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Trade Secret Protection: A Comparative Analysis between India and the United States

INTRODUCTION

In today's globally competitive market, it is crucial for a business to take the proper measures to protect its valuable trade secrets. Broadly defined, a trade secret is "[a] formula, process, device or other business information that is kept confidential to maintain an advantage over competitors..."¹ An example of one of the "best-kept trade secrets in the world," is the full formula for Coca-Cola.² The secret ingredient that gives Coca-Cola its distinctive taste and competitive edge is fiercely protected. The only written record of the secret formula is in a security vault and can only be opened upon a resolution from The Coca-Cola Company's ("TCCC") Board of Directors.³ In the late 1970's, the Government of India forced TCCC to disclose its secret formula in order to establish a production subsidiary in India. Instead of complying, TCCC opted to protect its trade secret and terminate the potentially lucrative operation.⁴

Like other forms of intellectual property, trade secrets protect and encourage investments. Unlike patents, which have a set monopoly term of twenty years, trade secrets are broader in scope because they are protected indefinitely until the secret

is disclosed. Trade secret protection ("TSP") is viewed as a property right and/or under a tort and contract based remedy. The view that trade secrets are property protects the trade secret owner against the theft of proprietary information. For example, in the United States, the Economic Espionage Act of 1996 makes the theft or misappropriation of trade secrets a criminal offense. Penalties for violation include fines and imprisonment. Trade secrets provide an additional incentive to innovate, beyond that of patent law, because the protection of information is indefinite as long as the trade secret it kept a secret. The tort-based theory falls under cases with a cause of action for breach of contract or breach of confidence. Regardless of the theoretical approach to TSP, three of the main issues in protecting a business' trade secrets center on: (i) circumstances in which a competitor can copy another's publicly sold products; (ii) circumstances in which an employee can continue his business after leaving his employer; and (iii) whether courts will enforce contracts requiring that business information be kept confidential.

This newsletter compares the trade secret protection afforded in India versus the United States, and reviews the draft version of the National Innovation Act of 2008, which covers TSP and misappropriation.

¹ Black's Law Dictionary (8th ed. 2004).

² Coco-Cola Bottling Co. v. Coca-Cola, 107 F.R.D. 288 (D. Del. 1985).

³ *Ibid.*

⁴ Michael A. Epstein, *If It's the Real Thing, Guard It Carefully: How Companies Can Protect Trade Secrets*, N.Y.L.J., Nov. 22, 1993, at S1 (special section on intellectual property).

1. Trade Related Aspects of Intellectual Property Rights (“TRIPS”)

Currently there is no statutory law to protect trade secrets in India. However, as a member of the World Trade Organization (“WTO”), India complies with the WTO administered Agreement on TRIPS. To date, TRIPS is the most comprehensive multilateral agreement on intellectual property.⁵ Article 39 of TRIPS requires that undisclosed information, either trade secrets or trade know-how, benefit from protection. Protection applies to information that:

- “(a) is secret in the sense that it is not... generally known among or readily accessible to persons within the circles that normally deal with the kind of information in question;
- (b) has commercial value because it is secret; and
- (c) has been subject to reasonable steps under the circumstances, by the person lawfully in control of the information, to keep it secret.”⁶

TRIPS requires that a person lawfully in control of such information must have the possibility of preventing it from “being disclosed to, acquired by, or used by others without his or her consent in a manner contrary to honest commercial practices.”⁷ A “manner contrary to honest commercial practices” includes: (i) a breach of contract; (ii) a breach of confidence and inducement to breach; and (iii) “the acquisition of undisclosed information by third parties who knew, or were grossly negligent in failing to know, that such practices were involved in the acquisition.”⁸ Furthermore, data or information submitted for regulatory or other approvals must be protected from leakage or theft by third parties.⁹

2. Indian Common Law

While intellectual property rights in India have to conform with TRIPS, there is no single

statute that protects trade secrets.¹⁰ TSP is largely common law based, and a number of employment cases set out the foundation for what constitutes a trade secret. In *Naresh Shridhar Mirajkar and Ors. v. State of Maharashtra and Anr.* the court had to decide whether to hold a trial in camera.¹¹ Discussing issues of privacy, the court in the *Mirajkar* case viewed trade secrets as a property right and stated that, “cases of trade secret are so viewed because secret processes (which are property) must be protected and unless secrecy from public view is maintained justice itself must fail in its purpose.”¹² In *American Express Bank Ltd. v. Ms. Priya Puri*, a case regarding post-employment restrictions, the court described trade secrets as, “some protected and confidential information which [an] employee has acquired in the course of his employment and which should not reach others in the interest of the employer.”¹³ In the *American Express* case, the court further defined a trade secret as a formula, technical know-how or a peculiar mode or method of business adopted by an employer which is unknown to others.¹⁴ Trade secrets may also include business information, such as cost and pricing, projected capital investments, inventory, marketing strategies, and customer lists.¹⁵ Therefore, the courts have played a pivotal role in defining trade secrets and confidential information.

Two of the main tools for TSP are: (i) non-disclosure agreements; and (ii) covenants not to compete or non-compete clauses in employment contracts. A majority of the TSP case law deals with the later tool and Section 27 of the Indian Contract Act, 1872. Section 27 prohibits any agreement in which an employer restrains an employee from exercising a lawful profession. An employer cannot prevent the use of an employee’s own knowledge, skill, or experience, even if it was acquired during the course of employment. Section 27 does not, however, prevent protection that prohibits an employee from disclosing any trade secrets or confidential information which he acquires as a result of an

⁵ See TRIPS official website at http://www.wto.org/english/tratop_e/trips_e/trips_e.htm, visited on December 10, 2008.

⁶ See §39.2 TRIPS.

⁷ Ibid.

⁸ See TRIPS Note 10.

⁹ See §39.3 TRIPS.

¹⁰ India became a member of the WTO on January 1, 1995, and must sign and ratify all WTO agreements on accession.

¹¹ AIR 1967 SC 1.

¹² Ibid.

¹³ (2006)ILJ540Del.

¹⁴ Ibid.

¹⁵ *Michael Heath Nathan Johnson v. Subhash Chandra and Ors.*, 60(1995)DLT757.

employment contract.¹⁶ In *Mr. Diljeet Titus, Advocate v. Mr. Alfred A. Adebare and Ors.*, the court held that there is an implied contract between the master and the servant and that such confidential information is not to be used to the master's disadvantage.¹⁷ In *Star India Private Limited v. Respondent Laxmiraj Setharam Nayak and Anr.*, the employer sought to enjoin the employee from leaving the company. The court held that there was nothing on record to show what trade secrets were disclosed to the employee. Therefore, the damage of an injunction was greater than any benefit to the employer, and the court ruled in favor of the employee.¹⁸ Thus, because the general trend in case law is to protect employee mobility, there is a growing need for trade secret owners to have statutory protection. Statutory protection, however, requires new legislation, and is discussed below.

3. United States Law – Uniform Trade Secret Act (“UTSA”)

In the United States, most of the states follow the UTSA. While the UTSA list of what constitutes a trade secret is similar to that set in Indian common law, UTSA stresses on the economic value of the trade secret and the efforts to protect the information.¹⁹ In the United States, a trade secret claim must have: (i) subject matter that qualifies for trade secret protection, must be the type of knowledge or information that trade secret law was meant to protect, and must not be known generally to all; (ii) the party seeking to protect its trade secret must have taken reasonable precautions under the circumstances to prevent the disclosure; and (iii) a plaintiff must prove that the defendant acquired the information wrongfully, i.e., the defendant misappropriated the trade secret. The onus of proof is on the plaintiff to show substantial evidence of misappropriation.

The key differences between UTSA and Indian common law on TSP are that a trade secret owner in the United States has to take reasonable precautions to protect its trade secret and also has to prove misappropriation. Reasonable precautions under United States law include employees signing non-disclosure agreements and covenants not to compete, labeling information as confidential, physically protecting trade secrets in vaults, requiring those who access the trade secret to sign the information in and out while in use, and in general limiting disclosure.²⁰ As a matter of public policy, courts will only enforce covenants not to compete if the geographic restrictions and time limitations are reasonable. Misappropriation can be proved by either improper means, such as theft or bribery, or if there is a breach of an express or implied confidential relationship. American companies which take “reasonable precautions” by United States standards will have to adjust when doing business in India. What may be the norm for protection in one country may not fully protect trade secrets in another, and the standards for misappropriation may also vary widely. For example, in *DuPont v. Rolfe*, an American court held that during the construction of a manufacturing plant, it was reasonable to expect a company to protect its trade secret methanol production process by placing a fence around the construction site.²¹ However, covering the roof of the plant during construction and protecting the plant from aerial snapshots, was not a reasonable measure one had to take.²² In India, many of the industry standards for TSP are based on an implied duty of confidentiality.²³ This disparity in TSP levels between the required reasonable efforts in the United States and the implied levels of confidentiality in India will need to be addressed. Thus, a statutory standard encompassing the common law protections and addressing the above issues would benefit both

¹⁶ Mulla, “Indian Contract & Specific Relief Acts” (2001) Vol.I, 791, 819.

¹⁷ 130(2006)DLT330.

¹⁸ 2003(3)BomCR563.

¹⁹ A trade secret “(i) derives independent economic value, actual or potential, from not being generally known to, and not being readily ascertainable by proper means by, other persons who can obtain economic value from its disclosure or use, and (ii) is the subject of efforts that are reasonable under the circumstances to maintain its secrecy.” Uniform Trade Secrets Act, §1.4 (1985).

²⁰ *Rockwell Graphic Systems, Inc. v. DEV Industries, Inc.*, 925 F.2d 174 (7th Cir. 1991).

²¹ *E.I. DuPont deNemours & Co. v. Rolfe Christopher*, 431 F.2d 1012, 1016 (5th Cir. 1970).

²² *Ibid.* at 1017.

²³ See Larry R. Wood Jr., Emmett M. Hogan, Charmayne Bhadha, and Jennifer Dadrewala, *Trade Secret Law and Protection in India*, 20 No. 10 IPTLJ 25, 26 (2008) (citing *American Express v. Puri*, “where the court explained that confidentiality obligations beyond the term of service may be implied when an unauthorized disclosure by the employee *during employment* ‘would be a clear breach of the duty of good faith’”).

parties in ensuring that trade secrets are adequately protected.

4. Analysis of The National Innovation Act of 2008

In October 2008, the India Department of Science and Technology released a draft version of The National Innovation Act, 2008 (“Act”). The Act facilitates public, private or private partnership initiatives for building an innovation support system to encourage innovation. The most important feature of the Act is the proposed “National Integrated Science and Technology Plan.” This plan codifies and consolidates the existing laws of confidentiality, in order to protect confidential information, trade secrets and innovation.²⁴

Chapter 6 of the Act lays out seven sections: (i) obligations of confidentiality; (ii) confidentiality arising from non-contractual relationships; (iii) remedies to protect and preserve confidentiality and orders to prevent threatened or apprehended misappropriation thereof; (iv) exceptions to misappropriation of confidential information; (v) preventative or mandatory injunction restraining misappropriation of confidential information; (vi) mandatory damages on proof of breach of confidentiality; and (vii) immunity for acts done in good faith or purporting to be done so. Under the first section, the duty to maintain confidential information rests on contractual terms and conditions, government recommendations, and on any right arising in equity or as a result of circumstances imparting an obligation of confidence. Under the second section, the Act creates a duty to maintain confidentiality for a third party who receives confidential information without the consent of the owner. Under the third section, in cases of misappropriation of confidential information, courts will preserve the secrecy of the information by

reasonable means. Under the fourth section, the Act lays out information that will not be considered confidential. This includes information that was available in the public domain, independently derived by the alleged misappropriator, or disclosed by a court for public interest purposes. Under the fifth section, the Act gives authority to courts to grant injunctions to restrain misappropriation of confidential information. Injunctions can include interim injunctions, ad interim injunctions or final injunctions. If a party obtains an interim injunction, and it is later found not to have been entitled to such relief, then the party will be subject to compensate the defendant for losses arising from the injunction. Under the sixth section, upon proof of a breach of confidentiality, the trade secret owner will receive: (i) mandatory damages, recoverable as a contract debt; (ii) damages agreed upon by contract; or (iii) actual damages demonstrated by loss. Under the seventh section, if an action was done in good faith, however, there will be no legal proceeding.

While the Act is a small-step towards a giant-leap in TSP, the Act’s primary interest in promoting research and innovation may not adequately cover the due protection of trade secrets that a separate statute would. The Act does not address the issue of confidentially arising specifically from employment contracts. While this may be intentional in order to preserve the issue of employee mobility for the courts, it once again limits the TSP rights of trade secrets owners. Furthermore, as per the seventh section under Chapter 6, the Act fails to explain how acts are determined to be done in good faith without initiating a legal proceeding, a claim, or any other action. Finally, the Act states that confidential information has to be kept secret, subject to reasonable steps. However, the case law on issues of reasonable steps of protection and misappropriation are not as developed in India as the United States. Since the definitions and provisions of the Act are similar to those in the UTSA, United States case law should help serve as a good basis for interpretation.

CONCLUSION

TSP is paramount in today’s knowledge-based, global economy. India plays a key role in business process outsourcing and knowledge process outsourcing, and overseas companies share many of their intellectual property rights with Indian service

²⁴ Draft of the The National Innovation Act, 2008, <http://dst.gov.in/draftinnovationlaw.pdf>, visited on December 11, 2008. “*Innovation*” means a process for incremental or significant technical advance or change, which provides enhancement of measurable economic value, and shall include: (a) introducing new or improved goods or services; (b) implementing new or improved operational processes; and (c) implementing new or improved organizational / managerial processes.

providers. If Indian common law does not adequately protect against trade secret misappropriation, the sharing of trade secrets and confidential information could prove to be a huge risk for foreign companies investing in India. However, if India can pass legislation that adequately protects trade secrets and enforces TSP, then foreign companies will have more security when investing and leveraging the cost-savings of outsourcing in

India. Thus, the passage of the proposed Act is pivotal for India's growth in the global market.
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