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An Analysis of the Need for Codified Criminal Legislation on the Enforcement of Trade Secret Rights in India

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ABSTRACT

Trade secrets are that tiny pieces of an organization's intangible assets that have the power to give it an advantage over rivals. Due to the escalating market rivalry, companies keep such trade secrets inside the confines of their businesses. Trade secrets are a minor component of intellectual property rights, although they are critical to companies to protect their private information and business procedures. Unfortunately, no legislation is in place to safeguard trade secrets in India. It makes the defence of what can be seen as the most vital type of IP vulnerable. In addition, India is obliged under the Agreement on Trade-Related Aspects of Intellectual Property Rights to safeguard trade secrets (TRIPS). The legislative technique used in India differs from that used in other countries. The judiciary has taken a proactive approach to protecting trade secrets in India. In India, trade secrets are enforceable by a contract or through a simple application of common law rules. This paper seeks to indulge in the regime of trade secret protection and the impact of inadequate trade secret protection. The author examines the status of trade secret protection and the relevance of criminal law in protecting trade secrets. Through this paper, the author will establish the need for separate codified legislation enforcing trade secret rights in India. The research concludes that proper protection under the Indian IPR framework must be formulated given the potential trade secrets behold a firm. The study explores the specific laws enacted in this regard in various nations while attempting to supplement the material already in existence about trade secrets and their protection in India.

Keywords: Intellectual property, Criminal law, Trade Secrets, Economic-crime.

I. INTRODUCTION

The goal of intellectual property (IP) legislation is to prevent the commercial use of ideas and information without the owners' consent. New types of infractions against these kinds of intangible rights have been made possible by the period of rapidly advancing technological innovations. In other cases, civil law protection does not seem to be a sufficient or effective defence against the serious economic offences that continue to pose a danger to IP. This supports

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using the criminal justice system to protect intellectual property. It is well known that while criminal law has historically served as a tool to safeguard the public interest by establishing the legitimacy of criminal penalties for harm to society, intellectual property law (IP law) has traditionally served as a tool to protect the private rights of IP owners and licensees.

In contrast to copyrights, patents, and trademarks, trade secrets are not registered with a government body. They may occasionally stand in for a business's most priceless intellectual property assets. Trade secrets may be not only mere data that a company wants to keep private but also the unique complexity of the firm. When a company wants to acquire and hold onto its competitive edge in the market, trade secrets become its last line of defence. Trade secrets as intellectual property are less popular than other intellectual property rights while being an essential intangible asset for every organization. There is a range of reasons for this disdain, including, firstly, there is no obligatory registration for trade secrets. Developing and safeguarding trade secrets are typically credited to accepted business practices and ethics. Second, although trade secret laws are founded on established legal concepts, the enforcement system is still in its infancy. Thirdly, because issues involving such secrecy are not subject to public discussion, people's acquaintance with them is frequently restricted, making trade secrets reasonably unpopular.² Fourthly, trade secrets do not grant the possessor the only authority to use the information, unlike other intellectual property rights.³ When knowledge is independently created or obtained through reverse engineering, such a right may become vested in others. Trade secrets have been estranged from fundamental intellectual property rights due to the sharp disparity inherent in their nature.

(A) Literature Review

The genesis of trade secrets is still up for debate. Several arguments have been made that they can be attributed to contractual responsibilities, property rights, tort responsibility resulting from unfair competition, or common law principles of justice and equity. While it is widely accepted that trade secrets were developed as an extension of the notion of fiduciary ties,⁴ there have been other claims that this is not the case. Instead, they claim that trade secrets are rules about preserving company knowledge.⁵ Due to the significant restriction of non-exclusivity,

² James Pooley, *Trade Secrets: The Other IP Right*, WORLD INTELLECTUAL PROPERTY ORGANISATION, (Mar. 2013), http://www.wipo.int/wipo_magazine/en/2013/03/article_0001.html

³ Thomas Duston et al., *Intellectual Property Protection for Trade Secrets and Know-how*, INTELLECTUAL PROPERTY ORGANISATION, (Apr. 2013), http://www.ipo.org/wpcontent/uploads/2013/04/IP_Protection_for_Trade_Secrets_and_Know-how1076598753.pdf

⁴ Pooley, *supra* note 02

⁵ E. R. Claey's, *The Use Requirement at Common Law and Under the Uniform Trade Secrets Act*, 33 Hamline Law Review, 583 (2010).

there has also been discussion on the underlying nature of trade secrets as a physical form of property. The conclusion that a trade secret can be categorized as a physical property follows from aligning with the concept of property as John Locke and Blackstone advanced because "property" encompasses the results of individual "effort and innovation."⁶ Trade secrets have alternatively been seen as a distinct type of property right, known as a usufructuary right, which grants the right to use and to remain unimpaired but does not include the right to exclude anyone who benefits from it independently. These discussions have led to various strategies being used in multiple countries concerning the treatment given to trade secrets and the ensuing conflicts.

II. SIGNIFICANCE OF TRADE SECRETS

Trade secrets come under the domain of intellectual property (IP) rights that can be licensed or sold.⁷ Trade secrets provide the company with several financial benefits. When backed by solid trade secret protection, it ensures the firm will receive enough returns on any innovations. The establishment of any expensive system is not necessary to prevent a breach. Lays to rest any concerns about misusing corporate information due to knowledge spillover. Generally speaking, information must meet the following criteria to be considered a trade secret:

- Be commercially valuable due to its secrecy.
- Be known only by a small number of people.
- Be subject to reasonable security measures taken by the rightful owner, including the use of confidentiality agreements for business partners and employees.

Trade secrets include the recipe for Coca-secret Cola's flavour, Listerine mouthwash's chemical make-up, and even McDonald's Maharaja Mac's unique sauce.⁸ These are only instances, but the point is that the formula separates them from their rivals, which is why trade secret protection has become so crucial. An essential component of a successful company is maintaining organisational security and confidentiality. Because of this, it is vital for business owners to comprehend how to handle their trade secrets and what they should do if they are forced to take legal action if a trade secret is compromised.

III. INTERNATIONAL REGULATIONS RELATING TO TRADE SECRETS

The North Atlantic Free Trade Agreement (NAFTA), established in 1994, was the first agreement to develop a global trade secret protection system. Commerce secret rights are

⁶ Ruckelshaus v. Monsanto Co., 467 U.S. 986, 1002-1003 (1984)

⁷ Anonymous, *Trade Secrets*, WIPO, <https://www.wipo.int/tradesecrets/en/>

⁸ Anonymous, *Why Trade Secrets have become Important?*, IPTSE, <https://iptse.com/trade-secret-protection/>

acknowledged in Chapter 17 of the NAFTA as basic forms of intellectual property needed to advance global trade and remove obstacles to lawful trade between the state parties.⁹

Trade secrets can transform intangible value into an economic advantage through either competitive advantages or market retention. The need for trade secrets safeguarding most operational enterprises and their technology has been widely acknowledged as part of efforts to advance free market economies.

The General Agreement on Tariff and Trade's Uruguay Round's approval of the Agreement on Trade-Related Aspects of Intellectual Property (TRIPS) provided the primary impetus in this respect (GATT).¹⁰ The TRIPS Agreement contains the components of such secret information but not the actual word.¹¹ It talks about the possible protection that may be given to confidential information with economic worth against unauthorised disclosure or acquisition done without the possessor of such information's consent. The member nations are also required to secure such secret information by the Paris Convention.¹² The TRIPS agreement distinguishes between maintaining secrecy and providing the government with sufficient disclosures when doing so is in the public interest. However, only pharmaceutical and chemical-agricultural goods are subject to this restriction. That such information cannot be used for unfair competition clarifies why such secrecy is designed to serve.¹³ These requirements, which cover three fundamental bases, namely confidentiality, commercial value, and reasonable attempts to maintain such secrecy, have been adopted and enforced as laws of trade secrets.

While such an interpretation gives the word a broad scope, covering technical and other sensitive business knowledge, it excludes independent innovations, learning obtained fairly and reverse engineering techniques, which may endanger the exclusivity of trade secrets from protection.

On the one hand, the TRIPS requires its member states to implement a system to provide the protections outlined in the TRIPS, but on the other, Art. 39 does not include a comprehensive framework for the protection of secret information as a result of which, member states have done away with the need to enact specific legislation on the subject and have instead covered this aspect under ancillary remedies as provided under various laws, primarily the breach of contract.

⁹ John Terry et al., *NAFTA: The First Trade Treaty to protect IP Rights*, BUILDING IP VALUE, http://www.buildingipvalue.com/05_XB/052_055.htm

¹⁰ Md. Zafar et al., *Intellection of Trade Secret and Innovation Laws in India*, 16 IJPR 341, 341 (2011)

¹¹ Art. 39.2 of TRIPS, 1995

¹² Art. 10 bis of the Paris Convention, 1967.

¹³ Art. 39.3 of TRIPS, 1995.

IV. TRADE SECRET LAWS IN OTHER COUNTRIES

a) China

The Anti-Unfair Competition Law (AUCL), adopted by the People's Republic of China (PRC), was promulgated by the State Council in September 1993. It was China's first trade secret legislation, and it went into force on December 1st, 1993. Compared to Indian regulations, China's extensive legal system provides more protection for preserving and enforcing trade secrets. Technical and operational knowledge that is not in the public domain or generally known to provide economic benefits to the trade secret owner and has practical application are considered trade secrets according to Article 10 of the Act. The trade secret owner must also prove that the rights owner has taken proactive steps to protect their confidentiality. This requirement sets the burden of evidence on the owner, who must demonstrate that he took reasonable steps to secure the information in the event of an infringement. All four criteria must be met to protect a trade secret against infringement. The term "public" is exclusively used to refer to the Chinese public because of the definition's exclusive nature. According to it, a trade secret is considered unknown to the public if it is known to persons outside of China but is kept a secret inside the nation. The trade secret should apply to the industry and capable of producing financial gains by giving the owner a competitive advantage over other market participants.

The existing legal system offers remedies through civil, criminal, and contractual procedures to safeguard the legal rights of trade secret owners and to prevent its use for unlawful purposes. It is the owner's responsibility to properly demonstrate that each requirement is being followed to establish that the knowledge was a trade secret. For all three types of conduct, trade secrets are defined similarly.

The legislation stipulates that the profits obtained by the infringer from breaking the law that caused infringement throughout the period of infringement must be the damages paid in circumstances where the harm cannot be precisely determined. The violator is also ordered to pay back the expenditures incurred by the violating business owner in examining the violator's unfair competition practices. Article 25 provides an effective and sustainable injunction as a remedy in the event of an infringement. The supervision and inspection department has the authority to force violators to stop their illegal behaviour and can issue fines of up to 20,000 yuan, with a minimum fine of 10,000 yuan. If a party disagrees with the punishment imposed by the supervision and inspection department, they have 15 days after receiving the decision to submit an appeal to the subsequent higher authority. If it is determined that a person violated a trade secret by engaging in any prohibited conduct listed in Article 219 of the Criminal Law of

China, the offender might face a maximum sentence of three years in jail. A three- to a seven-year jail sentence and a fine may be imposed in cases of aggravated trade secret theft that harms the right holder very severely. Liability for damages resulting from the disclosure or illegal use of trade secrets is mandated under Article 43 of the Contract Law.

By enacting these rules, China has made significant strides toward preventing the disclosure of confidential information known as trade secrets, upholding their protection, and promoting innovation in the sector against the backdrop of escalating competition.

b) US

The U.S. experienced substantial progress in the trade secret regime culminating in the passage of federal and state-level trade secret legislation. The Uniform Trade Secret Act of 1979 (UTSA) and the Economic Espionage Act of 1996 (EEA), which makes the theft or misappropriation of a trade secret a federal felony, are the applicable legislation for preventing the infringement of a trade secret or its commercial misuse. US introduced these Acts to establish a clear legal framework to safeguard trade secrets.¹⁴ The UTSA was passed to unify state trade secret legislation. According to the UTSA, a trade secret is any knowledge or method from which economic or commercial benefits are gained because it is not generally known or readily ascertainable. The owner must have made a reasonable effort to keep the trade secret private. Information need not be kept secret from the broader public; only those in the industry that will benefit from it should be.

The Act attempts to punish people who misappropriate trade secrets intending to use them for the financial gain of someone other than the owner. Two laws make two different types of behaviour illegal. The first prohibits stealing trade secrets with the knowledge or purpose of helping a foreign power.¹⁵ The second forbids the theft of trade secrets for economic or commercial gain with the knowledge that the trade secret owner would suffer harm or intend to do so.¹⁶ In India, misappropriation of trade secrets is not criminally punishable, even if EEA violations are subject to harsh fines and jail sentences. The Defend Trade Secrets Act (DTSA), passed into law in 2016, intends to give trade secret owners access to federal courts so they may launch civil lawsuits—a right not granted under the UTSA.

As long as the trade secret's subject matter is confidential and has commercial value, its protection may continue indefinitely.¹⁷ However, if anybody unintentionally or purposefully

¹⁴ Uniform Trade Secrets Act, § 1, cl. 4, 1985 (United States)

¹⁵ 18 U.S.C. § 1831 of the Act.

¹⁶ 18 U.S.C. § 1832 of the Act

¹⁷ *United States v. Dubilier Condenser Corp.*, 289 U.S. 178, 186 (1933)

divulges the knowledge, the trade secret owner may lose the status of the information as a trade secret.¹⁸

c) UK

Two overlapping regimes that aim to safeguard important corporate information exists in the UK. Under the common law, information may be protected as confidential information. The Trade Secrets (Enforcement, Etc.) Regulations 2018's definition of a trade secret may also apply to specific information. These two systems, which offer a variety of remedies for information holders when their protected information is improperly accessed, used, or revealed, overlap significantly. These systems work with intellectual property rights protection; for instance, confidential material may be subject to copyright protection against duplication.

Trade Secrets protection under Indian regime

The protection of trade secrets and private information, essential to advancing innovation and foreign investment, is not currently provided by any explicit laws in India. Now, the courts have only awarded trade secret protection based on the common law principles of equity and, occasionally, upon a common law action for breach of confidence, essentially a contract violation.

Non-Disclosure Agreements may be enforced by a contract in India, binding the parties to the agreement. Non-disclosure agreements are frequently used in business to prevent the misuse of trade secrets. According to the Delhi High Court, confidentiality is implicit even in contracts without an express secrecy clause, and the defendant is responsible for violating such commitments.¹⁹ When making decisions, the courts have cited Section 27 of the Indian Contract Act 1872. It addresses the legality of non-compete clauses and states that any agreement that prevents anybody from engaging in a legal profession, trade, or business is null and invalid. Any formula, paper, drawing, plan, or anything along those lines that is the result of work done by the creator utilising tools and resources that are open to everyone's usage is considered a trade secret. The fact that a person employed his or her intellect and abilities to create a result in the form of a notion defines a trade secret as confidential.²⁰

There are several instances where the Copyright Act of 1957 and the Design Act of 2000 have been used to try to protect trade secrets. The Delhi High Court ruled in the famous case of *Burlington Home Shopping Pvt. Ltd. v. Rajnish Chibber*²¹ that a database made up of a list of

¹⁸ Religious Tech. Ctr. v. Netcom On-Line Communication Servs., 923 F. Supp. 1231, 1256 (N.D. Cal. 1995)

¹⁹ John Richard Brady And Ors v. Chemical Process Equipments P. Ltd. and Anr, AIR 1987 Delhi 372

²⁰ Anil Gupta and Anr. v. Kunal Dasgupta and Ors., AIR 2002 Delhi 379.

²¹ Burlington Home Shopping Pvt. Ltd. v. Rajnish Chibber, 1995 (15) PTC 278.

customers' postal addresses may be protected by copyright and that using it by the defendant would constitute an infringement.

Regarding the remedy of an injunction, the court held that to establish that the ex-employee will use or is already using confidential information, it must be proven to the court's satisfaction that the ex-employees or the defendant had access to the secret information due to the position they held in the employment, which was not available to any outsider. Without this proof, there is no basis for granting an injunction.²²

The Department of Science and Technology's first sincere attempt to safeguard confidential information, trade secrets, and invention was the draught National Innovation Act. There are three pillars upon which it is approached. Through public-private collaborations, it aims to promote innovation. Additionally, it aspires to develop a National Report on India's trade secret provisions. In order to preserve innovation, trade secrets, and information, it also attempts to codify and consolidate a law of secrecy.

The Indian Courts have made a bona fide effort to safeguard their trade secrets under the Copyright Act. In the aforementioned cases, the court's main goal is to ascertain whether the trade secret is covered by the definitions of designs and copyrights in the relevant Acts. However, the judiciary hasn't maintained a consistent position. Additionally, an attempt was made to label a trade secret as "property" in order to expose it to criminal liability.²³ However, the standard of proof that must be met in a criminal prosecution before a court of law is substantially greater. Therefore, the possibility of drawing criminal liability in situations of trade secret violation through judicial precedents is restricted and not a viable alternative. Thereby there needs to be codified legislation that not only criminalizes the infringement of trade secrets and protects the interests of the trade secret owner but also defines and states remedies through civil action.

V. IMPACT OF PROTECTION OF TRADE SECRETS

Protection of trade secrets is necessary because of the following reasons:

- It fosters innovation and business ethics
- It is essential for a company's expansion - since it supports fair competition in the market
- It will make transactions transparent- which will undoubtedly lead to an increase in

²² Control Print (India) Limited v. Sanjay Sribastab and Ors, (2006) 2 CALLT 145 HC.

²³ Pramod s/o Laxmikant Sisamkar & Uday Narayanrao Kirpekar v. Garware Plastics and Polyester Ltd. and Anr, 1986 (3) BomCR 411.

foreign investment and trade.

- Burden of patent litigation would decrease since there won't be a need to patent an idea because it may be protected under trade secret laws under an effective system or the right method.

Furthermore, the fundamental right to privacy will not be violated as a result of the effective regime.

VI. CONCLUSION

Even while the law of trade secrets is compatible with the current framework of tort law, contract law, and competition law, there are certain issues with its establishment in the area of intellectual property rights. But eliminating that discrepancy would also need a separate law for commercial secrets. In contrast to the US, India does not have a criminal culpability provision. Therefore, an unambiguous trade secret protection policy is required to protect trade secrets. To address the issue of unfair competition, a Sui Generis System, as stipulated by Article 39 of the Trade-Related Aspects of Intellectual Property Rights (TRIPS) and Article 10 bis of the Paris Convention, is necessary. India must establish extensive laws and regulations as a TRIPS member to end the ambiguity surrounding the protection of trade secrets. Further, India must adhere to the terms of the Uniform Trade Secret Act and the Economic Espionage Act of 1996 in the US. Thus civil and criminal penalties should be included in any law implemented.
