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# Revisiting the National Innovation Bill of 2008

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## ABSTRACT

*The One Hundred and Sixty-First Report released by the Department Related Parliamentary Standing Committee On Commerce on July 23rd last year was based on the 'Review of Intellectual Property Rights Regime in India'. One of the findings in the report was that the current framework for protecting trade secrets lacked clarity and did not provide adequate protection to the trade secret holders. In order to overcome this shortcoming, the report strongly put forward a suggestion for a separate statute for trade secret protection in India by citing examples of the US, EU, and South Korea. Whether India needs to adopt such a model of trade secret protection is a policy question that is of utmost significance.*

*India has been following the common law approach for trade secret protection for a very long time. India has mostly adopted trade secret principles from English law, which is evident from the cases cited by the Indian courts. Amidst the criticisms that India needs a strong legal mechanism for trade secret protection, the first legislative attempt made in this area was the National Innovation Bill of 2008(hereafter referred to as the Innovation bill). Unfortunately, the bill was not tabled in Parliament. Hence it remained in its infant stage. However, we cannot rule out the possibility of the legislature re-visiting the draft in case there arises a strong need for legislation. Hence, it is important to have a critical look at the provisions of the bill dealing with trade secrets in order to evaluate the adequacy of the bill in protecting trade secrets.*

**Keywords:** Trade Secret, National Innovation Bill 2008, Subject Matter, Infringement, Employment Contracts, Non-Compete Clauses, Employment Freedom

## I. INTRODUCTION

The One Hundred and Sixty-First Report released by the Department Related Parliamentary Standing Committee On Commerce on July 23<sup>rd</sup> last year was based on the 'Review of Intellectual Property Rights Regime in India'<sup>2</sup>. One of the findings in the report was that the current framework for protecting trade secrets lacked clarity and did not provide adequate

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<sup>2</sup> Rajya Sabha No.161, pt.17.2, at 80(2021), [https://rajyasabha.nic.in/rsnew/Committee\\_site/Committee\\_File/ReportFile/13/141/161\\_2021\\_7\\_15.pdf](https://rajyasabha.nic.in/rsnew/Committee_site/Committee_File/ReportFile/13/141/161_2021_7_15.pdf)

protection to the trade secret holders.<sup>3</sup> In order to overcome this shortcoming, the report strongly put forward a suggestion for a separate statute for trade secret protection in India by citing examples of the US, EU, and South Korea.<sup>4</sup> Whether India needs to adopt such a model of trade secret protection is a policy question that is of utmost significance.

India has been following the common law approach for trade secret protection for a very long time. India has mostly adopted trade secret principles from English law, which is evident from the cases cited by the Indian courts. Protection of trade secrets was initially based on contracts where between the employer and employee. Confidentiality clauses and negative covenants were a method of restraining the employee from divulging confidential information and later on competing with the employer. Since most of the trade secret cases had been based on contracts, the Indian Contract Act, 1872, specifically S.27, which prevented restraint of trade, had been resorted to prevent unreasonable employment restraints. Moreover, India being party to the TRIPS agreement, has an international obligation to protect trade secrets.

Amidst the criticisms that India needs a strong legal mechanism for trade secret protection, the first legislative attempt made in this area was the National Innovation Bill of 2008(hereafter referred to as the Innovation bill). The draft of the Innovation Bill was released by the Ministry of Science and Technology. The Federation of Indian Chambers of Commerce and Industry (FICCI), along with other stakeholders, had drafted the bill. However, the protection of confidentiality was not the sole aim of the legislation. The preamble recites as follows:

“An Act to facilitate public, private or public-private partnership initiatives for building an Innovation support system to encourage Innovation, evolve a National Integrated Science and Technology Plan and codify and consolidate the law of confidentiality in aid of protecting Confidential Information, trade secrets, and Innovation.”

Unfortunately, the bill was not tabled in Parliament, hence it remained in its infant stage. However, we cannot rule out the possibility of the legislature re-visiting the draft in case there arises a strong need for legislation. Hence, it is important to have a critical look at the provisions dealing with trade secrets.

Part I looks into the aspect of subject matter and criteria of trade secret protection and related provisions of the Innovation of bill. Part II deals with tests for infringement of a trade secret and the corresponding provisions in the bill.

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<sup>3</sup> *Id.*

<sup>4</sup> *ibid*, pt.17.3

## II. SUBJECT MATTER AND CRITERIA

### Subject Matter

#### Definitions

The definition of “Confidential Information” provided under S.2(3) of the Innovation Bill begins with the illustrations given under 1(4) of the Uniform Trade Secrets Act 1985 of the US (hereinafter referred to as UTSA)

“*Confidential Information*” means information, including a formula, pattern, compilation, program device, method, technique, or process, that...”

The illustrations provided in the definition had originated since the Restatements of Torts, 1939<sup>5</sup>. It was a reflection of the subject matter protected by the US courts over a long period of time.

The criteria for trade secret protection laid down in the definition have been adopted from Article 39 of the TRIPS agreement.<sup>6</sup>

Unlike the US law, which recognizes both the actual and potential value of a trade secret<sup>7</sup>, S.2(3)(b) of the Innovation bill generally refers to the commercial value of a trade secret which would narrow down the scope of trade secret subject matter. Negative knowledge protected under the US law does not find its place in the Innovation bill as well in Indian case laws.<sup>8</sup> Adopting this approach might not cover situations where secret information holds a potential value that can be exploited in the future.<sup>9</sup>

## III. TESTS FOR INFRINGEMENT OF TRADE SECRET

### Misappropriation

The definition of misappropriation provided under S.2(7) of the Innovation bill has been adopted from 1(2) of the UTSA.<sup>10</sup> Third-party obligations are dealt with in a more stringent

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<sup>5</sup> Treatise issued by the American Law Institute summarizing general principles of common law United States tort law. Refer to Restatement of Torts, <https://www.lrdc.pitt.edu/ashley/RESTATEM.HTM> (last visited Mar. 20, 2021).

<sup>6</sup> S.2(3) of the Innovation Bill.

<sup>7</sup> S.1(4)(i), Uniform Trade Secrets Act with 1985 Amendments, <https://www.uniformlaws.org/HigherLogic/System/DownloadDocumentFile.ashx?DocumentFileKey=e19b2528-e0b1-0054-23c4-8069701a4b62> (last visited Mar. 20, 2021).

<sup>8</sup> Emergent Genetics India Pvt. Ltd v. Shailendra Shivam And Ors, 2011(47) PTC 494(Del.)

<sup>9</sup> Zee Telefilms Ltd. And Film And ... v. Sundial Communications Pvt. Ltd, (2003) 5 Bom.CR 404

<sup>10</sup> S.2(7)- Misappropriation means:

- (a) acquisition of a trade secret of another by a person who knows or has reason to know that the confidential information was acquired by improper means; or
- (b) disclosure or use of confidential information of another without express or implied consent by a person who:
  - (i) used improper means to acquire knowledge of the Confidential Information; or

manner under this definition. In the Indian context, where most of the cases are related to employment contracts, it might open the gates to a new area of litigations involving misappropriations by third parties.

A distinctive feature of the Innovation bill is that it carries a definition for “misappropriator”<sup>11</sup>. The third clause is a significant one to be analyzed in the light of the obligations of a holder of confidential information and the recipient of such information. It appears to be a very stringent provision going an extra mile in increasing the burden of a recipient of confidential information, whereby he has an obligation to investigate ownership or claim of title of confidential information received which is a standard not mandated by the TRIPS agreement. Also, a person negligent to conduct an investigation is also punished under the Act, whereas the term used in the footnote under Article 39 of TRIPS to clarify acts contrary to honest commercial practices had adopted the word “grossly negligent,” which lowers the standard compared to the one adopted under the Innovation bill.<sup>12</sup> Later on, if the owner of a trade secret or a person lawfully in control of a trade secret alleges misappropriation, the burden is upon the owner of the trade secret or person lawfully in control of the trade secret to prove that the trade secret had been misappropriated. The present provision would prove to be damaging to the interests of third-party recipients of information, which must be allowed to independently invent and reverse engineer without having other concerns.

This definition can be substituted by a simple definition like the one provided under The Trade Secrets (Enforcement, etc.) Regulations 2018 of the UK (hereinafter referred to as the UK

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(ii) at the time of disclosure or use knew or had reason to know that his knowledge of the confidential information was

(I) derived from or through a person who has utilized improper means to acquire it;

(II) acquired under circumstances giving rise to a duty to maintain its secrecy or limit its use; or

(III) derived from or through a person who owed a duty to the person seeking relief to maintain its secrecy or limit its use; or;

(iii) before a material change of his position, knew or had reason to know that it was a trade secret and that knowledge of it had been acquired by accident or mistake.

Explanation: In relation to sub clause (ii) (II), attorney- client privilege in relation to Confidential Information gives rise to a duty to maintain secrecy.

The explanation provided is a contribution of the Innovation bill and not adopted from the UTSA.

Refer The National Innovation Act of 2008. <https://www.prsindia.org/uploads/media/draftinnovationlaw.pdf>

<sup>11</sup> S.2(8)- A misappropriator under the Act is any person who:

(a) willfully or knowingly commits any of the acts comprising Misappropriation as defined under Section 2 (7); or

(b) aids or abets any person described under clause (a); or

(c) receives Confidential Information from any person described under this sub-section (7) in circumstances that would to a reasonable person indicate the necessity to investigate ownership or claim of title of such Confidential Information, and who has, in such circumstances, omitted or neglected to conduct such investigation as may be reasonable in the circumstances and obtain appropriate representations regarding ownership and claim of title in respect of the Confidential Information in issue.

Refer The National Innovation Act of 2008. <https://www.prsindia.org/uploads/media/draftinnovationlaw.pdf>

<sup>12</sup> Article 39.2, Foot Note 10 of TRIPS

Regulation). Under the regulation, “infringer” means a person who has unlawfully acquired, used, or disclosed a trade secret.

Moreover, the definition of misappropriation provided under the bill is sufficient enough to include all acts of misappropriation.

### **Improper means**

S.2(7) of the Innovation bill considers “acquisition of a trade secret of another by a person who knows or has reason to know that the confidential information was acquired by improper means” to be misappropriation of trade secret under the Act. However, the definition of “improper means” has not been provided unlike under the UTSA. There lies an inherent danger of leaving it to the interpretation of courts since there exists a possibility of including a wide range of acts under the section’s purview by terming it be improper. Under the TRIPS agreement, we see a number of illustrations to clarify what acts contrary to honest commercial practices would include. The drafters of the Act could have adopted a similar approach and incorporated a clarification of what would amount to “improper means”. Other than the TRIPS agreement the UTSA has an explanation for ‘Improper means’<sup>13</sup> its ambit is wider than that specified in the provision since in the comments to the UTSA, it has been mentioned that activities considered lawful can be termed unlawful based on the facts and circumstances. What all would constitute improper means, had been explained earlier under the *Restatement (First)*.<sup>14</sup> The Indian courts have in various matters considered acts such as theft, breach of contract, and inducement to breach as improper means. However, a definition might bring more clarity about the scope and ambit of such acts.

### **Exceptions**

Certain exceptions are provided under S.11 of the Innovation Bill where it would not amount to disclosure if:

- (a) the Confidential Information was available in the public domain; or
- (b) the Confidential Information has been independently derived by the alleged Misappropriator, or by any third party from whom the alleged Misappropriator received the

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<sup>13</sup> "Improper means" includes theft, bribery, misrepresentation, breach or inducement of a breach of a duty to maintain secrecy, or espionage through electronic or other means. Refer S.1(2)- (1) Uniform Trade Secrets Act with 1985 Amendments, <https://www.uniformlaws.org/HigherLogic/System/DownloadDocumentFile.ashx?DocumentFileKey=e19b2528-e0b1-0054-23c4-8069701a4b62> (last visited Mar. 20, 2021).

<sup>14</sup> "A complete catalog of improper means is not possible [;] in general they are means which fall below the generally accepted standards of commercial morality and reasonable conduct." Refer § 757, Restatement of Torts, <https://www.lrdc.pitt.edu/ashley/RESTATEM.HTM> (last visited Mar. 20, 2021).

information; or

(c) where disclosure of the Confidential Information is held to be in public interest by a court of law

### **Information falling within public domain**

The first exception provided under S.11 of the Innovation Bill is a re-affirmation of the first criteria of trade secret protection provided under the definition of ‘Confidential Information’ laid down in the Innovation bill. Unlike the US law, there is no clarification as to what would amount to information falling in the public domain. Under the UTSA, “Information is readily ascertainable if it is available in trade journals, reference books, or published materials. Often, the nature of a product lends itself to being readily copied as soon as it is available on the market.”<sup>15</sup> From the trade secret cases in India, we see that there has been confusion regarding this aspect and clarification in this area would be providing a direction to the Indian courts.<sup>16</sup>

### **Invention and Reverse Engineering**

Even though the TRIPS agreement has not mentioned independent invention as an exception, the interpretation of Article 39 does not bar independent invention. It is also accepted as a universal principle in the case of trade secrets. It is to be appreciated that it has been included in the main text of the Innovation bill, unlike the UTSA where it has only been mentioned in the comments. However, reverse engineering is an exception even though internationally accepted did not find its place anywhere in the Innovation bill. Its non-inclusion under the Bill as an exception does not make such an act liable, however, if specific clauses are included under a contract prohibiting reverse engineering (for instance, clauses prohibiting reverse engineering included in various purchase agreements) it might prevent a party to the contract from reverse engineering.

### **Public Interest**

The public interest exception provides wide discretionary powers to the courts, to decide under what circumstances can a disclosure of confidential information be exempted from liability. Under the TRIPS agreement, public interest as an exception is included only under the provision dealing with test data.<sup>17</sup> The EU Directive for the protection of undisclosed information

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<sup>15</sup> Uniform Trade Secrets Act with 1985 Amendments, <https://www.uniformlaws.org/HigherLogic/System/DownloadDocumentFile.ashx?DocumentFileKey=e19b2528-e0b1-0054-23c4-8069701a4b62> (last visited Mar. 20, 2021).

<sup>16</sup> Homag India Private Ltd v. MrUlfaath Ali Khan, MANU/KA/1569/2012

<sup>17</sup> Article 39.3 of TRIPS, “Members, when requiring, as a condition of approving the marketing of pharmaceutical or of agricultural chemical products..... Members shall protect such data against disclosure, except where necessary to protect the public,....”

provides some clarity in this regard. Under the EU Directive<sup>18</sup>, it has been specifically stated that the measures, procedures, and remedies intended to protect trade secrets “should not jeopardise or undermine fundamental rights and freedoms or the public interest, such as public safety, consumer protection, public health and environmental protection, and should be without prejudice to the mobility of workers.” Such clarifications might prove in helping the courts to decide under what circumstances the public interest exception may be applied.

Article 3 under Chapter II of the EU Directive provides a wide range of activities to be lawful-independent discovery or creation; (b) observation, study, disassembly or testing of a product or object that has been made available to the public or that is lawfully in the possession of the acquirer of the information who is free from any legally valid duty to limit the acquisition of the trade secret; (c) exercise of the right of workers or workers' representatives to information and consultation in accordance with Union law and national laws and practices; (d) any other practice which, under the circumstances, is in conformity with honest commercial practices. The acquisition, use or disclosure of a trade secret shall be considered lawful to the extent that such acquisition, use or disclosure is required or allowed by Union or national law”

The Innovation Bill can also include certain clauses from this provision, especially the one’s recognizing reverse engineering and right of workers.

### **Third Party Obligation**

Section 9 of the bill specifically deals with liabilities arising from non-contractual relationships. It provides that a person has a right to equity in addition to the rights provided under the Act for protection of confidential information against third parties who are not contractually bound.

### **Acts Done in Good Faith**

S.14 of the Innovation bill provides a blanket immunity for all acts done in good faith. According to Section 14:

“No legal proceedings or any other claim or action, shall lie against any person for anything done in good faith under this Act or the Rules and Regulations made thereunder.”

This provision is likely to attract criticisms from the industry since it is ambiguous as far as the scope of immunity extended to third parties. Any recipient of information acting in good faith can use the provision as a shield. It needs to be reconsidered, whether such a provision is

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<sup>18</sup> Directive 2016/943 of The European Parliament And Of The Council of 8 June 2016 on the protection of undisclosed know-how and business information (trade secrets) against their unlawful acquisition, use and disclosure, *OJ L 157, 15.6.2016, p. 1–18*, Paragraph 21

required when you have the exceptions in the bill. It is better either to expand the scope of exceptions or qualify this provision further in order to remove the ambiguity.

In addition, we find that S.2(7)(b)(iii) is in conflict with this provision. ‘Misappropriation’ under S.2(7)(b)(iii) means -

“disclosure or use of confidential information of another without express or implied consent by a person who:

“before a material change of his position, knew or had reason to know that it was a trade secret and that knowledge of it had been acquired by accident or mistake”

Here, we see that condition to fixation of liability is that there should not be a material change in the position of the recipient of information before he had knowledge that it was a trade secret whereas S.14 as stated earlier does not provide any condition for fixation of liability on a person acting in good faith.

Article 4 of the EU Directive which provides an exhaustive list of unlawful activities can also be considered rather than borrowing the definition of “misappropriation” from the UTSA.

#### **IV. EMPLOYMENT CONTRACTS, NON-COMPETE CLAUSES AND FREEDOM OF EMPLOYMENT**

It is always a matter of dispute when it comes to differentiating between the skill and knowledge of an employee and the trade secrets of an employer. An employee, during his employment, is bound by a contract that provides certain restrictions on using confidential information of the employer during the term of the contract and also after its expiry. The real problem arises when an employee leaves his employment during or after the term of his contract. How do we identify the skill and knowledge that he must be allowed to exercise in his future employment and distinguish it from the confidential information of an employer? If the contracts are specific about the particulars of confidential information then it is easier to identify, but it is not so in most cases. In most employment contracts, confidentiality clauses providing blanket protection to all day-to-day operations of a company are included. In cases where express confidentiality clauses are absent, the nature of information and employment is taken into consideration. In such a situation, it is the duty of the court to analyze each and every case and state whether such information fulfills all the criteria of trade secret protection.

Negative Covenants or non-compete clauses have been used since early times to protect the interest of employers. Divulgence of a trade secret or confidential information is just one reason to promote negative covenants as a choice of public policy. The continuity of employment in a

firm is one main reason why negative covenants are used as deterrents to prevent employees from leaving a company and joining a competing firm. In most cases, companies invest a lot of money and time in training an employee, which goes in vain when they leave the employment at an early stage. However, the protection of employer's trade secrets has been the main reason for preventing employee mobility in all jurisdictions since a trade secret is the only proprietary right that the employer can claim that the employee takes away while leaving the workplace. Otherwise, no law can prevent an employee from using his skill and knowledge learned from his previous employment while undertaking another job. Hence, the employer always carries the risk of divulgence some part of his trade secret when it gets converged with the skill and labor of an employee.

### **Obligations of Confidentiality**

S.8, which sets out the obligations of confidentiality, gives power to contracting parties to define the terms and conditions of confidentiality<sup>19</sup>

This provision creates doubt about whether parties could define the terms of a contract in contravention of the general principles of confidentiality. In addition, if clauses of such contract create an unreasonable restraint on employee freedom, can S. 27 of the Indian Contract Act, 1872, which holds every agreement in restraint of trade as void, be invoked<sup>20</sup>.

Clause 2 of S.8 of the Innovation bill gives discretionary powers to central and state governments to prescribe terms and conditions governing the rights and obligations related to such Confidential Information, which is, however subject to the agreement between the parties.<sup>21</sup>

Section 15 deals with the powers of the central or state government to prescribe rules and regulations for carrying out provisions of the Innovation bill.

Under Section 15(d) the central or state govt. Has the power to set minimum terms and conditions for contracts governing rights and obligations in respect of Confidential Information, as provided for under Section 10(1), which in turn deals with the preservation of the secrecy of

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<sup>19</sup> S.8(1) -“parties may contractually set out the terms and conditions governing rights and obligations in respect of Confidential Information, including with a view to maintain confidentiality and prevent Misappropriation.” Refer The National Innovation Act of 2008. <https://www.prsindia.org/uploads/media/draftinnovationlaw.pdf>

<sup>20</sup> S.27: “Every agreement by which any one is restrained from exercising a lawful profession, trade or business of any kind, is to that extent void.” Refer The Indian Contract Act of 1872, No. 9 of 1872, India Code, <https://www.indiacode.nic.in/>

<sup>21</sup> S.8(2): “Subject to any terms and conditions agreed to between parties, the respective rights and obligations in relation to the said Confidential Information shall be governed by such terms and conditions as may be prescribed by the Appropriate Government pursuant to Section 15 (d).”

“Appropriate Government” is defined under the bill as either the Central or State Government. Refer The National Innovation Act of 2008. <https://www.prsindia.org/uploads/media/draftinnovationlaw.pdf>

the subject matter in dispute, which may include granting mandatory protective orders in connection with discovery proceedings, holding in-camera hearings, sealing the Confidential Information including confidential filings or records of the action, and ordering any person or class of persons impleaded in an action not to disclose the Confidential Information referred to in the claim without prior orders of the court.

Whether such a discretionary power given to the state or central govt. would result in inconsistency in the law is of serious concern. It might also lead to the introduction of arbitrary terms and conditions disrupting the balance of rights and obligations between the right holder and recipient of confidential information.

However, in cases where there does not exist a contract between the parties, Clause 3 of S.8 gives rights to parties to enforce rights under equity with respect to confidential information imparted under circumstances imparting an obligation of confidence.

### **Effect on other laws**

S.16 of the Innovation bill creates a plethora of doubts when it comes in conflict with other acts dealing with the similar subject matter. For instance, if any of the provisions under this bill is inconsistent with the Contract Act, the former would prevail over the latter. This again creates an inconsistency among the laws.<sup>22</sup>

## **V. CONCLUSION**

The National Innovation Bill, 2008 was said to be modeled on America Creating Opportunities to Meaningfully Promote Excellence in Technology, Education, and Science Act of 2007. The bill, on the whole, is made from bits and pieces adopted from international instruments and foreign legislations. Hence, we find conflicting provisions under the Act making few provisions of the Act inoperable or redundant. Since it had not been tabled before the Parliament, it was not subject to much discussion and debate. Hence, the intent of the provisions of the legislation is yet to be discovered. When compared to the development of US trade secret legislation, which is a consolidation of the state tort law, the National Innovation Bill 2008 is not set along similar lines. The reason is that the Indian courts have always followed the common law approach of trade secret protection adopted from the UK courts.

The provision relating to the TRIPS agreement provides a guide to what kind of information should be protected. It is undesirable for the Indian law to undergo the same process similar to

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<sup>22</sup> S.16 - "The provisions of this Act and of any rules or schemes made thereunder shall have effect notwithstanding anything inconsistent therewith contained in any other law." Refer The National Innovation Act of 2008. <https://www.prsindia.org/uploads/media/draftinnovationlaw.pdf>

the one the US trade secret laws had gone through thereby excessively protecting trade secrets. Formulating a specific legislation might lessen the impact of S.27 of the Indian Contract Act in safeguarding the freedom of employment and increasing third-party liability. Specific legislation in every category of property is welcomed only if it has to provide something more than what exists in its absence. If it does not have much to offer, then it leads to an increase in social costs and becomes a burden on the system.

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