later was summarized as trade secret law in 1939 and was categorized in the First Restatement of Torts.It defined trade secrets as any formula, device, pattern, or any compilation of information by a person in his business and gives him some sort of advantage over his competitors who aren't aware of such information. All forms of information were covered including manufacturing processes, preservation materials, customers list etc.

This definition of trade secret was later accepted in 1939 at the both states and federal level, Courts initially resolved issues related to trade secret based on this definition. However, overtime similar cases with similar facts began creating confusion which was further in 1979 worsened by the Second Restatement of Tort. It was assumed that trade secret now need not rely on general principle of tort law as the constructed developed into an independent law body eliminating former references to trade secret. Post trade secret development into an independent law body the First Restatement of Torts, it still managed to influence trade secret law as it has already been held and referred to in different court decisions.

The model UTSA was issued by the “National Conference of Commissioners on Uniform State Laws” in 1985 with an effort to bring back uniformity in the state and federal level related to trade secret law. The UTSA acts as a guide in protecting trade secret by drafting statutes. It is not binding on the state. The state that chooses to adopt the UTSA can adopt the UTSA provisions along with modifications as per their choice and also are free to adopt the whole or a part of its provisions.

48 US states and the districts of Colombia has adopted the UTSA in 2014 along with modifications and have differences in their trade secret laws despite they have been the result of a common origin.

Many countries have not adopted the UTSA but followed the state statutes or the common law principles to protect trade secrets. These countries include New York, Massachusetts etc.

The UTSA defines the trade secrets as information that includes device, formula, process, compilation, technique-

- (a) That has some economic value either actual or potential and is not generally known to other people who may obtain gains from its use or disclosure.
- (b) Amount of reasonable efforts undertaken to maintain secrecy of the information.⁹

Differences in the meaning of trade secrets as under the UTSA and the First Restatement of Torts:

The definition of Trade Secrets as under the UTSA and the First Restatement of Torts are different in the two ways:

- (a) The Restatement of Torts require that the information to be protected as trade secret is something that is in continuous use , which is nit in the cake of trade secrets as defined under the UTSA, it protects any information which is not continuing state but is of some commercial value . It also protects failed research.
- (b) Unlike the First Restatement of Torts, the UTSA sees that proper reasonable efforts are taken by the trade secret holder to maintain the secrecy of the information.

The Third Restatement of Unfair Competition, 1995:

The ‘American Law Institute’ in the year 1995 made an attempt to summarize the common law of trade secret that was published in the Third Restatement of Unfair Competition.

⁹ Uniform Trade Secret Act with 1985 amendments 1 (1985)

It defines a trade secret as any information that is business related that is secret enough to hold some commercial value that can be used against others or the competitor.¹⁰

Thus, there are two primary sources of trade secret law today if we look back at the evolution due to the Third Restatement, they are :

- (a) Common law that was codified in the Third Restatement, and
- (b) State laws as embodied by various state enactments of UTSA.

Article 39 of the TRIPS, paragraph 2 , provides that all its member states that adhere to the TRIPS are to provide means to protect their trades secret when it is reasonable enough to keep it as a secret.¹¹

4.2 The philosophical justification of trade secrets

There are two philosophical justifications that relate to trade secrets: Labor value theory and the original position theory.

4.2.1 Labor value theory

The labor value theory was given by John Locke. It is also known as the Lock's theory of property. it is based on the notion that anyone who uses his labor to create something, that creation is ought to be recognized, valued and protected.

23

According to this theory, any information that may not have a secret can still be called a property.¹² It sought to give relief to the trade secret owners for they could term their trade secret as a property and property by all means has the right to be protected.

Advantage of the labor value theory :

¹⁰ Restatement of Unfair Competition 39 (1995)

¹¹Agreement on Trade-Related Aspects of Intellectual Property Rights , April 15, 1994 ,1869 U.N.T.S. 299, art 3

¹² Int'l News serv. Vs. Associated Press, 48 U.S. 215, 236 (1918)

The theory further appreciates the process of “Reverse Engineering” or that if same information which was earlier kept as secret is independently discovered; the later is not to be restrained from using that independently discovered information in the course of business that which proves to be useful for his business’s growth, development and improvement.

Criticism of the labor value theory:

However, the theory was criticized on the points that:

- (a) Locke did not differentiate between a real property and an intellectual property, for an intellectual property may be possessed by two individuals at the same period of time.
- (b) It further provided that though two individuals might have the same information, but they can use it against others who aren’t in knowledge of the information rather than using it against each other.
- (c) Yet another criticism it faces is that it protects any information which may not even be a secret, thus giving more of the power in the hands of the owner.

4.2.2 The original position theory or the veil of ignorance

The veil of ignorance by John Rawls stands as one of the major theory that tries to justify the protection of trade secrets. Veil of ignorance is a hypothetical situation wherein there is some decision making process for distribution of rights and they aren’t aware of their position even after the distribution is complete.

It has been further argued that companies should be allowed to go for reverse engineering for it might benefit the people at large.¹³As per the veil of ignorance, when people are not aware of the position they will occupy post an event, they might agree to certain rules that can be determined to be fair, just and reasonable. Thus, the theory is an unbiased one seeks to promote just and fair rules that will be agreed to by everyone.

4.3 Economic justification to the protection of trade secrets

It can be said that trade secrets can be economically justified mainly because it has some real or potential commercial value attached with it.

4.4 Approaches to the study of Trade Secrets

Theorists argue that trade secret does not fall within the category of being called a property whereas some theorists believe that a trade secret is some property that belongs to the

¹³ Landes and Posner

owner. This had led to thinking by different theorists who view trade secrets differently. There are four important approaches that relate to the study of trade secrets.¹⁴

4.4.1 Contract based relational approach

Some scholars of this approach have denied the existence of a property based theory as to the study of secret law. The contract based relational approach is based on the notion that trade secret is related to contractual obligations and principles of unfair competition.

As argued by Professor Robert Bone, a contract is the most essential requirement that seeks to protect trade secrets and the rights of the owner.¹⁵ He states that in the traditional period of the development of trade secret law, a property's basic requirement was exclusivity, i.e., the right to exclude others from using his property since it is his creation using his intellect, skill and labor.¹⁶

According to Professor Bone , due to many theories put forward as to whether trade secret falls within the umbrella definition of 'property', it brought about irreparable damages to the concept of trade secret law. He further argued that the concept of trade secret has lost its theory sand source from other law fields and thus the courts have been since years trying to fill in this gap.¹⁷

According to Professor Bone, trade secret is all about contractual obligations. He also stated when the trade secret is disclosed that was said in confidence; the injured party

¹⁴ Charles T. Graves, Trade Secrets as Property : Theory and Consequences

¹⁵ Id 243 ("trade secret law should not be expanded beyond limits of contract, theft and like") and id at 297-304 ("trade secret is to protected based on principles of contract ")

¹⁶ Bone, supra note 30 , at 254

¹⁷ Id at 260

should not be asked to prove for reasonable efforts that he previously had maintained to keep the secrecy unless otherwise the contract says so.¹⁸

4.4.2 The Unfair competition Based Relational Approach :-

According to this approach, the concept of trade secrets falls within the ambit of unfair competition. The approach puts all of its focus on practice of unfair competition rather than portraying trade secret as a bundle of property rights.¹⁹ Whereas a proponent of this approach is concerned that this might have adverse effects on property rights.²⁰

According to the unfair competition approach, the sensitive information is to be kept as a secret, that which is not in knowledge of the public as to the owner and some of his employees inside the business house. There is limited access to the information by limited number of people which puts the employee if a former one to not share the information or work or render service to anyone outside the course of employment. It becomes a potential danger for employee mobility and public domain, for limited information is available for public use.

4.4.3 The Personhood Approach :

The Personhood approach is based on the notion that the trade secret owner has used his intellect, skill, time and labor into bringing about something new and unique keeping in mind the latest trends of the commercial market and customer priorities and thus such trade secret shouldn't be misappropriated without his prior approval and without the payment of the fees that he should actually get out of it (unjust enrichment).

¹⁸ Bone, supra note 30, at 302

¹⁹ Samuelson, supra note 75, at 805-07

²⁰ Id at 808-10

Criticism of the Personhood Approach :

However, this theory has been widely criticized and nowhere its principles have been applied to a case.²¹

- (a) The approach is a complete failure as because it is vague and there is lack of clarity. Critics consider the concept of trade secrets as “confused body of law” and more of the power and control is given in the hands of the employer.

- (b) James Hill’s article of 1999 puts forward the personhood approach of trade secret law where he opposes the contract based theory of trade secret law.²² As per him, the property based theory is incomplete for it doesn’t talk principles of moral corrective justice which seeks the well being and consent of the trade secret owner prior using it.²³He doesn’t criticize the concept of property based theory of trade secrets but adds a broader scope to the personhood of the trade secret owner when it comes to injunctive reliefs and damages.²⁴

- (c) The personhood approach is however flawed as it increases gap between the employer and his former employee.

²¹ CAL. CIV. CODE s 3426.3 (West 2007)

²² James W. Hill, Trade Secrets, Unjust Enrichment and the Classification of Obligations, 4 VA. J.L. m& TECH. 2 (1999) and id 96-98

²³ Hill, supra note 101

²⁴ Id 77-79,88,90,93,95.

4.4.4 The Varying Property Right Approaches :-

The approach talks about the property based theory of trade secrets. It provides that a more rational approach is to be adopted that balances the interests of both the employer and his employees, whether a former or present one and thus helps to give a better definition to the concept of protection of trade secrets as a property right. More of the focus is laid on protecting business houses against corporate espionage by third parties and resorting to self help by owners within the prevalent trade secret laws.

4.5 Theories of trade secret

To be granted protection to trade secrets as an IP form, the substantial question that arises is can trade secret be considered as a property. The courts in certain cases have held that trade secrets are not a property but still is to be protected.

Three prominent theories have been put forward that recognizes trade secret as a property: the exclusivity theory, the integrated theory and bundle theory.

4.5.1 Exclusivity theory:

The scholars of this theory disagreed with whether trade secrets can be classified as a property. The thought of Judge Frank Easterbrook that IPR includes right to include just like any other property was further upheld in *Ruckelshaus v. Monsanto Co*²⁵.

The court in the case of *Kaiser Aetna vs. United States* provided that the principle of exclusivity is one of the basic essential of something to be called as a property.²⁶

However in the case of trade secrets the owner can only protect his trade secrets from misappropriation and disclosure but no protection is given in case of Reverse engineering wherein information is independently discovered.²⁷

²⁵ 467 U.S.986 (1984)

²⁶ 444 U.S.164,176 (1979).

²⁷ *Cadence Design Sys. Inc. v. Avant Corp.* 57 P.3d 647, 650 (Cal. 2002)

4.5.2 Integrated theory

The integration theorists are of a much broader view. According to them, the theory emphasizes on the acquisition, usage and disposition of an asset.²⁸

The theorists argued that to define a property its exclusivity is not an essential requirement. Exclusivity can never be enough to classify something as a property.

Criticism of the Integrated theory:

However, this theory is a failure because it fails to explain as to how can two individuals acquire, use and dispose the same trade secret.

4.5.3 Bundle theory:

This theory recollects that any property is a bundle of rights.²⁹ Scholars of this theory consider trade secrets as a collection of rights with their duties.

Criticism of the Bundle theory :

However, the problem that arises here is that the term ‘property’ ceases to have a precise definition as to what it actually includes.³⁰ It is difficult to classify what exactly fits in to be called a property and what is excluded from the definition “property’.

²⁸ Adam Mosoff, What is Property? Putting the Pieces Back Together, 45 ARIZ L.REV.371, 405-06 (2003)

²⁹ Wesley N. Hohfeld, Fundamental Legal Conceptions as Applied In Judicial Reasoning 26 YALE L.J. 710 (1917)

³⁰ Thomas C. Grey, The Malthusian Constitution, 41 U.MIAMI L Revision, 21, 30 (1986).

CHAPTER V TRADE SECRET LAW: ADVANTAGES, CRITICISM AND SOME FAMOUS TRADE SECRETS

Trade secret and trade secret laws are concerned about business information that are so confidential in nature and are so commercially valued that they need to be protected. The basic purpose of a trade secret law is to prevent misappropriation by way of unfair means whilst promoting completion and innovation. It aims to preserve business ethics.

5.1 Advantages of trade secret

Trade secrets are known to have advantages that make them way different from other forms of IPR. These include:

- (a) No complexities: Trade secrets do not require complex formalities like the other forms of IPR. They do not need to go through the processes of applying for a protection claim , specifying its details and contents and nor there is a need for is public disclosure . There is no need of registration and disclosure like patents.
- (b) Not time bound: Alike patents, which require an invention to be new and unique, the trade secrets are different . They are not time bound . Any information can be a trade secret that may be years old.
- (c) No expiry : Trade secrets do not expire i.e., they continue to be a trade secret for as long the secrecy is maintained.

5.2 Criticism of trade secret

- (a) Imbalance of power distribution and conflict of interests: Trade secret provides more of the power in the hands of the employer and limited employee mobility, for they are restricted and prohibited from certain acts as under the nondisclosure agreements they have designed. Under certain cases, they are prohibited from rendering services to some other person or are not allowed to compete against their employer, etc.
- (b) Less number of innovations : There is Hindrance in the way of innovations as because the owner gets protection against his trade secret and others are excluded from using his important information , which might have if used by others would have improved and bought about a better product.
- (c) Limited access and limited information sharing to public: since the information is kept as a secret, limited number of people has access to it but are not allowed to reveal to any because of the presence of a non-disclosure or confidentially agreement. There is then limited share of knowledge and information among the public.
- (d) The laws are not sure as to which and what information can be a trade secret. There is no uniformity in the laws.

5.3 Impacts of a trade secret law:

A trade secret law should exist that effectively tries to protect trade secret and the owner's rights. It should try balancing the interest of both the employer and employee who are in knowledge of the trade secret. Following are the impacts that a trade secret law might have on the owner, the employee and on society :

- (a) Trade secret law like in some jurisdictions does not allow unfair competition. This helps in protecting the rights of the owner of the trade secret.
For instance: The Competition Act of 2002, under Section 3 talks about anti-competitive agreements.
- (b) Trade secret law helps to protect the sensitive information thereby giving the owner a scope to do better and it increases the number of innovations thereby bringing about advancements in the research and development sector of a country.
- (c) Trade secrets require non-disclosure and prohibited acts of public statements regarding the information by the employees to the public. It restricts employee's mobility. A non-disclosure would mean less of knowledge and information shared to the public that in a way restricts from bringing about better products in the market.
- (d) It limits the scope of protection of trade secrets as in cases of Reverse Engineering or independent discovery for when the knowledge is disclosed through legit means , they trade secret ceases protection
- (e) the existence of a trade secret law makes it better and precise to deal within just trade secret related issue else there is a scope of confusion if courts rely on either principle or interpretations by different courts . .

5.4 Some famous trade secrets

1. KENTUCKY FRIED CHICKEN:

The ingredients or the 11 special herb and spices used in preparing KFC's scrumptious fried chicken are a trade secret of the popular chain restaurant, KFC. The "secret herbs" used in the recipe is originally handwritten by Colonel Harland Sander and kept in the Kentucky's safe. The selected employees who have knowledge of the recipe are bound by a confidentiality agreement to not disclose or share it with anyone.

Two different companies prepare a mixture of the secret herbs used along with spices and send it to restaurants. In this way they try protecting their trade secret.

2. COCA COLA :

The Coca Cola recipe is a trade secret. The company chooses to keep it as a trade secret rather than patent it because the ingredients might get disclosed. The Coca Cola Company decided to keep the recipe as confidential information for one of their key ingredients may be cocaine.

3. LISTERINE:

The secret formula of Listerine was licensed to Lambert Pharmaceutical by its inventor for which he and his family received royalty payments for a period of 70 years.

However, Lambert (Pfizer) latter tried to stop those royalty payment as because the formula was no more a secret. It argued that it is no longer responsible for paying licensing fees.

The court in this case held that nowhere in the contract it was stated that payments will be stopped when and where the trade secret is somehow discovered by others in a legitimate manner, especially when he was deriving commercial games when the when the formula was a trade secret not known.

4. KRISPY KREME DOUGHNUTS:

The process by which Krispy Kreme Doughnuts are made is a trade secret. Only a few employees of the company have knowledge of the recipe which is kept in a safe in the company head quarters.

5. MCDONALD'S BIG MAC SEPECIAL SAUCE:

The special sauce recipe from McDonald's was one such top secret that was kept so hidden and so disclosed until it got lost during reformulation in the 1980s. However, McDonald's was successful in retrieving in the original sauce recipe from the originally produced company or person from the records.

6. WD-40:

The WD-40 or Water Displacer - 40 is a maintenance spray with multiple home uses and is a perfect home lubricant. It helps in preventing corrosion and helps in removing grease from surfaces. The chemist who developed WD-40 sold it after years of keeping it as trade secret. The WD-40 formula is prepared by mixing contents in three different cities across the globe.

7. LENA BLACKBURN'S BASEBALL RUBBING MUD:

Lena's Blackburn's Rubbing Mud is used to dull the surfaces of new baseballs for better grip. It is a trade secret kept by the company preventing people from working all over the surface since they claim the mud to be taken from a public land and after years of trying to resolve the problem, they claim to have the mud that provides the perfect grip.

8. THE GOOGLE SEARCH ALGORITHM:

The Google search algorithm is one of the most top search Engine and the most preferred by the digital users today. Google continues to refine it every now and then keeping businesses and people from gaming the system.

9. THE NEWYORK TIMES'S BEST SELLER LIST:

The Newyork Times' Best Seller List dating back to 1942 is the most influential and popular list in USA, wherein not every novel writer can get the novel in the list because the methodology i.e. or the pattern to get into the best seller category is kept as a trade secret so that the publishers cannot take advantage of the sale data.

10.DR. PEPPER'S SOFT DRINK :

Dr Pepper's soft drink is said to be made from 23 different natural and artificial flavors that is kept as a trade secret. The recipe is a secret developed by pharmacist Charles Alderton in Texas in 1885 and is in knowledge of only three people inside the company are under a confidential agreement and it is kept in hidden vault in the company's headquarters.

CHAPTER VI: TRADE SECRET MISAPPROPRIATION

6.1 Meaning of trade secret misappropriation

Technological advancement in the area of science and technology as well as the easy means of storing, copying and downloading information in the cyberspace, it has also brought along its cons.

Misappropriation of trade secrets may be defined as the illegal ways of acquiring a trade secret. Such acts may include obtaining confidential information by means of breach of confidential contract, theft, espionage etc.

Misappropriation of trade secret may be defined as an act whereby the wrongdoer dishonestly acquires and uses or discloses it without taking the prior permission from the trade secret owner. Such acts are against honest business practices.

6.1.1 Loss of trade secret protection

(a) By the third parties :

In the absence of a non-disclosure agreement, the parties may let out the information in public or sell it to the rivals for illegitimate gains.

(b) By the employees :

When the employees are contractually bound of non- disclosure, but they try to sneak the information to the wrong hands, there is a chance that such information will no longer to be a secret.

For instance : An employee of the Coca Cola tried selling the confidential information to its rival Pepsi but were apprehended due to whistle blowing by the Pepsi officials.

(c) By the competitors :

There may be cases of independent technology or reverse engineering where the people themselves know about the information that was kept a secret and thus becomes publically known.

(d) By the trade secret owner himself :

When the trade secret owner himself discloses the information unknowingly or knowingly in public, wither though verbal or print mediums; like a technical paper, photographs or speech, the trade secret then loses its protection.

Nationwide Mutual Insurance v Mortensen³¹

In this case, the former employees or rather former agents of Nationwide Mutual Insurance used the client credentials against their former employer, wherein they used client credentials that were in the paper lists,. Though the information in the computer system was properly secured , the papers were left with the agents and there was contractual agreement of non-disclosure signed between them and neither the papers were kept safely by the employer. The court held that since it is required for the information holder to make reasonable efforts to maintain the secrecy but here he did not do so and nor had any confidentially agreement signed and thus no relief was given to him.

In order to prove misappropriation of trade secrets , the injured party has to satisfy that there has been :

1. Acquisition : the injured party has to prove that information has been acquired without the owner's consent
2. Dishonest practices : that the wrongdoer has practiced dishonest practice to obtain the information , which may included stealing his computer data, etc

³¹ 606 F.3d 22 (2010)

3. Breach of confidence : that the information was passed onto with confidence in the course of business continuation and there was breach of contractual obligations
4. Damages : that some sort of damages has been done to the owner and court has the jurisdiction and power to hear the case and award damages
5. Knowledge of the trade secret: it must be proved that the wrongdoer had knowledge of the trade secret of the owner and it belonged to him.
6. Access : the wrongdoer had access to such secret information
7. Ownership : the plaintiff is to prove that he had ownership rights over the information

6.1.2 Reverse Engineering and independent discovery of information:

A trade secret is not protected as against Reverse Engineering or independent discovery of information. An individual or even a competitor may develop the same information in legit ways, which do not amount as acts against honest business ethics. The process may include independently discovering manufacturing processes, business plan etc, that may be similar to a trade secret of company, which he has not acquired dishonestly . Thus, protection ceases to exist in a trade secret when it is known to the public either by way of Reverse Engineering or independent discovery of such information.

6.2 Trade secret and corporate espionage, inevitable disclosure doctrine and the Springboard Doctrine

Acts of stealing IPs, misappropriation and spying are a threat to IPRs and there has been a tough challenge to the protection of the IP rights. Business are in a constant threat of losing their business reputation , growth and success due to unfair means of hacking , stealing, misappropriation of trade secrets by the former employees or competitor.

The 21st century is the age of competitiveness , it has put companies and their owner into constant innovations to survive in the market. They are to bring about new and unique business plans or strategies that has to be widely accepted and trusted and up to customer's demand so as to keep their business running. It takes years for a company to be well known establish and popular worldwide and have franchisees. For ex :the company Coca Cola is years old as well KFC has all these years worked hard to be given the tag of having the world's tastiest fried chicken. Competitors find themselves in a race to cope up with survival and thus some engage in unfair business practices. The world's finest companies like Coco Cola, Intel etc. have been a target of Corporate Espionage. There have been losses of more than 30 billion dollars as estimated by the FBI. The act of corporate espionage brings about huge losses to the companies and their reputation. The espionage has act is still prevalent today which recognizes corporate espionage as a illegal act. An act of corporate espionage may be against a business or the government.

The concept of corporate espionage in India is a new one. There have been cases where well to do business tycoons have tried and caught spying on confidential information for their benefit either directly or indirectly by handing over the information to their competitors.

Corporate espionage may be defined as an act of spine, stealing, and leaking in sensitive information to parties in benefit.

In 1986 , Coomer Narian was booked for criminal conspiracy for looking information to foreign base companies.

Information that can be at a risk of corporate espionage which may include highly confidential government data including minutes of meetings, plans of foreign collaborations by the government, projects with other countries etc. Many companies are alleged to have been involved in corporate espionage like Reliance industries, Jublicant energies & Cairn India etc.

In a corporate espionage case wherein confidential information as to petroleum Ministry documents have been leaked, the top senior most executives of ADAG Reliance and Jubilant energies, Reliance Industries, ESSAR and Cairn India have been arrested by the crime branch. It has also been found that several other Coal & Power Ministry papers has also been leaked. A special investigation team has been formed to further carry on the investigation.

As per the recent annual risk survey in the year 2014 by the federation of Indian chambers of commerce and Industries, Corporate Espionage was recognized as the 9th biggest theft to Indian business entity.

A complaint was filed against the managing director's secretary by TATA communications back in the year 2007 as he was alleged to have been sending the board meeting agenda's via e-mails to their competitor.

Coca Cola vs. Williams, Dimson, Duhany

In May 2007, an employee of the Coca Cola Company with two other accomplices were apprehended for stealing and trying to sell information along with samples of a new product to rival company Pepsi Co. But Pepsi choose to blew the whistle and inform the FBI officials. They were sentenced as per federal law terms and were imposed with 8 years of prison along with 40,000 to pay as restitution fees under the EEA of 1832.

Waymo vs. Uber

Facts of the case are Anthony Levandowski, a former employee of Waymo stole the company's data and 14,000 files and resigned. He formed his own self driving truck company named as Otto which he made following the data that he stole from the place of of his previous employment. Later Otto was acquired by the Uber.

A lawsuit was filed against Uber by Waymo who alleged that Uber tried to hide the information by the act of acquiring Otto. The court recently held Levandowski guilty for the theft of trade secret and sentenced him jail for four months along with a fine of \$95,000 and restitution to Waymo of \$756,499.22.

Inevitable disclosure doctrine and trade secrets:

An employee working for an employer with a trade secret maybe assumed to have knowledge of the same information and he may someday inevitably disclose to his competitor if it happens that he is working for him and at the same position where he previously did. This type of threatened misappropriation is the inevitable disclosure doctrine wherein such employees are prohibited from working for competitor by passing of injunction orders by the court. However, this is not available in every state.

The Springboard Doctrine

India is in absence of a specific legislation that defines and governs trade secrets. The courts have often adopted the principles of equity, fair play and good faith. Often we see precedents from foreign jurisdiction like UK are being taken. An instance of foreign legal dogma that is widely used in the Indian system is the spring board doctrine that has been used in cases involving illegal and unauthorized use of trade secret.

The Springboard doctrine has involved from the basic principles of equity, where the court restrain wrongdoer from deriving unlawful advantage from a wrong doing by granting an injunction.

The Springboard doctrine implies that the court is bound to restrain of a person who is into possession of information which can be unlawfully used as a “Springboard” to derive illegal games causing loss or injury of the actual owner.

In the case of QBE-Management vs Dymoke the basic tenets of the Springboard doctrine includes

- (a) When a wrong doer has been deriving illegal gains, the court is bound and has power to restrain the wrong doer from continuing the wrongful act, thus depriving him from the fruits of such illegal unlawful act. It is often term as Springboard relief.
- (b) The purpose of the Springboard order is to prevent the defendant from taking unfair advantage of the Springboard. The Springboard relief can be applied to cases of breach of contractual and fiduciary duties as well as cases of breach of confidence.
- (c) The aim of Springboard relief implies restoration of the situation that existed prior to the breach. The Springboard relief should be sought and obtained when the wrong doer is obtaining unlawful advantage out of the breach.
- (d) Springboard relief will not be granted in cases where monetary award would have sufficed as an appropriate remedy for the wrong.
- (e) The Springboard relief is granted to protect the rights of the actual owner. It provides fair and just protection for unlawful harm out of a breach on an interim basis. It does not aim to punish the wrong doer for his wrong doing. To what is fair and just in a given situation, the wrong doing will be measured on the gravity of the wrong doing on the claimant by the defendant and to the extent the wrong doer has gained illegal unfair advantage.

6.3 Measures to protect trade secrets

By the owner:

The trade secret laws provide that the owner must make reasonable efforts to maintain his trade secrecy. He should not make public speeches or print photographs nor use any medium of communication that discloses his trade secret. He should enter into non-disclosure agreement with parties and employees that ensure people are contractually bound to keep the trade secret a secret.

By the employees:

The employees of a business are to maintain proper business ethics. They are not supposed to make a breach of confidentiality. They are to maintain secrecy of information made out to them in confidence. Not all employees are to be made aware of the business except to those who are known to run businesses in absence of the owner and they should refrain from making statements out in public that might lead to trade secret disclosure and should obtain a prior approval from the owner before doing so.

By third parties:

The owner is to get into non-disclosure agreements with third parties to prevent trade secret misuse and misappropriation.

Competitors:

the competitor should engage in legit business ways. They should know business ethics and respect other's trade secrets. For example: Pepsi's move in the case where they informed the Coca Cola officials when one of the latter's employee tried to sell them their trade secret. Pepsi Co used the Whistle Blowing concept in a good way and is a good example for ways to run a business ethically.

6.3.1 Non-disclosure and confidentially agreements

Trade secrets can be protected by way of non-disclosure agreements and confidentiality agreement:

The employers of a business house can enter into non-disclosure and confidentiality agreements with their employees that provide protection of their trade secrets against unauthorized disclosure and misappropriation. An agreement of non disclosure and confidentiality lays down as to the definition of confidential information, acts that amount to misappropriation and its disclosure and remedies available against such act.

6.3.2 Civil and criminal remedies

Following are the legal remedies that are available to the owner of a trade secret:-

Civil remedies-

A trade secret owner can file a civil suit when his trade secret is infringed seeking an injunction. He can also demand a delivery of the infringed material, wherein the trade secret was misappropriated. And the probability of obtaining such injunction order is based on the formulations as under the Code of Civil Procedure, 1908 –

- (a) Existence of a prima facie case in favor of such injunction
- (b) The balance of convenience favors the grant of injunctio
- (c) In absence of an injunction order, there is a risk that the owner will suffer is irreparable loss and injury.

An injunction is passed as a remedy against trade secret misappropriation. It is on the court to decide whether an interim relief (interlocutory) or a permanent injunction will be passed based on the facts of each case. Interlocutory orders are granted when the legal proceedings are pending. It is granted to provide justice to the plaintiff while the litigation process is continuing and the dispute is resolve by the courts.

The notion behind granting of interim relief is to protect the plaintiff rights from being violated or in case he would not be adequately compensated. The court follows three tests before granting an order of interlocutory injunction –

- a) If there is a prima facie case in favor of the plaintiff.
- b) If the balance of convenience favors the plaintiff.
- c) Whether the plaintiff is to suffer a damage that is irreparable in nature in case an order of interlocutory injunction is not passed.

The trade secret owner also has the right to claim damages when he proves there is an actual damage. The court does not usually award exemplary damages

Criminal remedies:-

Under Section 378 of a Indian penal code 1860, a trade secret owner can lodge a criminal complaint with the police alleging theft for which it is necessary for him to satisfy the requirements of Section 378. The section provides that such trade secrets should have physical manifestation (client lists, blueprints or formulae) and has been stolen.

A complaint alleging criminal breach of trust under Section 408 of the code, read with Section 420 alleging cheating, may also be initiated. It would only apply wherein a trust agreement that prior existed has been contravened.

Anton Pillar :

It is an order by a court of law that provides the right to search and seize evidences without prior permission in the premises of the wrongdoer . The order is passed to preserve evidences, find infringe material and thus prevent the tampering and destroying of evidences by the guilty.

CHAPTER VII TRADE SECRETS AND IP

Due to digital advancements and newer innovations, many forms of IP are recognized and protected under specific legislations.

The most common forms of IP like patents and copyrights are granted protection when disclosed in public; they have a time span of 20 years and life of author plus 60 years respectively. Whereas protection of trade secrets through legislations is a totally new topic of discussion, though trade secrets long back wherein people traditionally protected their trade secrets by the old lock and key system. The basic element is that the information is sensitive in nature and should not be in knowledge of the public..

In case of patents and copyright, post disclosure and registration, the owner can exclude others from using his particular song, lyrics, innovation etc and the information is to be known to public as to the details, contents etc in case of patent and heard, read etc in case of copyrights.

However, trade secret protection is about protecting that information that are sensitive and vital to a business's overall management and development. The patent and copyright owners are rewarded when their creation is let out in public and the public accepts it whereas trade secret owners are rewarded when they keep the information as a secret. A boon of trade secret is that it is not necessary that the trade secret one, it can be years old and nor does it have a time span.

7.1 Interface between trade secrets and patents

Intellectual property rights recognizes and protects protect human intellect, their creativity and labor by way of protecting their inventions, their audio visual works etc. There are many important forms of intellectual properties viz. patents, design and copy right etc. out of which only trade secrets and patent protects information.

Patent is one of the most important form of IPR that protects inventions by way of process, machines , manufacture or articles of manufacture and compositions of matter by creating a monopoly and giving specific rights to the patent owner as well as encouraging society to indulge in creating more innovations that help in the research and development sector of a country.

The patent system is all about “*quid pro quo*” – the public gets benefitted due to new and unique inventions in return of the patented invention disclosure. The patent granted is for a term of 20 years and on its expiry it becomes a part of public domain, where there can be no charges of patent infringement by patent holder.

Patents are meant to protect innovations where as trade secrets can protect both patentable information as well as any other information that has some commercial value attach to it with that of the holder. Thus information can be protected by both trade secrets and patents.

Trade secret covers all types of information, whether patentable or not, unlike patents. There is no state agency in charge that has to review or approve any information as trade secret nor there is any need for registration or application to protect trade secret. Anything that is valuable and is to be meant to be kept as a secret can be protected as a trade secret. Unlike patents, trade secret do not come with an expiry i.e. they do not expire and can be kept as a secret as long as the party which is deriving gains from such secret wants to. This can be over a period of 100 years or more or even perpetuity. However, trade secret cannot be protected as against reverse engineering or independent discovery by the rival company.

It can be said that trade secrets and patents are somewhat related, both aim to protect information. However in various circumstances, they complement as well as supplement each other.

In the case of *Kewanee Oil Co. vs. Bicorn Corp.*, the court held that trade secrets promote disclosure just like patents. Trade secrets are often to be shared among business partners or with employees inside the business and also with licensors and licensees so as to keep the business in running condition in the absence of the trade secret holder. Whereas patent promotes public disclosure of information in the patent specifications.

7.1.1 Comparison between trade secret and patent

(a) A patent requires an invention to be having some industrial application , new and unique , novel and non-obviousness as basic requirements for a patent grant, which is not so in the case of trade secrets. A trade secret can be any information that has been continuing since generations.

(b) It is mandatory for an invention be to new and unique to be granted patent protection which is not so in the case of trade secrets.

(c) Matter of exclusion :

The patent owner has a right over his invention , he can exclude others from using, importing, selling his invention whereas trade secrets laws only protect against misappropriation.

7.1.2 Choosing trade secrets over patent protection

(a) The time span of a patent is 10 years after that it expires. In case of trade secret, it is time immemorial. If some invention is meant for forever use by public, it is better to have a trade secret protection than go for a patent protection.

(b) If some invention doesn't not fall under the essential requirements of a patent, then it can easily be protected as a trade secret. The only need is non-disclosure of a secret that is for some business purpose and is value laden.

(c) If one cannot afford the tedious application, disclosure and registration process for patent protection , he can simply opt for trade secret protection.

(d) Innovations beyond patents :

Both patents and trade secret seeks to promote innovations, whereas there are certain requirements and a tedious process of patent registration , a trade secret may protect any information , new or years old.

(e) Promoting disclosure :

Both the IP forms require disclosure. In case of patent, the innovation is to be explained in a detailed manner when applied for a patent grant , the disclosure is to be made in public , also it accepts opposition , in case anyone has issues with the innovation being granted a patent.

Whereas , a trade secret requires disclosure the other way. The owner is sto disclose his confidential business information to his employees or partner so that incase of his absence, the business keeps running, there is no halt. Disclosure is done for the smooth functioning of the business and they are under a contractual obligation to not disclose it or use it anywhere other than for the purpose it should serve for.

(f) Reducing costs :

Patents involve a whole lot of work , from applying for a patent grant to a tailed explanation of the invention following up the legal processes. Meanwhile trade secrets help in reducing costs.

As per Risch, the trade secret law protects trade secret information and also ensures incentives to the business to spend less amount of money while seeking to protect such information.³²

(g) Trade secret laws help channeling :

According to Lemley, it helps in channeling of various subject matters, when it is considered as a property based theory.

7.2 Interface between trade secrets and copyrights

(a) A copyright protection is over one's own creation. it maybe any literary, musical, artistic or dramatically work. Whereas, a trade secret may include any information that is vital to a business like customer credentials, their names, contact numbers, email addresses, or can be a company's manufacturers or suppliers list etc.

No copyright protection is granted over information like customer credentials and data but it is a subject matter of protection as per trade secret laws.³³

(b) All forms of IPRs include the right to exclude others, from acquiring, using, making commercial gains or even dispose it. In case of copyrights, the wrongdoer can be refrained from infringing acts of copying, downloading, distributing etc whereas trade secret misappropriation includes acts of disclosure, breach of confidentially agreements, corporate espionage, etc and in addition copying of such information.

³² Risch, 44

³³ Feist Publications Inc. vs. Rural Telephone Services 499 U.S. 340 , 349 (1991 , ABBA Rubber Co. vs. Seaquist, 286 Cal. Rptr. 518,526 (Ct. App. 1991)

- (c) Both trade secrets and copyrights allow for protection of similar information in case of information that is independently discovered or is the result of reverse engineering.³⁴

7.2.1 Trade secrets and contract law

Trade secret is akin with contract laws and other laws. Under Contract laws, when there is an enforceable agreement between parties and the co-party breaches then he can be sued for such breach and damages can be awarded to the party that suffers any loss or injury out of such breach. The damages awarded are to balance the illegal gains by the wrongdoer. Whereas in case of a trade secret, the owner can sue anyone who misappropriates his trade secret regardless of the fact that they are not contract bound and can claim damages and also seek help from the court to grant injunction orders to further protect the trade secret for his company's growth provided that efforts were taken to protect the secrecy of the trade secret and was not known to the public.

For example: The UTSA provides that the trade secret owner makes reasonable efforts to maintain the trade secret secrecy.

However, contract law provides a wider scope to protect information than trade secret law i.e., contract law can offer stronger protection to any confidential information when compared to trade secret laws.

In India, a person is bound contractually not to disclose information that is revealed to that person in confidence. In *Richard Brady v Chemical Process Equipments Pvt Ltd*³⁵, facts of the case are the plaintiff invented a fodder production unit and for the same, op the court further invoked a wider equitable jurisdiction and awarded an injunction in the absence of a contract, sought supply of thermal panels from the defendant.

³⁴ CAL. CIV. CODE 3426.1 (a) (West 1997) Reverse engineering or independent discovery of information is not contrary to honest business practices

³⁵ AIR 1987 Delhi 372

In India, there is no specific law to protect trade secrets and confidential information, however it is somewhat protected under the Indian Contract Act, 1872. Indian courts too have upheld the protection of trade secrets relying on the basic principles of equity and common law action of breach of confidence which amounts a breach of contractual obligation and also provides remedies to the trade secret owner that includes an injunction that prevents the licensee from the disclosure of the trade secret, returning all proprietary and confidential information and compensation for the losses that he suffers due to such disclosure. A person, as per Indian law, can be contractually bound to not disclose any confidential information which is revealed to him or her in confidence.

The courts in many cases have held client information as a matter or copyright. Under copyright laws, databases are to be protected. Business in the course of their work usually uses the electronic digital means to store for the smooth running of the business activities. The Copyright Act of 1957 provides that compilations that include databases are literary works and thus are a subject matter of protection.

In *Govidan vs. Gopalakrishna*³⁶ it was held that a compilation no matter the amount of originality it has, it still is the product of someone's intellect, skill and labor and thus it to be given legal protection against theft and misappropriation.

The law provides that any work gets copyright protection that has some intellect, skill and labor involved by the creator, however works that are unique and have character differences, involves a minimal degree of creativity and use of one's own intellect is protectable under law.

7.3 Trade secrets and trademarks

Alike trademarks that need mandatory examination as per trademark laws, trade secrets need not go through mandatory steps of examination and registration. Trade secrets require only some potential value whereas a trademark requires actual value for it is actually applied in business practices.

³⁶ AIR 1955 Mad 391

CHAPTER 8 TRADE SECRETS IN INTERNATIONAL MECHANISMS AND DIFFERENT COUNTRIES

The concept of trade secret protection is universally accepted. This can be attributed to the agreement of on TRIPS. For a country to be a member of the WTO, it has also to agree to the TRIPS agreement that lays down the requirement for trade secret protection under its Article 39:

- (1) Commercial value – The trade secret must have some commercial value attach to its in favor of the trade secret holder.
- (2) Secrecy- Such information should be worthy of being kept as a secret and it should not be in knowledge of the public.
- (3) Reasonable effort to maintain secrecy- Reasonable efforts are to be undertaking by the trade secret holder to maintain his trade secrecy.

When there is effective implementation of trade secret laws, it as advantage in favor of the trade secret holders. He can use the legit methods protect his trade secret and can even protect his trade secret from being used by his ex employee of rival.

Information under trade secret law is categorized in three parts.

- (1) Technical information (Industrial processes and blueprint)
- (2) Confidential business information like customer credentials
- (3) No how information such as business methodology.

Innovation is the part and parcel of the 21st century in terms of competitive advancement. It is essential for a country and business's research and development. With the advancement in the science and technology sector, the virtual stealing of IPR forms has become prevalent making them more vulnerable.

The importance of protecting trade secrets has increased among countries. In the year 2014 two studies were released for the OECD which documented the increasing strength of trade secret world wide.³⁷The trade secret protection index is to measure the strength of trade secret system in forty major economics and examines from the period 1985-2010 at five years interval that the indicator index makes an efforts to compare international trade secret protection scenarios.

There are three dozen objective element in the national legal system which are further divided into five main components-

- (1) Definition and coverage
- (2) Specific duties and misappropriation
- (3) Remedies and restriction on liability
- (4) Enforcement , investigation, discovery and data exclusivity
- (5) System functioning and related regulation

In 2012, Professor Evan Png had developed an indicator that measures trade secret protection in the US states. In the year 2010, there was an increasing strength of trade secret protection. The year also marked low scores by countries all the indicator index which may be due to the following reasons-

Narrow definition of trade secrecy

- (a) No protection against third party misappropriation
- (b) Lack of confidentiality protection during the litigation process and
- (c) No criminal penalty for such misappropriation.

³⁷ Schultz and Lippoldt 2014

India is among the low scorer in the index. Many countries like Taiwan, South Korea have both about reforms that have strengthened their trade secret policies. In comparison India is still lagging behind as they have been no prominent changes in its trade secret laws. There is a relationship between trade secret and economic competitiveness as per the OCED study with the help of index.

There should be an effective implementation of trade secret laws that seeks to protect businesses from virtual facts as well as unfair means of misappropriation.

Trade secret can be considered as an effective business strategy. India however still has scope in bridging the gap between businesses and trade secret laws. Many countries have brought about developments in their trade secret laws either by new laws or by precedents. Countries like Hong Kong, Malaysia etc. have out grown in this regard because they have adopted newer effective laws and are at a higher rank than that of India in the index.

The reason that India is lagging behind may be due to the fact that the Indian codes follow an English rule that is years old which state that there must be some kind of relationship to keep information as a secret. The courts require sufficient proofs from the trade secret holder about a prior existing relationship for a breach whereas it is not an essential element for other jurisdictions.

Another main cause of India's low rank in the index is due to the lack of imposition of criminal liability wherein trade secret owners face difficulty in obtaining injunctions from the court , the unfair use of their trade secrets and nor can they themselves investigate.

8.1 Trade Secrets in International Mechanisms

Countries have signed or are bound under agreements to protect trade secrets in their country. Countries like US Japan etc have enacted legislations in their domestic jurisdictions that protect trade secrets against infringement.

GATT or The General agreement on Tariffs and Trade:

Most of the prominent nations concluded the act from the Uruguay round of GATT on April 15, 1994. The WTO established the GATT and also the TRIPS agreement. It has emphasized on regulating the trade policies between the global countries. The Agreement on TRIPS provides that its member nations are to protect undisclosed information under Article 39 of the Agreement. It also provides that the countries provide effective remedies including injunctive reliefs, damages and provisional reliefs for preservation of evidences and thus prevent infringement incase of any trade secret misappropriation.

Under the GATT provisions, it provides that trade secrets should be protected from misappropriation that are used in an illegitimate way, without the prior approval from the owner and also impose liability on the wrongdoers. It imposes liability on the third parties who were negligent or had knowledge that some confidential information has been acquired illegitimately that is contrary to honest business ethics.

World Trade Organization or the WTO –

The countries who wish to be a member of the WTO are to abide by the TRIPS agreement provisions, it requires that states help in protecting and implementing effective trade secret laws, provide remedies for misappropriation to the owners which includes passing of injunction orders by the courts, awarding damages, prevent infringement and also preserve evidences.

North American Free Trade Agreement or NAFTA – The nations that are member states of NAFTA are bound to protect the trade secrets from unauthorized use and disclosure, misappropriation etc. Remedies against such actions include injunctive relief and damages. Following this, Mexico has further amended its Trade Secret law of 1991 that provides for injunctive relief to private litigants.

The Agreement on Trade Related Aspects of Intellectual Property Rights or TRIPS :

The TRIPS agreement was the first agreement in the global community to have specifically dealt with undisclosed information. It nowhere has defined trade secrets or know how. However, the agreement provides for undisclosed information under Article 1 (2) as one of the essential categories of IP.

The member nations to the TRIPS agreement require under article 39 that they ensure protection of undisclosed information in pursuance of the Paris convention of 1967, Article 10 bis.

Article 39(1) of the TRIPS agreement however limits protection of undisclosed information against unfair competition as under Article 10 bis of the Paris Convention.

An act of unfair competition as under Article 39(1) of TRIPS agreement may be defined as “any act that the 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”.³⁸

Unfair competition as under Article 10bis (2) of the Paris Convention defines an act of unfair competition as “any act of competition contrary to honest practices in industrial or commercial matters”.

³⁸ WIPO, protection against unfair competition, Geneva , 1994 ,p. 55

8.2 Trade secrets in India

India as a signatory to the TRIPS Agreement. It is under an obligation to follow the international standards when it comes to IP protection and effective enforcement. It is provided as under the chapter of the constitution that lays down the directive principle of state policy, and under Article 51 we are to respect international laws, treaties and their obligations.³⁹ However, the Indian courts have not explicitly applied the TRIPS provisions.

In India, various forms of IPRs including copyrights, trademarks, patents etc are recognized and protected under various legislations, however India is devoid of laws that specifically tries to relate to the issue of trade secrets.

But, India has not denied the existence of trade secrets along with their protection being a business hub country when it is about the commercial sector, with such a massive population and home to topmost business cities namely Delhi, Mumbai, and Hyderabad etc. India is a signatory to the TRIPS agreement and further has to follow its obligations. The Indian courts accept the definition of undisclosed information as laid under Article 39(2) of the agreement and also recognize trade secrets as defined by the UTSA, 1970.

India being a common law country follows old common law principles. Trade secret protection is based on the important principles of equity, contractual obligations and breach of confidence. It is quite a challenging and tough task on part of the Indian government to protect and impose liability on the person proved guilty in the absence of a specific legislation of trade secrets.

³⁹ Seervai H.M, Constitutional Law of India

Common law principles for the protection of trade secrets.

Equity principle :

An owner of a business entity when share his trade secret in the form of any business idea, business plans or customer credentials etc to his employees or another independent person who is a part of the entity ,to be used in his absence to keep the business in running condition, that person is not ethically allowed to take advantage of the situation and involve in unfair trade practices that might involve disclosure of the secret to the rival business entity etc. Thus, the people in knowledge of the trade secret are to maintain the secret under this principle.

Breach of confidence:

A trade secret as an important business information may not generally be known to one person, it may be known to the employees or to partners or to ones who are in an important and a dominating position in the company. A business person usually shares his trade secret to people who are involved in his business with confidence that they who will maintain the secret no matter what. Thus, the principle of breach of confidence implies that such people are to maintain that trade secret that is disclosed to them in full confidence.

India as a signatory of the TRIPS , it is to protect undisclosed information.⁴⁰ The member states to the TRIPs can have a sui-generis mechanism that is provided by the Paris Convention.⁴¹

⁴⁰ Article 39, Agreement on trade related aspects of intellectual property rights

⁴¹ Article 10bis, Article 39(2) and Article 39(3) of the Paris convention.

The group of Indian expert in a report to the AIPPI recommends that India should develop statutes that slowly adverse to trade secret and their protection in the same manner the other forms of IP are protected. The country has been ignorant to the concept of trade secret since quite a while. It has no specific legislation that is sincerely meant for trade secrets against misappropriation.

However, Indian courts have upheld trade secret protection by considering common law principles, equity principles etc. it is protected by other legislations as under:

- (a) The Indian Penal Code , 1850
- (b) The Indian Contract Act, 1872
- (c) The Copyright Act , 1957
- (d) The Information Technology Act, 2000
- (e) The Competition Act, 2002

Trade secret protection under the Indian legal frameworks:

1. Section 508 and section 415 of the Indian Penal Code or the IPC :
2. Section 27 of the Indian Contract Act :
3. Section 51, 55 and 63 of The Copyright Act
4. Section 72 of the Information Technology Act
5. Section 3 of the Competition Act

Restraint of trade under section 27 of the ICA, 1872 which provides that agreements in restraint of trade are void pro tanto. This section was enacted long ago and the object was to protect trade from restraint.

In the year 1958 the law commission of India recommended on adding exception in section 27 which provides that restraint of trade is justified when there is a question of interest of the public and parties to the agreement.⁴²The recommendation provides for a reasonable restraint of trade.

Section 27 of the Indian Contract Act brings in its ambit the concept of non-compete agreements and non-disclosure agreements that helps in the protection of trade secrets against unfair competition and disclosure. The section also provides that any agreement that restrains a person from continuing trade will be considered an invalid agreement.

In India, there is no exact and precise definition of trade secret in any of the legislations. A slight reference however can be found in The Copyright Act of 1957 as under Section 16 which lays down that:

Section 16 : No copyright except as provided in this Act

“ No copyright except as provided in this Act.—No person shall be entitled to copyright or any similar right in any work, whether published or unpublished, otherwise than under and in accordance with the provisions of this Act or of any other for the time being in force, but nothing in this section shall be construed as abrogating any right or jurisdiction to restrain a breach of trust or confidence.”

According to section 405 of the Indian Penal Code, acts that amount to criminal breach of trust are an offence.

“Section 405 : Criminal breach of trust.—Whoever, being in any manner entrusted with property, or with any dominion over property, dishonestly misappropriates or converts to his own use that property, or dishonestly uses or disposes of that property in violation of any direction of law prescribing the mode in which such trust is to be discharged, or of any

⁴² The law commission of India , 13th report, Ministry of Law and Justice (1958) Para 55

legal contract, express or implied, which he has made touching the discharge of such trust, or willfully suffers any other person so to do, commits “criminal breach of trust”.”

The Information Technology Act, 2000 under section 72 also provides certain protection that is limited to electronic records.

Remedies available to the trade secrets owner are:

- a) Any compensation for the losses suffered due to the trade secret disclosure.
- b) Injunction preventing a licensee, employee, vendor or other party from disclosing a trade secret.
- c) Return of confidential and proprietary information.

The Securities Exchange Board of India (Prohibition of Insider trading) Regulations , 1992 makes the act of using and disclosing sensitive confidential information as an offence and a person involved in such act is subjected to face prosecution as under the SEBI Act.

Section 3 of The Competition Act, 2002 talk about anti-competitive agreements which prohibits tan individual, association of persons or businesses to enter into agreement for any business or industrial activity , including manufacture, supply, distribution etc as that might have negative effects on competition within the country and any agreement against the provisions of the act will be held void.

Section 72 of the IT Act provides with penalty provisions for any individual who discloses an information without the prior approval of the party to whom it my concern, the information maybe about any information, document, electronic records etc.

There have been recent enactments and legislations that aim to address issues related to legal basics, but when the question is about protecting trade secrets, though has been a matter of world discussion but there are no Indian legislations with regard to the same issue.

There is a demand to bring about trade secret legislation a country is facing continuous pressure from US for a separate legislation that adheres only to trade secrets. India is to bring about a law on trade secret but after knowing the feasibility of the law. The Indian Government in order to check if it will be practical enough to have a separate legislation to protect trade secret and see if it is feasible seeks data from the US states since the enactment of the American trade secret law. The United States of America, Japan, China and many other influential countries has have already enacted legislations for effective implementation of the trade secret laws.

However, India has been lagging behind in this regard. The protection of trade secret is a major IP issue of this century. There is need for effective trade secret laws for Government and businesses to run smoothly in this competitive age. Most countries have taken this as a major boon for their competitive development. Businesses have been protecting their trade secret from long time back, traditionally that is essential for their business growth and success.

The MNC's pressurized the Indian government to adopt measures that provides data protection. In the month of February of 2004, it appointed the Satwant Reddy committee. The committee took a time span of three years to examine into data exclusivity in various dimensions and submitted the report in 2007 that suggest two alternative models in the field of pharmaceuticals and data exclusivity of three years in the field of agro-chemicals. The committee report was opposed to severe criticism and it was thus discarded.

In India as of now there is no data exclusivity provided. However, India as a member of the TRIPS agreement adherers to follow Article 39.3 that allows the member countries to implement data test policies as against unfair competition practices.

The GATT provides that trade secrets are not normally IP rights for most of the IP rights to be granted protection requires a proper disclosure , publication and registering it , which is not so in the case of trade secrets.

For the basic idea of trade secret is there some information that needs to be kept as a secret , that the public is unaware so as to continue drawing benefits out of such nondisclosure.

India approved the National IP Rights Policy on May 12, 2016 that provides that there is to be an legal and effective legislative mechanism that protects the IP rights and it requires the research study and identification of proper field of study and that it included the concept of trade secret protection.

The US-India Trade Policy Forum that was held in New Delhi on October 20, 2016 recognized that India though without any specific legislation on trade secrets and their protection against misappropriation, reflected the notion that India still is dedicated to protect the trade secrets by emphasizing on the common law principles.

The Department of Industrial policy and promotion of India has declared the years 2010 to 2020 as the decade of innovation. Trade secrets in India are protected as under contract law. Companies innovate and are in a continuous course of action to either self secure or seek legal help in protecting their trade secrets. The Indian government has been put under continuous pressure and demand as well as under treaty obligations to enact legislations in the way of trade secrets.

In a joint statement of 2015 in the Trade Policy forum, India though tried to resolve protecting trade secrets.⁴³ One significant development in the way of trade secret protection was National Innovation Bill, 2008 which even before being tabled got lapsed.

⁴³ ustr.gov/about-us/policy-offices/press-office/press-releases/2016/october/%E2%80%8BIndia-US-Joint-Statement-TPF

The Government of India through the Department of Science and Technology in the year 2008 put forward draft National Innovation Act which proposed to bring about developments in the research and innovation sector. It talks about how public and private sectors can bring about advancement in the research and development sector. The act emphasis on more number of innovation and low cost plants that benefits the society at large. The draft act is based on the following approaches.

- a) Evolving a national integrated science and technology plant.
- b) Encourages innovation.
- c) Codification of laws that seek to protect trade secret and confidential information

8.2.1 Trade secrets and the Indian Judiciary

The Indian courts in many cases have upheld trade secret protection as well as gave the concept of trade secrets a precise definition. In *American Express Bank Ltd v Priya Puri*⁴⁴, the court sought to define trade secrets as any information, formula, technical, a knowhow or any business method by an employer which is not in knowledge of the public that has some economic benefits and is a means for his business growth.

In *Anil Gupta v Kunal Das Gupta*, the Delhi HC gave a broad expansion to the definition of trade secrets it provided that their material that the plaintiff uses may be known to anyone but as soon as he uses his intellect and makes something unique and productive out of the material, it becomes confidential.

The courts have upheld trade secrets protection by means of non displeasure agreements restraints of trade and non compete clauses laid down under the contract law.

The courts can restraint the servant after his termination of employment from competing against his former employer.⁴⁵

⁴⁴ (2006) HI LLJ 540 (Del)

⁴⁵ Singh Avtar, Law of Contract and Specific Relief, pp. 260-261

In *Brahmaputra Tea Co. v EScarth*⁴⁶, the Calcutta HC restrained a servant from competing against his competitor that is the former employer for 5 years. The court observed that restraining servants from competing with their former employer after the termination of employment is a well known excepted concept in the English laws and making of such an contract as an exception to section 27 was because no legal effect was to be provided with.

The SC has further in *Niranjan Shanker Golikari v Century Spinning & Manufacturing Co Ltd.*⁴⁷ upheld the Calcutta HC's decision in the *Brahmaputra* case. Facts of the *Golikari* case is that the defendant had a company that manufactured type cord yarn and a foreign producer asked him to collaborate on the condition that he will not render service any where during this time of employment and to maintain secrecy of the confidential information. Justice Shelat held the agreement to a valid one and restraint the defendant from rendering service to anyone outside a term of the contract.

In *Attwood vs. Lamont*⁴⁸, it was held by the court that an employer cannot restraint his servant from competing against him after a termination of his employment, but only can reasonably protect his trade secrets from being exploited.

In *Ambiance India Pvt Ltd vs Naveen Jain*⁴⁹, the Delhi HC was of the similar view . It held the agreement between parties void under Section 27 of the ICA,1872 wherein employee cannot take employment with the employer's past , present and future customer. This was in favor of the employer and against the public policy and thus the court held that an ad interim injunction order will not be passed based on this ground.

⁴⁶ (1885) ILR 11 Cal 545

⁴⁷ 1967 AIR 1967 SCR (2) 378

⁴⁸ [1920] 3 KB 571

⁴⁹ 122 (2005) D.L.T. 421, Para 6

The Supreme Court in Sandhya Organic Chemicals Pvt Ltd vs. United Phosphorus Ltd⁵⁰ held that an employee cannot be in all times restrained to use his experience and knowledge from his past profession especially after he was terminated from his employment.

The Calcutta HC further upheld the restrictive clause in the case of Gopal Paper Mills Ltd vs. Surendra K Ganeshdas Malhotra⁵¹ wherein an employee is restrained from disclosing the confidential information that he acquired during his course of employment.

The Indian Contract Act of 1872 does help trade secret owners and their businesses from being exploited or misappropriated by third parties and employees by the passing of injunction orders.

In Pramod s/o Laxmikant Sismakar & Uday Narayanarao Kirpekar vs Garware Plastics & Polyester Ltd. & Anr⁵² The court could not establish essentials that can attract criminal liability and nor could consider trade secrets as a property. Facts of the case are the petitioner previously worked for the respondent, he used the same technical process for his product that he has learnt under his ex-employer. He was alleged to have committed cheating and criminal breach of trust. The court held that it was against the agreement of service and they were booked under Section 408 and 420 of the IPC.

In Diljit Titus vs Mr. Alfred A. Adebare & Ors⁵³ the question that arose in the court of law was whether customer credential and their e-mail addresses fell under the ambit of data base. The court held that compilation of data base also includes customer credentials and their e-mail addresses and if used in acts contrary to honest business practices, it will amount to infringement.

⁵⁰ AIR 1997 Guj 177

⁵¹ AIR 1962 Cal 61

⁵² LAWS (BOM)-1986-8-27

⁵³ 130 (2006) DLT 330, 2006 (32) PTC 609 Del

In *Control Paint (India) Ltd. Vs Sanjay Sribastab & Ors*⁵⁴, the court held that it has to suffice to the court satisfaction that any confidential information has been used or is at the risk of being used by that the defendant or the employee who previously has worked for the employer whose confidential information he had knowledge of .

In *Shree Gopal Paper Mills Ltd. vs. Surendra K. Ganeshdas Malhotra*⁵⁵ the court did not grant injunctive relief and dismissed an appeal wherein the plaintiff sought to refrain the defendant from offering advices and providing services to people outside the course of his employment. The court also stated that there can be no restraints that are contrary to public policy and against the interest of the defendant. The master is only to receive protection in favor of his trade secret and not against any competition with some competitor.

Though the Indian courts have given decision on trade secret related disputes by relying on common law and equity principles and in cases have referred to protection of trade secrets under other legislations but these lack uniformity because facts of cases differ from one to the other.

Indian courts have relied on the principles that the court laid down in *Saltman engineering Co. Ltd vs. Campbell Engineering Co. Ltd.*⁵⁶ it provides that on the basis on circumstances of each case, the secrecy that is to be maintained relies on the principles of equity or on principles of common law .the court usually applies the equity principles for continuing some course of conduct, or relies on principles of common law when there is some breach of confidence which is as a result breach of confidentiality contract.⁵⁷

⁵⁴ (2006) 2 CALLT 145 HC, 2006 (4) CHN 674

⁵⁵ AIR 1962 Cal 61

⁵⁶ 1948 (65) R.P.C 203

⁵⁷ Patrick Hearn, *the business of Industrial Licensing : critical guide to Patents know-how, Trademarks and Industrial design* 112 (1986), *John Richard Brady and others vs. Chemical Process Equipments P. Ltd. and another* , A.I.R. (1987) Delhi 372.

In *Ambiance India Pvt. Ltd. v. Shri Naveen Jain*⁵⁸ the Delhi HC defined trade secrets as any method, know how etc. in the course of business undertaken by an employer and which is not publicly known. The court also interpreted that trade secrets do not include the day to day activities of the employer and are commonly known.

For a cause of action against breach of confidence by the employer and breach of non disclosure agreement, certain English Common Law principle have been adopted by the Indian courts-

- a) There should be some quality of confidence in such confidential information.
- b) Such information should have been revealed in confidence.
- c) There has been disclosure or illegal use by the wrong doer without a prior consent and which thus has caused harm to the owner of such information.⁵⁹

The Indian courts have further applied these principles to various circumstances where disputes can arise-

- a) When it happens that sensitive and confidential information comes in knowledge of an employee and he intentionally or negligently becomes a medium for disclosure and used by an unauthorized person.
- b) When an unauthorized person asked for confidential information from the employee who by chance gained the information.
- c) When a licensee breaches a contract for a know-how and to maintain its secrecy, that was either expressly or impliedly applied.⁶⁰

⁵⁸ 122 (2005) D.L.T. 421, Para 6

⁵⁹ *Emergent Genetics India Pvt. Ltd. vs. Shailendra Shivam and Ors.* (2011) 125 D.R.J. 173, para 33, 45.

⁶⁰ *Homag India Pvt. Ltd. vs Mr. Ulfath Ali Khan* (Oct.2012)

8.2.2 Future of trade secrets in India

India now gives more importance to all forms of IP rights which include trade secrets. There has been improvisation in the way India looks at trade secret related issues. Modern trade secret laws would mean stronger law foundation like countries with higher rank on the index, such as Malaysia, Hong Kong etc. It would provide for criminal enforcement as well as imposition of criminal liabilities while resorting to jurisdictions expertise in trade secret cases such as the UK. It would help in providing fast injunctive reliefs as well as passing of emergency orders that uses the process of securing collecting evidences for example the Anton Pillar order. It also shall address misappropriation of trade secret by third party.

Thus India has the full scope to secure higher ranks in the TSPI that is beneficial and a boon for businesses with their trade secrets. It tried to bring about legislations that effectively protect trade secrets but in vain. In the year 2006, the Personal Data Protection Bill was introduced but it did not get the green signal.

However, post the Supreme Court's decision in the famous case of Justice K.S. Puttaswamy vs. Union of India that held privacy as a basic fundamental right, the need for protecting trade secrets has been emphasized and the country is looking to bring about legislation and new broader scope to protect trade secrets after analyzing the feasibility of such a law.

8.3 Trade secrets in other jurisdictions

Trade secret has been protected in America since 1979. US adheres to the IP agreement as under the Uruguay Round of GATT in the year 1994 to protect trade secrets. It is also a member state of the WTO and thus is compelled to protect trade secrets.

The US recognizes trade secret as one of the major type of IPR. To be termed as a trade secret, the information has to related to a business and has some sort of commercial gains by the owner on his competitors who are aren't aware of such information.⁶¹

United States is a party to the agreement of TRIPS and a member of WTO, and thus it is bound to protect their trade secrets. Para 2 of Article 39 provides that the member nations to protect information that may be a trade secret.

The DTSA of 2016 was enacted to strengthen US trade secret protection. It allows the parties in disputes under federal and state laws to get their cases heard in federal courts. The courts protect the trade secrets from misappropriation by ordering payment of royalty out to be the person who misappropriated to the owner as well as make him take steps maintaining trade secrets. The courts have the power to aware damages, reasonable fees of attorney's and court's cost. But this protection is very limited because if the owner of the trade secret somehow fails to maintain the trade secrecy or there is a case of Reverse Engineering, it is no longer given protection. A trade secret is usually protected only from disclosure and misappropriation.

Trade secret protection complements patent protection. A patent to be granted protection has to mention its details and thus a disclosure of the invention has to be done by the inventor, in exchange, he gets the right to exclusion against the world without his prior permission. When patents expire, the information within is no longer given protection.

But is protected against independent discovery. Under patent laws, there is no need to maintain secrecy. When any invention by the businesses is eligible for either a trade secret protection or patent protection, the choice is on the business after considering the benefits of both the type of protection.

⁶¹ [uspto.gov.in/ip-policy/trade-secret-policy](https://www.uspto.gov/ip-policy/trade-secret-policy), August 2020

Article 39 of TRIPS requires that all the WTO members ensure protection against unfair competition. It states that confidential information can be prevented from disclosure by natural and legal person that is acquired without prior approval of the owner for illegal games.

The US has state laws that vary from one to the other in terms of trade secret protection. Some of the states rely on principles of common law whereas some already have passed trade secret laws by their state legislatures. In one way all other states recognize and try to protect trade secrets. However, there has been uniformity in trade secret laws post the enactment of the UTSA.

The Uniform Trade Secrets Act, 1985-

The UTSA seeks to define both the terminologies “trade secrets” and “trade secret misappropriation” and provides for remedies for such misappropriations viz. damages, injunctive relief and attorney’s fees. All of the states in the US have adopted some of the forms of the UTSA by January 2012 except for New York, Massachusetts and Texas.

The passage of the DTSA has increased trade secret protection. Under the DTSA, an individual or an organization may be held liable for misappropriating a trade secret in any civil case.

The Economic Espionage Act of 1996

The EEA paved the development in the way of trade secret laws of the US. Theft or misappropriation of trade secrets under the EEA is recognized as a crime. The federal government under the act tries to protect trade secrets.

However, civil as well as criminal sanctions for trade secret misappropriation are available under both state and federal laws. Misappropriation crime is provided as under 18 USC 1831(a) that may include acts of conspiracy and acquiring the misappropriated trade secrets by the wrongdoer. A crime of misappropriation under the act can result in fines or imprisonment or both. A fine of 250,000 dollars can be charged on the individual and up to 5 million dollars on the corporations in cases of trade secret misappropriation. And if such misappropriation is done with the intention to benefit the foreign governments, the penalty is more. A fine of up to 10 million dollars may be imposed or imprisonment for a term of 15 years or both.

In the US, for information to be granted trade secret protection, it should at all circumstances suffice to the basic essentials:

- a. Presence of some commercial value
- b. The trade secret is to have some sensitive information attached that is important for a business's well being
- c. Reasonable efforts have been made by the owner to keep it as a secret.

The US has both state legislations and body of state common law principles that adheres to protect trade secrets. the UTSA along with some part of the Restatements of Law have greatly influenced the trade secret laws that US today has.

The International Trade Commission and 48 Of US states rely on the UTSA for guidance. In the year 2011, Texas, one of the influential states of US, became the 48th state to ensure trade secret protection when it passed the Texas Uniform Trade Secrets Act.⁶²

⁶² TEX. CIV. PRAC & REM CODE ANN. 134A. 002 (West 2013)

The United Kingdom

The common law jurisdiction in the UK radiates to judge made laws for any dispute of breach of confidence relying on the case of Prince Elbert vs. Strange. The UK law Commission in the year 1981 had proposed statutory base on the law of breach of confidence had proposed

the UK recently has adopted a new legislation which is concerned with protection of confidential information. The UK Government on June, 2018 introduced the Trade Secrets Regulations. It as a major discussion as there are stringent Regines that try to confidential information under contract and common law.

the act makes the acquisition, usage and disclosure of a trade secret as unlawful. The act also provides remedies which it tries to balance in porpionality whrein it allows the alleged innocent defendant to provides remedies to that of a compensation,

The new law also provides that in case of a trade secret infringement, the limited number of people to have access to such information is to include at least one individual from each of the party along with their lawyers.

South Africa

Like India South Africa does not have a specific legislation that adheres to protect trade secret against violation and misappropriation. It protects trade secrets from acts of illegal acquisition, usage and publication without the owner's consent by ex-employee or competitors. Trade protection in South Africa is based on the country's common law principle.

Trade secret is protected only if it is not in knowledge of the public, is of some economic value and has industrial applicability.⁶³ The remedies are available in cases of trade secret infringement based on the contract law and tort principle.

Russia

Trade secret and technical know-how are protected under the General Civil Law principle. Information is protected that had a business secret and the owner had taken appropriate steps to protect it. Acts of trade secret infringement amounts to remedies in the form of real damages. The court may pass interim relief orders to prevent further damage to the trade secrets

Brazil

As per Brazil Trade secret law, violation of trade secret is a crime and it is regulated by laws. The Brazilian labor law gives an employer the right to terminate an employee from the course of employment when he is found to have violated a trade secret. The code of civil procedure provides for search and seizer of infringe material. As per the civil court any person who illegally causes injury to some person by his acts is subjected to repair for the harm that has been caused.

China

As per ante unfair competition law, a person can be criminally prosecuted for any violation of trade secret. Remedies available to the trade secret owner are compensatory damages as well as other civil remedies.

⁶³ J.Neethling & B.R. Rutherford, completion in the laws of South Africa 195, 267 (L.T.C. Harms J.A.Faris eds., 2d ed., pt.2, 2003)

CHAPTER 9 RECOMMENDATIONS AND SUGGESTIONS

Due to industrialization, globalization, advancements in information and technology sector as well as more number of digital users, protecting IPRs is a major problem . Trade secrets which may be some confidential information as to business growth plans and strategies , or simple client credentials or a simple trick that the public is not aware , is more at the verge of being disclosed.

The trade secret owner faces black box dilemma to share his trade secret along with the risk of being disclosed and then there are also cases of independently discovering the secret or legal reverse engineering that makes a trade secret lose protection. NAD when there is a loss of trade secret protection, the owner can no longer draw benefits out of such information for the it is knowledge of the public.

In this competitive era, companies are in a completion to do better than each other and make products better and widely accepted that becomes a boon to their business growth, they are often in the process of making duplicates and replicas to survive in the long run, and to protect trade secrets against unauthorized illegal disclosure and use, there is a need to know about the trade secret related laws and their provisions.

Information that can be easily stores like in some computer that shares its password and details with other users or using of CD-ROMs or pen drives or even secrets in written form is more t a risk of disclosure. The use of internet services and making statements in public also would mean a loss of the trade secret. Thus, there is a need that trade secret owners adapt to newer digital solutions that protect and secure their trade secrets.

They need to constantly shift their trade secret storage locations, limit as to who can use their computers or digital gadgets containing the trade secret details or even restrict from putting them in any form that can be easily stored and accessed.

In case the information is stored in computers and laptops, a strong password is a must, the use of anti-virus and firewalls and he must keep the information securely from hackers who might hack into his system, he is to take adequate steps to prevent himself from being a victim of hacking and losing his trade secret protection.

Protecting trade secret is important for the growth of the business. To protect the trade secret from being disclosed, the owner can enter into non disclosure agreements with the partner or the employees of its establishment.

Trade secret works within the framework of IP laws, competition and contract laws simultaneously and all are with a purpose to protect any information that is secret worthy and has some attached commercial value.

Trade secrets can be protected by way of non-disclosure agreement and other contractual means. Trade secrets can also be protected by an action against misappropriation under the principles of common law which is the result of breach of an obligation of confidence arising expressly or impliedly, as well as theft.

Unlike other forms of IPR, trade secrets lack certainty i.e., they are not limited to a common form of human intellectual. Information that can be protected as trade secret can be anything, any business plan, any business strategy, client credentials, etc. The scope of trade secret is broader when compared to other major forms of IPR.

A trade secret can be protected in many ways, that aren't very complex:

1. Limit the number of people to the information and their access to it.
2. Bank vaults are a safe and secure to keep information, this restricts people from easily coming in contact or accessing it
3. Parties who are contract to the non-disclosure agreements are to maintain secrecy and under contractual obligations to avoid disclosure

4. No form of disclosure including public statements , either digitally or in papers should be strictly prohibited unless prior consent o the owner is taken or obtained
5. The non-disclosure agreement should in particular provide as to what does disclosure mean, acts that amount to trade secret misappropriation and liability in case of misappropriation. The contract should be in knowledge of both the parties and signed by them.
6. Label any information inside the business house as confidential so that the employees are aware as to what they are dealing with
7. Limiting the use of computer systems and traditional ways of securing trade secrets
8. Latest modern and easy to use systems of trade s4ecrets including high end passwords, pin generating lockers etc.
9. Discarding the use of sort copies of such sensitive information
10. Be aware and vigilant against doubtful employees, third parties and against hackers.
11. While protecting database, one can use the help of legal and technical means.

CHAPTER 10 CONCLUSION

It can be stated that trade secrets are a vital part of a business's wellbeing, reputation and for evergreen continuation in the economic market. Various states that got their state legislations as well a uniform body of law as well in conformity to TRIPS provisions, they seek to protect their trade secrets. However in case of countries like India and South Africa etc which are known as business hubs, are devoid of trade secret legislation.

A trade secret law for India is the need of the hour for business to flourish and the rights of the trade secret owners to be recognized and protected by law.

Though there are legislations that protect trade secret on either way but they do not specifically deal with trade secrets wholly and there might be some lacuna, so there is a need for a separate legislation that defines trade secret, information that can be protected as trade secret, infringement of trade secrets and remedies available etc.

The legislation should also provide for limitations as to the power of an owner of trade secret so that there is no abuse of power and there is no biasness but a fair and just determination of the case. There should be limits set on both the employer and employee, be it former or present, to maintain the secrecy of a sensitive information and impose liability when there has been infringement of a trade secret.

Furthermore, the new law should and the courts should also value the principle of common law and decisions given by different courts in different cases. The new law should seek to bridge the gap between the employee and his former employee.

It should also try to consider the concept of trade secret protection as a property based theory, i.e. as an outcome of a person's intellect and labor and thus is his property and ought to be protected by law and promote exclusion by third parties.

Also, trade secrets should be protected so that it increases the scope of quality innovations and betterment in the business plans and strategies also which is low cost and at the same time consumer friendly and accessible.

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