

Securing the Unseen: An Examination of Strategies for Protecting Trade Secrets and Confidential Information

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Abstract

The protection of trade secrets and undisclosed information is a crucial aspect of intellectual property law. Trade secrets and undisclosed information can include anything from customer lists and financial data to manufacturing processes and software code. While trade secrets and undisclosed information are not protected by registration like patents or trademarks, they are protected through legal means such as non-disclosure agreements and trade secret laws. The purpose of this abstract is to provide a brief overview of the legal framework surrounding trade secret protection and undisclosed information, as well as some practical considerations for businesses seeking to protect their valuable information. This includes identifying what qualifies as a trade secret, how to maintain confidentiality, and the potential remedies available if trade secrets are misappropriated.

I. Introduction

In today's fast-paced business environment, companies must maintain a competitive edge to succeed. One way businesses do this is by developing and protecting their intellectual property, which can include patents, trademarks, and trade secrets. While patents and trademarks are protected through registration, trade secrets and undisclosed information are protected through legal means such as non-disclosure agreements and trade secret laws.

The protection of trade secrets and undisclosed information is essential for maintaining a company's competitive advantage. Trade secrets can include anything from customer lists and financial data to manufacturing processes and software code. Unlike patents and trademarks, trade secrets and undisclosed information can remain protected indefinitely, as long as they remain confidential.

However, protecting trade secrets and undisclosed information can be challenging. Companies must take proactive steps to identify and safeguard their valuable information from theft or unauthorized disclosure. This can include implementing security measures, such as password protection and limited access to sensitive information, as well as developing non-disclosure agreements with employees, contractors, and other third parties.

Furthermore, if trade secrets are misappropriated, companies may have legal remedies available to them. This can include injunctive relief to prevent further disclosure of the information, as well as monetary damages to compensate for any harm caused by the misappropriation.

In this paper, we will examine the legal framework surrounding the protection of trade secrets and undisclosed information, including the requirements for establishing a trade secret and the potential legal remedies available if trade secrets are misappropriated. Additionally, we will discuss some practical considerations for businesses seeking to protect their valuable information, including best practices for maintaining confidentiality and avoiding misappropriation.

II. Concept of Trade Secret

i. Meaning of Trade Secret

A trade secret is any confidential information that provides a business with a competitive advantage over others. The trade secret is also known as undisclosed information. Trade secrets can take many forms, including formulas, processes, designs, techniques, patterns, software code, customer lists, and other types of proprietary information. The information must be kept confidential to maintain its value and competitive advantage. In general, to qualify as a trade secret, the information must be:

- commercially valuable because it is secret,
- be known only to a limited group of persons, and

- be subject to reasonable steps taken by the rightful holder of the information to keep it secret, including the use of confidentiality agreements for business partners and employees.

Examples of trade secrets include the recipe for Coca-Cola, Google inc.'s search algorithm, Recipes for food products (special ingredients), Nestle Maggi Masala, KFC's chicken, chemical formulas for cleaning products etc. Businesses must take proactive measures to protect their trade secrets, including implementing security measures, such as password protection and limited access to sensitive information, as well as developing non-disclosure agreements with employees, contractors, and other third parties. Misappropriation of trade secrets can result in legal action, including injunctive relief and monetary damages.

ii. **Nature of protection for trade secret**

A trade secret offers protection by providing its owner with exclusive rights to use and exploit the confidential information for commercial purposes. Unlike patents or trademarks, a trade secret is not registered, and its protection does not expire as long as the information remains confidential.

The legal safeguarding of trade secrets varies depending on the legal framework and can either be included in the broader concept of preventing unfair competition or established through specific laws or legal precedents on the protection of confidential information. Ultimately, the determination of whether trade secret protection has been violated or not will depend on the particular circumstances of each case. Typically, unfair practices related to secret information involve breaches of contract, breaches of trust, and industrial or commercial espionage.

The term period till which the trade protection last is mentioned in the contract terms. The expiration of such period should be mentioned in the documents which need to be written because it is not registered. If this trade secret is made available in public then it will lose the exclusive rights and protection regarding the secrets because it no longer remains a secret. Trade secrets receive less attention than other areas of intellectual property. This is because trade secrets are not having government registration. This is applied and beneficial for business matters.

A trade secret owner, however, cannot stop others from using the same technical or commercial information, if they acquired or developed such information independently by themselves through their own R&D, reverse engineering or marketing analysis, etc.

However, a trade secret owner cannot prevent others from using the same technical or commercial information if they obtained or created such information independently through their own research and development, reverse engineering, or marketing analysis, among other methods.

Trade secrets do not offer "defensive" protection like patents since they are not disclosed to the public. For instance, if a particular method for producing Compound X has been safeguarded as a trade secret, another person may be able to obtain a patent or utility model for the same invention if they developed it independently.

iii. **Rights conferred by trade secrets**

Broadly speaking, trade secret protection grants owners the authority to prevent the dissemination, acquisition, or utilization of information that is lawfully under their control by others without their consent, in a manner that is inconsistent with fair business practices.

As a result, utilizing a trade secret by an individual who obtained the information through a lawful business transaction without any negligence is not considered unlawful. For instance, a competitor may buy a product, analyze its design or composition, and extract the confidential knowledge embedded within the product, which is commonly known as reverse engineering. Such an action would not be considered a violation of trade secret protection.

Trade secrets are considered to be a form of property rights and can be transferred or licensed to other individuals. The owner of a trade secret holds the authority to grant a third party permission to access and utilize the confidential information. Additionally, to preserve the confidentiality of the trade secret, a licensor should require the licensee to implement reasonable measures to prevent the disclosure of such information.

iv. Remedies available to secret information holder

Most countries provide for remedies in criminal, administrative, commercial and/or civil law, in particular, tort law, contractual law and specific legislation on unfair competition.

Typically, a trade secret owner can seek damages from the party who has infringed upon the trade secret, to compensate for the financial loss incurred. Some countries' trade secret laws may also allow for the use of injunctions, which require the discontinuation of the use of any products created through the use of trade secret information obtained through unethical business practices. In some instances, criminal penalties may be available in certain countries for the violation of trade secrets.

v. Difference between patent and trade secret

There are two main types of trade secrets. Firstly, trade secrets may involve valuable information that fails to meet the criteria for patentability and therefore can only be safeguarded as trade secrets. Examples include commercial information or manufacturing processes that lack sufficient inventiveness to be patented. Secondly, trade secrets may involve inventions that meet the criteria for patentability and could thus be protected by patents. In such cases, the company must choose whether to patent the invention or maintain it as a trade secret.

| S.N | Patent | Trade Secret |
|-----|--|--|
| 1. | For patent protection, the information needs to be disclosed. | In trade secret the information should not be disclosed in the public at any cost. |
| 2. | In patents, where the protection is necessary, the patent is implemented and granted in each and every country | In trade secrets there is no need to register any information for protecting it. |
| 3. | Time period for patents is 20 years maximum from the date of filing. | In trade secrets there is no specific time period for protection. |
| 4. | In the patent, all the information needs to be new, novel, non-obvious in nature. | In trade secret, it should have some commercial value and should be hidden. |

vi. Advantages

- The protection of trade secrets is not restricted by a time limit, unlike patents which typically last for a maximum of 20 years. As long as the secret is kept from being disclosed to the public, the protection of the trade secret can continue without any specific time limit.
- There are no fees associated with registering trade secrets, but in some instances, the expenses of maintaining secrecy of the information can be significant.
- Trade secrets produce immediate impact, and safeguarding trade secrets doesn't necessitate adherence to formal procedures or public revelation.

vii. Disadvantages

- If a unique product holds the secret, people can examine, take it apart and study it, which is known as "reverse engineering", and they might find out the secret and then be allowed to use it too. Keeping the secret as a trade secret doesn't give the right to keep others from using it for commercial purposes. Exclusive protection from third-party commercial use can only be provided by patents and utility models.
- Someone else who acquired the pertinent information through lawful methods, such as independently creating their own inventions, could obtain a patent for a trade secret.
- If the trade secret becomes public knowledge, it can be accessed and utilized freely by anyone. The wider the dissemination of the trade secret, the harder it becomes to

maintain its secrecy. The safeguarding of trade secrets can only prevent unauthorized acquisition, utilization, or disclosure of the confidential information.

- Enforcing a trade secret is generally more challenging than enforcing a patent as proving the violation of trade secrets can be quite difficult. The level of protection provided to trade secrets varies greatly across different countries and is generally viewed as relatively weak, especially when compared to the protection offered by a patent.
- Selling or licensing trade secrets can be more challenging compared to patents due to their confidential nature.

Although patents and trade secrets may seem like different ways to safeguard inventions, they are frequently used together. Trade secret regulations can complement patent laws in the initial stages of innovation by giving inventors the freedom to develop their ideas until they become patentable. Furthermore, essential knowledge regarding how to make the most commercially successful use of a patented invention is often kept as a trade secret.

III. International Scenario

Article 10bis Paris Convention deals with Unfair Competition. The countries of the Union are bound to assure to nationals of such countries effective protection against unfair competition. Any act of competition contrary to honest practices in industrial or commercial matters constitutes an act of unfair competition. The following in particular shall be prohibited:

1. all acts of such a nature as to create confusion by any means whatever with the establishment, the goods, or the industrial or commercial activities, of a competitor;
2. false allegations in the course of trade of such a nature as to discredit the establishment, the goods, or the industrial or commercial activities, of a competitor;
3. indications or allegations the use of which in the course of trade is liable to mislead the public as to the nature, the manufacturing process, the characteristics, the suitability for their purpose, or the quantity, of the goods.

Article 39 of TRIPS Agreement provides that in the course of ensuring effective protection against unfair competition as provided in Article 10bis of the Paris Convention (1967), Members shall protect undisclosed information in accordance with paragraph 2 and data submitted to governments or governmental agencies in accordance with paragraph 3. Natural and legal persons shall have the possibility of preventing information lawfully within their control from being disclosed to, acquired by, or used by others without their consent in a manner contrary to honest commercial practices so long as such information:

- a. is secret in the sense that it is not, as a body or in the precise configuration and assembly of its components, 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.

Members, when requiring, as a condition of approving the marketing of pharmaceutical or of agricultural chemical products which utilize new chemical entities, the submission of undisclosed test or other data, the origination of which involves a considerable effort, shall protect such data against unfair commercial use. In addition, Members shall protect such data against disclosure, except where necessary to protect the public, or unless steps are taken to ensure that the data are protected against unfair commercial use.

IV. Comparative Study of Laws of Different Countries

The United States boasts the most robust legislation for safeguarding trade secrets against any form of misappropriation. The Uniform Trade Secrets Act of 1979 and the Defend Trade Secrets Act of 2016 are laws that specifically address trade secrets. If theft or misappropriation of a trade

secret is committed with the intention of benefiting a foreign government, foreign entity, or foreign agent, it is a criminal offense under the Economic Espionage Act of 1996.

Trade secrets in the UK are safeguarded by the Trade Secrets (Enforcement, etc.) Regulations of 2018, which significantly overlap with the existing common law framework for confidential information, as trade secrets are a subset of confidential information. Remedies for the unauthorized use of confidential information and trade secrets include damages, injunctions, account of profits or compensation, and publicity orders.

China has a framework of different laws for the protection of Confidential Information and Trade Secrets. These laws include the Anti-Unfair Competition Law which was revised in 2019, Civil Code (effective from 2021); Civil Procedure Law (revised in 2017) Labour Law which was revised in 2018, Criminal Law which was revised in 2015, Provisions of Supreme People's Court.

Australia does not have a dedicated law for safeguarding confidential information and trade secrets. Instead, these are protected under various statutes that prohibit the disclosure of confidential information, including The Freedom of Information Act of 1982, The Privacy Act of 1988, and The Corporations Act of 2001.

V. Indian Scenario

India joined the World Trade Organization (WTO) after implementing liberalization policies in 1991. Later in 1994, India also signed the Agreement on Trade-Related Aspects of Intellectual Property Rights (TRIPS). Under the TRIPS Agreement, all member states were required to safeguard Trade Secrets/undisclosed information in accordance with Article 39. However, India did not introduce any specific legislation for the protection of Trade Secrets and Confidential Information. Instead, protection is currently based on equity and common law.

Section 27 of the Contract Act outlines the legal obligation of parties to refrain from sharing confidential information that goes against the terms of their contract, which is often established through Non-Disclosure Agreements. Business data that contains trade secrets is also safeguarded by Copyright Law. If someone violates confidentiality or privacy, they may face penalties as stated in Section 72 of the Information Technology Act, 2000. The Indian Penal Code from Sections 405-409 addresses cases involving Criminal Breach of Trust. The Personal Data Protection Bill of 2019 introduced a regulatory framework for safeguarding personal and non-personal data, regardless of its form, such as digital or non-digital. When there is a trustee-beneficiary relationship, the recipient of confidential information is expected to uphold the duty of confidence and trust, even without a non-disclosure agreement in place.

In *Saltman Engineering Company Limited v. Campbell Engineering Company Limited*,¹ Saltman challenged the act of Campbell when he started using the drawings for its own purpose. Campbell argued that in the absence of a contract, he is not bound to treat drawings as Confidential. Lord Greene observed that "it would not matter the least bit whether there was a contract or whether there was not a contract". What mattered was that Campbell was aware that the drawings belonged to Saltman and it was confidential as the defendants had got them for a limited period. Hence, a Breach of Confidence on the part of the defendant was held in this case.

In *John Richard Brady & Ors v Chemical Process Equipment P Ltd & Anr*,² principles of confidentiality were discussed for the first time in this case. The Court held that "the law on this subject does not depend on any implied contract. It depends on the broad principles of equity that who has received information in confidence shall not take unfair advantage of it".

In *Burlington Home Shopping Pvt. Ltd v. Rajnish Chibber*³ the defendant was a former employee of the company (the plaintiff) who utilized the plaintiff's contacts database in a similar business started by him after leaving the company. The Court held that the contacts database was

¹ (1948) 65 RPC 203

² (AIR 1987 Delhi 372)

³ 61 (1995) DLT 6

developed through skill and labour by the plaintiff, hence protected under the law relating to Trade Secrets and Confidential Information.

In, M/s Lifecell International Private Limited v. Vinay Katrela⁴ the Madras High Court opined that in Franchisee Agreement or any other agreement, there cannot be an absolute restraint post termination of the employment. The Court further held that the restriction can only be in relation to Trade Secrets which are developed and suitable to the prospects of the company.

In Dr. Sudipta Banerjee Vs. L.S. Davar & Company & Ors.⁵ An injunction order against the former employees of a law firm was passed by the Calcutta High Court for disclosing trade secrets and confidential information gathered in the course of their employment. Court further opined that freedom of contract and trade must be balanced if we re-look at Section 27 of the Indian Contract Act. If the employee shares such information and communication, it would be unethical and would be a breach of the confidentiality clause in the service contract causing prejudice to the law firm.

VI. Conclusion

In conclusion, the protection of trade secrets and undisclosed information is of utmost importance for businesses and individuals alike. Trade secrets, being a type of intellectual property, are valuable assets that can give businesses a competitive edge in the market. Therefore, it is crucial that businesses take the necessary steps to protect their trade secrets from misappropriation.

To protect trade secrets, businesses can implement various measures such as limiting access to confidential information, implementing confidentiality agreements, and conducting regular training sessions for employees. Additionally, businesses can also seek legal protection through trade secret laws that provide for civil and criminal remedies in case of misappropriation.

Based on the previous discussion, it can be inferred that India, as a growing economy, requires a dedicated legal framework to safeguard Confidential Information and Trade Secrets. In order for businesses to succeed and make meaningful contributions to the economy through innovation, research, and development, it is imperative to have a stringent regime in place. By enacting specific statutory laws in India, trade secret owners will be protected, and civil and criminal penalties will be imposed on those who engage in misappropriation or unauthorized use of such confidential information and trade secrets.

⁴ O.A. Nos. 599 and 600 of 2018

⁵ FMAT 735 of 2021