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NATIONAL AND INTERNATIONAL PROTECTION OF TRADE SECRET

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**NATIONAL AND INTERNATIONAL PROTECTION OF TRADE
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Abstract

This research article contains an introduction to ‘Trade secret as an Intellectual Property’, primarily focused on principles of TRIPS and relevant laws related to trade secret in USA, UK, China and Japan. The paper also includes Trade Secret Licensing, Factors, restrictions and validity along with Non-Disclosure/ confidentiality agreement. So basically the effort is to draw a comparison between available measures to deal with trade secret issues in India and other countries.

Key Words: Trade Secret, Special 301 report, TRIPS agreement, Uniform Trade Secret Act, Non-Disclosure/ confidentiality agreement, Trade Secret Licensing, Non-Compete Agreement, BREXIT.

Overview

In a general discourse, any private business data, statistics, facts, figures or any other such information which affords an organization or any sort of group or any entrepreneur an economical advantage over competitors may be considered as a trade secret. Trade secrets comprehend industrial secrets or manufacturing and commercial secrets. The unlicensed usage of such secret by a person other than the original holder is considered as an unfair exercise and an abuse of the trade secret. Reliant on the legal structure, the shield of trade secrets forms part of the universal concept of safeguard against unfair rivalry or is grounded on various provisions or cases on the security of confidential information.¹

“A trade secret is kind of information which includes a pattern, formula, device, compilation, technique, method or process, that: (i) originates autonomous economic value, definite or potential, from not being known in general and not being willingly ascertainable by appropriate means to other individual who can obtain fiscal value from its use or disclosure and (ii) reasonable efforts made in respect to maintain secrecy.”²

It is a form of IP in the form of compilation of information, commercial method, pattern, instrument, design, process, practice or formula not largely known or rationally ascertainable by others by which an industry can gain an economic benefit over competitors. Sometimes, these secrets are dealt as know-how or confidential

¹ The Agreement on Trade-Related Aspects of Intellectual Property Rights, World Intellectual Property Organization, India-Other member countries, art 39, Jan.15, 1994.

² Uniform Trade Secrets Act § 1(4), 14 U.L.A. 372 (1985 & Supp. 1989).

information.³

This is unfortunate that instead of being world's 5th largest economy⁴, UTSA⁵ on 28th April, 2017 in its "Special 301"⁶ Report placed Republic of India on Priority Watch List as we have insufficient and outdated legal framework on trade secret. This report is a question mark on the dream of our honorable Prime-minister that sooner we will be 5 trillion dollar economy⁷, as without insurance of protection on trade secret; foreign investors are in doubt to deal with our nation.

Need of Protection

Trade secret is an intellectual property (IP) required to be protected like any other type of IP but its protection is bit complex in comparison to other IPs, as to protect such type of properties their registration is mandatory and for registration disclosure of specifications is required. As far as disclosure of information is concern, in case of trade secret such information need to be confidential in a manner that it is not, usually identified among or willingly available to individuals within the loops that ordinarily deal with the kind of knowledge in question; it should have some commercial value due to its secrecy; and subject to some reasonable steps taken to insure it to be secret.⁸

When it comes to nation like India, where contractual obligation can be imposed on a person not to revile 'know-how'. Sometimes in the absence of express contract and express law as well court plays vital role. In the absence of express contract honorable High Court of Delhi awarded injunction in case⁹ where plaintiff shared his know-hows with defendant. Later it was discovered by the plaintiff that specifications, designs, drawings and know-how allegedly misappropriated by defendant.

In another case honorable court granted an injunction and held that idea evolved and developed by the plaintiff was the result of the effort made by the plaintiff by using his brain which results in unique production by applying material available in public domain which makes the information confidential. Thus court granted an injunction.¹⁰

So, the question remains constant that how can trade secret remains protected without being disclosed? Thus there is a need of appropriate mechanism to protect this sort of IP, the mechanism which can guard it on one hand and that too without being disclosed, unlike other sort of IPs.

Method of Protection:

"Through good treatment or early diagnosis it is rare to eliminated disease, but elimination of disease is surely possible through prevention."¹¹ Protection of Trade Secret is possible with the reasonable steps required to be taken.

Probably it is always convenient to follow rules and regulations where such guidelines are backed by some specific statute like Uniform Trade Secret Act (UTSA) which is well drafted with definition clause, Injunctive Relief, Damages, Attorney's fees, preservation of secrecy, statute of limitations, effect of other laws, uniformity

³ Dr. Ganesh Dubey & Anchit Verma, Trade Secret Laws Indian Prospective, 2019 Jai Maa Saraswati Gyandayini. 50.

⁴ Joe Myers, India is now the world's 5th largest economy (Mar. 2, 2020, 05:31 PM), <https://www.weforum.org/agenda/2020/02/india-gdp-economy-growth-uk-france/>

⁵ United States Trade Representative, The draft of this Report was developed through the Special 301 Subcommittee of the interagency Trade Policy Staff Committee.

⁶ Executive Office of The President of The United States, 2017 Special 301 Report (Mar. 2, 2020, 05:20 PM), <https://ustr.gov/sites/default/files/301/2017%20Special%20301%20Report%20FINAL.PDF>

⁷ Narendra Modi, Hear what PM Modi says about making India a 5-trillion dollar economy in the next 5 years!, YouTube (March. 2, 2020, 05:56 PM), <https://www.youtube.com/watch?v=5AxUDocJBV8>

⁸ The Agreement on Trade-Related Aspects of Intellectual Property Rights, World Intellectual Property Organization, India-Other member countries, art 39 (2), Jan.15, 1994.

⁹ John Richard Brady And Ors v. Chemical Process Equipments P. Ltd. and Anr AIR 1987 Delhi 372 (India)

¹⁰ Mr. Anil Gupta and Anr. v. Mr. Kunal Dasgupta and Ors 97(2002) DLT 257. (India)

¹¹ Denis Parsons Burkitt (28 February 1911 – 23 March 1993)

of application and construction, severability and time of taking effect is mentioned.¹² In India unlike United States, we have no specific legislation. The law in reference to trade secret is bit scattered in various clauses of numerous statutes,¹³ for instance Agreement in restraint of trade, void;¹⁴ Penalty for breach of confidentiality and privacy;¹⁵ Punishment for disclosure of information in breach of lawful contract.¹⁶ In India we have no such specific law, still there are some machineries available to deal with the issue that an owner of trade-secret could not “let the cat out of the bag,” and the impending licensee would not of the opinion to “buy a pig in a poke.”¹⁷

a) Trade Secret Licensing

Access to the knowledge of trade secret is given through the licensing of trade secret by the proprietor who is a licensor, to the party interested in information known as licensee. This license permits beneficiary an access to the information, not generally known to the public.

The licensor can in-cash his ownership on a trade secret, without being transferring his actual ownership. There are some factors required to be considered while drafting in Trade Secret License agreement, however clauses may vary but if any of these factors left out there are bright chances that the value may reduce, these factors are- license terms, qualifications and/or restrictions, maintenance of secrecy, payment terms (payment stream, royalties or lump sum payment and compensation), audit rights (inspection of records to check and balance compliance), termination (exit clause), governing Laws, survival clause (maintenance of secrecy even after termination of an agreement, notice provisions (if case of accidently discloser of trade secret), assignment clause (this is a reciprocal clause to share the information with the third party and manner of access).

b) Non- Disclosure/ confidentiality agreement

As discussed above that trade secret is such an intellectual property that to maintain its worth is an expensive task, and its responsibility lies on the actual owner but there are some simple and reasonable ways through which this IP can be protected in lesser expense that is by signing NDA. Non Discloser Agreement can be defined as-

Non Discloser Agreement is a legally binding contract, unilateral, bilateral or multilateral (NDA/ CA/ CDA/ PIA/ SA)¹⁸ where at least two or more parties promises not to disclose particular information, confidential material or knowledge without proper endorsement considering such know-how as a trade secret. On the discloser of trade secret to the other party for purpose of development, securing financial backing, marketing or evaluation such agreements are frequently used. Series of these agreements are not surety to protect trade secret itself if the three basic steps are not followed by the actual owner, given in Article 39 of TRIPS agreement.¹⁹

The idea of above definition is a union of two definitions linked in footnote eighteen, which is an attempt to define non- discloser agreement.

Non-Discloser Agreement generally contains confidential information (description of information), terms of agreement (tenure of NDA), exclusions from confidential information (contingency clause for non-applicability of agreement to the information), obligation to retain confidentiality, employee solicitation (clause to prevent

¹² Uniform Trade Secrets Act, 1979.

¹³ Dr. Ganesh Dubey & Anchit Verma, Trade Secret Laws Indian Prospective, 2019 Jai Maa Saraswati Gyandayini. 53-54.

¹⁴ Indian Contract Act § 27 (1872).

¹⁵ The Information Technology Act § 72 (2000).

¹⁶ The Information Technology Act § 72 A (2000).

¹⁷ Karl F. Jorda, Trade Secrets and Trade-Secret Licensing, Kenneth J. Germeshausen Center for the Law of Innovation and Entrepreneurship, Franklin Pierce Law Center, U.S.A. (March 3, 2020, 06:43 AM), <http://www.iphandbook.org/handbook/ch11/p05/#2>

¹⁸ Non-Disclosure Agreement, Confidentiality Agreement, Confidentiality Discloser Agreement, Proprietary Information Agreement, Secrecy Agreement.

¹⁹ Nolo's Plain-English Law Dictionary. (1st ed. 2009);

Non-Disclosure Agreement (March 03, 2020, 08:52 AM), https://en.wikipedia.org/wiki/Non-disclosure_agreement

the recipient from hiring employees of actual owner of trade secret for 12-24 months), Jurisdiction in case of dispute, Remedies.²⁰

c) Non- Compete Agreement

To run any company or business, some complex business information required to be disclosed to certain individuals, they may be employees or other companies. After sharing such information there are higher probabilities that such information can be used against Owner Company by the individual information shared with especially when they get apart. Thus the very purpose of non-compete agreement is to prevent unfair competition.

In the statutory law of India there is a general restriction on any such agreement which puts bar on trade, so it seems that non-compete clauses are invalidated in Indian law.²¹ Even in a case²² it was ruled if there is any clash between protection of confidential information as a right of employer and earning daily bread as a right of employee, in such case employee's right always prevails.

The question arises, and then what about employer's right? How his trade secret can be protected? Well the answer is already given by honorable Supreme Court of India through its judgment in a case²³ that not-compete clauses could not be considered as constraint on trade against the employee if such clauses operating within the course of employment. It is further added that even if in a case agreement terminated due to some reason, the restriction continues till the end of 5 years.

International Protection on Trade Secret

In this article International protection of trade secret is limited to TRIPS, USA, UK, China and Japan considering their competence and compatibility with India on the basis of region, economic stability and statutory influence.

a) TRIPS

This is an international agreement came into force on 1st January, 1995 between 164²⁴ WTO member countries. Member countries shall draft minimum standard regulations to regulate intellectual properties in respective countries.²⁵ TRIPS agreement refers to all category of Intellectual property rights²⁶ but there is a specific article²⁷ of the agreement guaranteeing operative security against unfair competition which is also provided under Paris Convention.²⁸

According to the agreement, minimum standard given to protect intellectual property as trade secret, contrary to honest practice commercial in nature till such know-how is-

- Not readily accessible or generally known to persons within the loop that ordinarily deal with the kind of info in question.²⁹
- Commercially valuable as it is secret.³⁰

²⁰ Susan Chai, Esq., Free Non-Disclosure Agreement (NDA), Legal Templates (March 5, 2020, 05:47 AM), <https://legaltemplates.net/form/non-disclosure-agreement/>; Richard Harroch, The Key Elements Of Non-Disclosure Agreements, Forbes (March 5, 2020, 06:02 AM), <https://www.forbes.com/sites/allbusiness/2016/03/10/the-key-elements-of-non-disclosure-agreements/#21bf5cc627d>

²¹ The Indian Contract Act § 27 (1872).

²² Dessicant Rotors International Pvt. Ltd. v. Bappaditya Sarkar (2009) Del. 337 (India)

²³ Nilanjan Golokari v. The Century Spinning And Mfg, (1967) 2 SCR. 378 (India)

²⁴ TRIPS Agreement (March 06, 2020, 06:59 PM), https://en.wikipedia.org/wiki/TRIPS_Agreement

²⁵ Agreement on Trade-Related Aspects of Intellectual Property Rights, WTO members, art 1 (3), Jan 1, 1995.

²⁶ Ibid. members, art 1 (2), Jan 1, 1995.

²⁷ Ibid. art 39, Jan 1, 1995.

²⁸ Paris Convention for the Protection of Industrial Property, Director General, art 10bis, July 14, 1967.

²⁹ Agreement on Trade-Related Aspects of Intellectual Property Rights, WTO members, art 39 (2) (a), Jan 1, 1995.

³⁰ Ibid. art 39 (2) (b), Jan 1, 1995.

- Protected by lawful and reasonable steps taken by a person of ordinary prudence.³¹

Exception- Such data shall be protected by members against disclosure, except where essential to safeguard the public, or steps required to be taken for insurance against unfair commercial usage to protect data.³²

b) United States

After World War II the world's economy was crumbled but there was one country which is still above all and that's United States of America, for a long time United States has been dominant economy in the world.³³ To maintain their rank as world economy and as a signatory to TRIPS, US enacted an act³⁴ specifically dealing with trade secret issues and created federal civil cause of action. Now the parties can resolve their respective disputes either in federal law or in state law, as almost every state of US adopted UTSA.³⁵

The protection given under the act is very limited as to use and unauthorised discloser referred as misappropriation. Protection of trade secret deems to be lost if there is any failure on part of holder to maintain secrecy or the information discovered independently and becomes generally known. So until loss or discovery protection of trade secret continues, as there is no expiry of Trade secrets.³⁶

c) United Kingdom

In UK confidential business information is protected by The Trade Secrets Directive³⁷ given through European Union. Goal of these directives is to maximize the recovery of information which is confidential. These directives defined trade secret almost in a same way as defined and manner prescribed for protection under TRIPS agreement and test adopted under English law.³⁸ Remedies are also codified under same directives through final and interim injunctions to prohibit misuse. Importance to preserve confidentiality during litigation is already acknowledged by English courts, therefore adopted some measures which are-³⁹

- Discloser of profound material to confidential club members to be limited.
- Hearing of litigation in privacy.
- Giving edited public judgments to remove references confidential in nature.

Note- Brexit⁴⁰ is an upcoming issue in near future, which may affect trade secret laws in UK. The process of Brexit started from March, 2019 and probably continues till December, 2020. This period is known as transition period, during which facilities given to the countries of European Union will continue.⁴¹

d) China

A specific law adopted at 3rd session of Standing Committee of 8th National People's Congress on 2nd September, 1993 and entered into force on 1st December, 1993.⁴² This act is a sum of general provisions, acts of unfair competition, supervision and inspection, legal responsibility and supplementary provisions.

In China's Anti-Unfair Competition Law (trade secret law) several amendments added by the National People's Congress to provide benefits to the trade secret holders on April 23rd, 2019 which came into effect on 1st

³¹ Ibid. art 39 (2) (c), Jan 1, 1995.

³² Supra note 32.

³³ Top 20 Economies 2019 (Nominal GDP), YouTube (March 07, 2020, 09:51 AM), https://www.youtube.com/watch?v=S1NA_EQMSEG

³⁴ The Defend Trade Secrets Act (2016).

³⁵ The Uniform Trade Secrets Act (1979).

³⁶ Trade Secret Policy, United States Patent & Trademark Office United States Patent & Trademark Office (March 07, 2020, 07:58 AM), <https://www.uspto.gov/ip-policy/trade-secret-policy>

³⁷ Trade Secrets Directive (2016/244/EU).

³⁸ Faccenda Chicken v Fowler (1987) Ch 117. (UK).

³⁹ Protecting Your Trade Secrets in the UK, Jones Day (March 07, 2020, 10:28 AM), <https://www.jonesday.com/en/insights/2019/06/protecting-your-trade-secrets-in-the-uk>

⁴⁰ Exit of Britain from European Union.

⁴¹ BBC News Hindi, What is Brexit and how will it impact India? (BBC Hindi), YouTube (March 07, 2020, 11:53 AM), <https://www.youtube.com/watch?v=81TOgb5sWEE>

⁴² The Law of the People's Republic of China Against Unfair Competition (1993).

November, 2019.

Amended law shifted onus of proof, as previously party in prosecution required proving that particular information qualifies as trade secret. Further the same has been wrongfully taken and used, which was challenging task for claimant, as the evidence to prove wrongful act is generally in possession of the party defending. After amendment a plaintiff only required to prove prima facie case of theft of trade secret and then onus shift's on defendant that they didn't taken or used trade secret owned by plaintiff.⁴³

e) Japan

In Under principle of disclosure in litigation maintenance of confidentiality and submission of evidence in respect to confidential information to the court of justice had been one of the key challenges in the practice of public trials.

On 15th of June, 1991 an explicit law⁴⁴ came into effect with measures and protection of qualified secrets which may be "technical or business information". This act was the result of resilient international call for harmonization of intellectual property laws. Prior to this law there was no statute protecting trade secret directly, although Japan do have scattered laws alike today's India protecting trade secret. In 2003 criminal sanctions added through amendment.

the act consists of general provisions, claims for injunctions and damages, acts prohibited pursuant to international agreements, miscellaneous provisions, penal provisions, special provisions on criminal proceedings, special provisions on procedures concerning seizure, procedures for preservation and international common legal assistance in implementation of judicial decision and in protection for seizure and collection.

CONCLUSION

In India, as far as current arrangements for the issue of trade secret concern, our courts by the means of various judicial pronouncements made it clear that the clause of 'non-compete' agreement operates after termination of the service of the employee aren't enforceable in India.⁴⁵ Right to life and liberty clause of the constitution⁴⁶ ensures 'right to livelihood'⁴⁷ thus earning daily bread cannot be restricted by an employer. On other hand same article guaranties 'right to privacy'⁴⁸ which ensures security of confidential information, so in this case right to livelihood (employee's right) and 'right to privacy' (employer's right) are clashing.

India need specific law alike United States, United Kingdom, China, Japan and other developed and developing countries as mere agreements and scattered law are not fair enough to meet need for protection. Being a signatory to TRIPS it is mandate on India to draft and enact legislation competent enough to deal with such issues, as if we lack in drafting such laws then we will continue to be in the list of "Priority Foreign Countries" and will be judged to have inadequate IP laws which may affect our international trade and relations.

This paper is concluded as, despite of so many advancements and verdicts, law of 1872 still continues through section 27 and The Innovation Bill, 2008 never became law. Thus an amendment and enactment is required.

⁴³ Tim Jackson, New China Developments In Trade Secrets You Need To Know, Rouse The Magazine (March 07, 2020, 12:27 AM), <https://www.rouse.com/magazine/news/new-china-developments-in-trade-secrets-you-need-to-know/>

⁴⁴ Unfair Competition Prevention Act (1993)

⁴⁵ Nilanjan Golokari v. The Century Spinning And Mfg, Supra note 22.

⁴⁶ Indian Const. Art. 21

⁴⁷ Chameli Singh v. State of U.P, (1996) 2 SCC (India).

⁴⁸ Justice K.S. Puttaswamy v. Union of India (2017) 10 SCC 1 (India).