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Trade Secrets Protection: Preservation of Business Ethics to Property Right

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ABSTRACT

The justification for the increasing importance placed on intellectual property rights is self-evident. These are necessary to incentivize people to invest money, resources, and time in innovation and creation. Trade secret protection is considered the most important among knowledge and innovation-based businesses. This article attempts to investigate the nature of trade secrets as intellectual property. The article further explores economic and philosophical justifications for trade secret protection and internationally available level of protection. The article concludes with the recommendation of a dedicated law that provides a basic framework concerning to trade secrets even if it merely states all the common law remedies in one place.

I. INTRODUCTION

In 1995, The Trade-Related Aspects of Intellectual Property Rights Agreement² (TRIPS) was anchored for the uniform standard of protection among the member countries of the World trade organisation (WTO). It laid down the bare minimum principles for intellectual property protection (IP) and required the member countries to bring their Intellectual property systems in line with the same. Different timelines were also provided for the developed, developing and least developed countries for this goal.

Indian IP regime saw overhauling changes in the existing IP laws. Copyright and Patent laws were substantially modified to bring them by the TRIPS Agreement. The Indian government, in May 2016, formulated the National Intellectual Property Rights Policy as a vision document for the future developments of the IP regime in India. The document recognises the importance of Intellectual property for creativity and innovation in India. Its Para 3.8 identified trade secret protection as an important study area and research for future policy development.

Whereas, in a communication³ dated July 10, 1989, to members of the negotiating group on

¹ Author is an Assistant Professor, India.

² Available at <https://www.wipo.int/export/sites/www/treaties/en/agreement/pdf/trips.pdf>

³ Standards and principles concerning the availability, scope and use of Trade Related Intellectual Property Rights, (1989). Available at https://www.wto.org/gatt_docs/english/sulpdf/92070115.pdf

Trade-Related Aspects of Intellectual Property Rights, including Trade in Counterfeit Goods, the Indian government stated that any principle or standard relating to intellectual property rights must be carefully tested against the socio-economic, developmental, technological, and public interest touchstones and communicated the following:

“The trade secret cannot be deemed to be intellectual property rights since it lacks disclosure, publication, and registration, whereas the essential basis of a trade secret is its secrecy and confidentiality, Contractual responsibilities and applicable civil law requirements, not intellectual property law, should regulate the observance and enforcement of secrecy and confidentiality.” the Permanent Mission of India stated in part V, paragraph 46.

Special Report 301, published by the US Trade Representative (USTR) in April 2021, expressed the concerns of Indian and US stakeholders over the uncertainties generated by insufficient legal protection for trade secrets in India. The United States Trade Representative has placed India on a priority watch list for failing to make sufficient measurable improvements to its intellectual property framework and lacking a comprehensive legal framework and has expressed grave concern about India's commitment to meeting its international obligations. The United States provides legislative protection and adequate civil and criminal sanctions to combat the misuse of trade secrets. Although there is no statutory protection for trade secrets in India, trade secrets are now secured by parties through non-disclosure agreements and contracts governed by the Indian Contracts Act, 1872.

II. IP THEORIES AND NATURE OF TRADE SECRETS LAW

Innovations and knowledge sharing are a must for the development of human society. And for achieving the same conducive environment and policies are required. Intellectual property legislation provides for ensuring to provide a conducive environment and balancing of interests. The same line system of intellectual property rights balances the conflicting interests, i.e. private interest and public interest.

The orchard of intellectual property protection is flourishing upon the soil of four prominent theories justifying their existence. Ideas are namely (a) Utilitarian – linking the grant of IP and the maximum social benefit, (b) Lockean - recognising the intellectual labour and the right to enjoy the fruits of labour, (c) Personality - conveys the work created by individuals consist of unique features, (d) social planning - seeking to build just and attractive culture⁴.

In 1998, Robert Bone proposed that trade secrets should not be protected as intellectual

⁴ <https://cyber.harvard.edu/people/ffisher/iptheory.pdf>

property since they aberrate existing intellectual property ideas. Trade secret protection should instead be based on common law or contractual grounds⁵. On the other hand, Mark A Lemley believes that trade secrets should be treated as intellectual property rights. Lemley contends that trade secrets can be justified as intellectual property rather than traditional property and proposes that trade secrets qualify as intellectual property based on incentive justification⁶.

Out of various supporting theories for the protection of intellectual property, no single idea entirely justifies the protection of trade secrets⁷.

III. NEED FOR PROTECTION

Which intellectual property works best for protecting business competitiveness? To this, James Pooley wrote that the most commonly used form of business protection is secrecy⁸. Companies in the United States that develop innovative products and processes, particularly those that invest much in R&D, frequently use trade secrets to safeguard their innovations. Companies rely on trade secrets to protect technical and sensitive business information because there is no requirement for government registration, and protection is relatively easy to implement. Companies, particularly SMEs, use trade secrets as a default mode of IP protection. Further, the United States Supreme Court reaffirmed the notion that trade secret protection fosters innovation in its landmark decision in *Kewanee v. Bicon*⁹.

The US International Trade Commission (USITC) conducted a survey in 2014 in which it asked US companies whether and how inadequate IP protection impacted their business in India. According to the surveys, firms rated trade secrets as "extremely important" to their operations more than other types of IP. Additionally, the survey found that 56% of internationally engaged firms rated trade secrets as "very important," compared to 48% for trademarks, 37% for patents, and 31% for copyright. Even in sectors frequently associated with patents, such as chemicals and information and communications technology (ICT), firms were more likely to rate trade secrets as "very important"¹⁰.

Trade secret protection is often preferred over patent protection in numerous businesses due to

⁵ Robert G. Bone, *A New Look at Trade Secret Law: Doctrine in Search of Justification*, CALIF. LAW REV. (1998).

⁶ Mark A Lemley, *Stanford Law Review The Surprising Virtues of Treating Trade Secrets as IP Rights Stable URL : <http://www.jstor.org/stable/40379687> The Surprising Virtues of Treating Trade Secrets as IP Rights*, 61 STANFORD LAW REV. 311–353 (2008).

⁷ Neil Wilkof, *Theories of intellectual property: Is it worth the effort?*, 9 J. INTELLECT. PROP. LAW PRACT. 257 (2014).

⁸ POOLEY JAMES, *TRADE SECRET: THE OTHER IP RIGHT*, WIPO, MAGAZINE, 2013, at 2–4.

⁹ *Kewanee Oil Co. v. Bicon Corp.*, 416 U.S. 470, 485-87 (1974).

¹⁰ Andre Barbe & Katherine Linton, *Trade Secrets : International Trade Policy and Empirical Research* 1–23 (2016).

its well-known virtues, even when the latter is obtainable. After all, trade secrets can be inviolate, appear less expensive and time-consuming to protect, and do not necessitate disclosure.¹¹

Nonetheless, Indian courts have affirmed trade secret protection based on equity grounds and, in some cases, a common law breach of confidence action, which effectively equates to a violation of contractual obligation. The owner of a trade secret might seek an injunction to prevent the licensee from disclosing the trade secret, as well as the return of all confidential and proprietary information and compensation for losses. Only in cases where the trade secret owner and the party accused of theft have a contractual relationship is this technique effective. There are no criminal sanctions for misappropriating trade secrets in India, and civil remedies are notoriously difficult to obtain and have no deterrent impact.

IV. INTERNATIONAL AND NATIONAL FRAMEWORK FOR TRADE SECRET PROTECTION

As per World intellectual property organisation, Intellectual property refers to the creations of the mind, including inventions, literary & artistic works, designs and symbols, names and images used in commerce¹². The TRIPS Agreement requires undisclosed information trade secrets or know-how to benefit from protection.

According to Article 39.2, the protection must apply to secret information, which has commercial value because it is secret and has been subject to reasonable steps to keep it secret. The Agreement does not require undisclosed information to be treated as a form of property. Still, it does need 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 their consent in a manner contrary to honest commercial practices.

The TRIPS Agreement's Articles 42 to 49 identify enforcement, requiring that civil judicial proceedings be available to enforce all IP rights and that "confidential information" be protected from disclosure. Nonetheless, because national judicial systems, including their procedures for granting access to evidence, vary significantly, enforcement of trade secret rights is generally viewed as uneven throughout the world.

Initially, trade secret laws in the United States were left to the individual states. A Uniform Trade Secrets Act was recommended to the states in 1979 and has been generally implemented

¹¹ Nuno Sousa E. Silva, *What exactly is a trade secret under the proposed directive?*, 9 J. INTELLECT. PROP. LAW PRACT. 923–932 (2014).

¹² <https://www.wipo.int/about-ip/en/>

since then, although various elements hinder enforcement on a national level. The federal government introduced the Economic Espionage Act in 1996, although it contained merely criminal penalties. Twenty years later, the United States Congress introduced the Defend Trade Secrets Act of 2016 (DTSA), which allowed trade secret holders to file civil cases in federal court for the first time, providing several procedural advantages over state courts.

It is critical to remember that confidentiality is a legitimate tool for businesses of all sizes. Enforcing business secrets has nothing to do with the government's lack of transparency. Although it may seem counterintuitive, trade secret laws can facilitate and encourage technology transfer by providing a commercially reasonable method of information dissemination. There is widespread agreement that confidential disclosure is beneficial in a modern economy. Indeed, maintaining secrets – frequently information about customers and their needs and preferences – is the primary way for small and medium-sized enterprises (SMEs) to safeguard their competitive edge¹³.

To date, India does not have a dedicated piece of legislation for the protection of trade secrets. Indian courts have relied upon the common law principles of equity and contracts. In India, courts have relied on equitable and common law remedies to safeguard trade secrets. Indian courts have mainly relied on the principles established in the *Saltman Engineering Case*, which states that

“Maintenance of a secrecy, according to the circumstances in any given case, either rests on the principles of equity, that is to say, the application by the Court of the need for conscientiousness in the course of conduct, or by the common law action for breach of confidence, which is in effect a breach of contract”¹⁴.

In *American Express Bank Ltd. v Ms Priya Puri*, the Delhi High Court made efforts to define trade secrets as unknown formulae, technical or functional know-how, or any particular mode or method of business, which an employer adopts and further protected¹⁵. The owner of a trade secret may seek an injunction prohibiting the licensee from disclosing the trade secret, as well as the return of all confidential and proprietary information and damages. This approach is efficient only when the trade secret owner and the party accused of theft have a contractual relationship. In India, there are no criminal penalties for trade secret misappropriation, and civil remedies are notoriously difficult to obtain and have no deterrent effect.

¹³ James Pooley, *Trade Secrets: The Other IP Right*, WIPO MAG. (June 2013), Available at <http://www.wipo.int/wipo-magazine/en/2013/03/article-0001.html>.

¹⁴ *Saltman Engineering Co. Ltd. v. Campbell Engineering Co. Ltd.*, 1948 (65) R.P.C. 203.

¹⁵ *American Express Bank, Ltd. v. Priya Puri*, (2006) 3 L.L.N. 217.

V. CONCLUSION

In a knowledge-driven economy, it has become significantly crucial for industry participants to keep their trade and business information confidential to have a competitive advantage over others. It is desirable to strengthen trade secrets law by addressing law issues and by increasing the means of lawful use, disclosure and acquisition for a social benefit. It is submitted that a robust and effective trade secret law would promote knowledge sharing with big circles of contacts, encouraging innovation in the country.
