

The viability of trade secret protection

Trade secrets can become a key factor in a business's success. But this category of unconventional rights is largely ambiguous and unregulated

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Your most precious, valued possessions and your greatest powers are invisible and intangible. No one can take them. You, and you alone, can give them – W Clement Stone

In the current business environment, it has become increasingly important for industry participants to keep their trade and business information confidential in order to retain a competitive advantage. Vital information necessary for the continuance and profitability of a business may not always qualify for protection under the more conventional IP rights, such as designs, copyright, patents or trademarks. Rather, it often falls within a largely ambiguous and unregulated category of rights termed 'trade secrets'.

Traditionally, Indian businesses have been known to harbour 'secret somethings' which they claimed made their products better than those of competitors. True or not, these assertions have laid the foundations for industry players to capitalise on their trade secrets in India.

Businesses are under constant pressure to innovate in order to meet consumer expectations, while retaining favourable price levels in the face of competition. In certain sectors where the existing product lines are the result of many years of innovation, it is common for competing products to have similar specifications, features

and characteristics, making competition particularly tough. It is the drive of a businessperson to produce something unique and innovative, yet economical that is often the thin line between commercial accomplishment and failure. Everyone knows that there are secret recipes for making the world's tastiest fried chicken, most popular cola drink, trendiest fragrance and most popular brand of bourbon. Although not quintessentially an IP right, trade secrets can become the key factor behind a business's success.

What is a trade secret?

In India, unlike other types of IP right, trade secrets are not governed by specific legislation. Nonetheless, the Indian courts have not shied away from protecting such secrets in appropriate circumstances. In fact, the concept of a trade secret enunciated by the courts follows the US definition of 'trade secrets' set out in the Uniform Trade Secrets Act 1970, and the definition of 'undisclosed information' set out in Article 39(2) of the Agreement on Trade-Related Aspects of IP Rights, to which India is a signatory. Trade secrets have been recognised as information with commercial value which is not in the public domain and in relation to which the owner has taken reasonable steps to maintain secrecy. These three conditions are elaborated below:

- Commercial value – like certain other intangibles (eg, goodwill), trade secrets form an essential part of the assets of a business insofar as they are capable of having a direct impact on its profitability. In other words, the information sought to be protected need not have an independently ascertainable economic value, but it should be capable of bestowing

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a commercial advantage on the owner. Thus, an inherent capability to generate economic or commercial benefit is the first test for the classification and subsequent protection of information as a trade secret.

- Not in the public domain – the information sought to be protected as a trade secret should not be publicly known or easily accessible to the general public. Relative or qualified secrecy of the information, rather than absolute secrecy, is required – for example, the information sought to be protected may be divulged to employees or other persons in the course of conducting business.
- Reasonable steps to keep the information secret – the last and most pivotal test that the Indian courts apply is to see whether reasonable steps have been undertaken by the owner of a trade secret to maintain its confidentiality. The benchmarks of reasonability vary depending on the facts of each case and the courts have rightly refrained from prescribing a set formula in this respect. The extent to which a trade secret can generate economic and commercial gain in regard to the efforts expended towards its protection have often been considered a guiding parameter: the costs incurred by maintaining the secrecy of certain information cannot be greater than the benefit likely to accrue from keeping such information secret.

Springboard doctrine

In the absence of specific legislation defining

and governing trade secrets, the Indian courts are often guided by common law and the principles of equity, fair play and good faith. Further, parties often buttress their arguments with precedents from foreign jurisdictions such as the United Kingdom (which, like India, is a common law jurisdiction).

An example of foreign legal dogma seeping into the Indian system is the springboard doctrine, which has been followed in several cases involving the illegal or unauthorised use of trade secrets. This doctrine has evolved from the principle of equity, whereby a court may grant an injunction to restrain a wrongdoer from deriving an unlawful advantage from such wrongdoings. The springboard doctrine prescribes that courts are bound to restrain someone who has come into the possession of certain information and is unlawfully using it as a ‘springboard’ to derive economic or commercial gain at the detriment of the rightful owner.

In the 2012 UK case of *QBE Management v Dymoke*, the tenets of the springboard doctrine were summarised:

- Where a person has obtained a head start as a result of unlawful acts, the court has the power to grant an injunction which restrains the wrongdoer so as to deprive him or her of the fruits of such unlawful acts. This is often known as ‘springboard relief’.
- The purpose of a springboard order is to prevent the defendant from taking unfair advantage of the springboard.
- Springboard relief is not confined to cases of breach of confidence; it can also

be granted in relation to breaches of contractual and fiduciary duties.

- However, springboard relief must be sought and obtained at a time when the wrongdoer is still enjoying an unlawful advantage.
- Springboard relief should have the aim “simply of restoring the parties to the competitive position they each set out to occupy and would have occupied but for the defendant’s misconduct”.
- Springboard relief will not be granted where a monetary award would have provided an adequate remedy to the claimant for the wrong.
- Springboard relief is not intended to punish the defendant for wrongdoing. It is merely designed to provide fair and just protection for unlawful harm on an interim basis. What is fair and just in any particular circumstances will be measured by the effect of the unlawful acts on the claimant, and the extent to which the defendant has gained an illegitimate competitive advantage.

Trade secrets and confidential information

Before examining the distinction between a trade secret and confidential information, the latter must be defined. ‘Confidential information’ is typically valuable or sensitive information received in confidence which can be neither disclosed nor used for any purpose other than that for which the information was received, unless prior consent of the owner is obtained.

In *Zee Telefilms Ltd v Sundial Communications Pvt Ltd* (2003) the Bombay High Court laid down a three-part test that a plaintiff must satisfy when alleging unauthorised or illegal use of confidential information:

- The information was of a confidential nature;
- The information was communicated in circumstances importing an obligation of confidence; and
- There has been unauthorised use of the information to the detriment of the person who communicated it.

The distinction between a trade secret and confidential information is somewhat blurred in the Indian context and the two terms are often used interchangeably. The difference between the two concepts has also faded in

the wake of various Indian judicial precedents, whereby a rightful owner has sought protection against the illegal or unauthorised use of proprietary information without classifying such information as either a trade secret or confidential information.

Although an overlap between the two concepts is certainly possible, it appears clear and reasonable that the importance and commercial worth of a trade secret is greater than those of confidential information. In the 1986 UK case of *Faccenda Chicken Ltd v Fowler*, confidential information was categorised as ‘trade secrets’, ‘highly confidential information’ and ‘less confidential information’. It was held that information would be protected only after cessation of a person’s employment if it could be properly classified as a trade secret or, while not a trade secret, as material of such a highly confidential nature as to require the same protection as a trade secret.

The term ‘confidential information’ has generally been limited to a single or ephemeral event in the conduct of a business, whereas a trade secret may be a process, device for continuous use or compilation of data that is used repeatedly to generate profit and retain a competitive advantage. Therefore, once it has been established that a certain piece of information would qualify as a trade secret by virtue of its commercial significance, this would have a direct and positive bearing (subject to satisfaction of other legal requirements) on a court’s inclination to issue an injunction against an illegal or unauthorised user.

Legal remedies available to trade secret owner

Civil remedies

The owner of the trade secret can file a civil suit seeking an injunction against the unauthorised or illegal user, and can also demand the return or destruction of physical material (in respect of the trade secret being misappropriated). The probability of obtaining an injunction from the Indian courts is based on certain basic principles formulated in the Code of Civil Procedure 1908:

- A *prima facie* case in favour of an injunction exists.
- The balance of convenience is in favour of granting the injunction.

- There is a risk that, in the absence of an injunction, the owner will suffer irreparable loss and injury.

In addition, the owner of a trade secret has the right to claim damages. However, the Indian courts do not usually award exemplary damages and the claiming party is required to adduce proof of actual damage.

Criminal remedies

The owner of a trade secret can lodge a criminal complaint with the police and may allege theft under Section 378 of the Penal Code 1860. However, in order to satisfy the requirements of Section 378, the trade secret should have physical form (eg, client lists, formulae or blueprints) and must be proven to have actually been stolen. A complaint alleging criminal breach of trust under Section 408 of the code, read with Section 420 alleging cheating, may also be initiated. However, the same would apply only in situations where an agreement (express or implied) of trust exists and has been contravened.

Prevention better than cure?

One effective tool available to protect trade secrets is for the owner to enter into non-disclosure agreements with employees or third parties. Such restrictive covenants are considered reasonable and non-conflicting with public policy. However, the situation is different with respect to negative covenants (aimed at protecting trade secrets) that impose restrictions on a former employee following termination of employment.

In the context of an employer-employee relationship, the Indian courts have repeatedly ruled against agreements that curtailed an individual's right to carry on a trade, business or profession of his or her choice on the grounds of violating Section 27 of the Contract Act 1872. An absolute prohibition on an employee (eg, in terms of territory or time period) being engaged by a competitor following the termination of employment is certainly unreasonable.

In the 1980 Supreme Court case of *Superintendence Company of India (P) Ltd v Krishan Murgai*, it was held that neither the test of reasonableness nor the fact that

the restraint was partial could override the mandate of Section 27. In this case, a clause restraining a former employee from working in the place of his last posting for two years post employment was held to be contrary to Section 27. However, decisions are made on a case-by-case basis and, on occasion, reasonable conditions imposed by an employer to protect its trade secrets have been upheld.

Famous last words

Since the law on trade secrets emanates from Indian jurisprudence rather than legislation, a certain fluidity is associated with the concept. Considerable time has elapsed since the Indian courts first recognised the concept of trade secrets; however, few judicial decisions enunciating and espousing the concept have been issued over the years. Thus, the law on this issue is still at a nascent stage in India.

Further, under current law, a plaintiff must prove that the information sought to be protected qualifies for protection as a trade secret and that such information has been or is capable of being used illegally. The conventional standards of proof applicable to the protection of other IP rights may not be the right parameters for the efficient protection of trade secrets.

Lastly, with respect to an employment arrangement, the Indian courts might wish to take a cue from their foreign counterparts and recognise concepts such as garden leave clauses in employment contracts. Such provisions are necessary in the present economic scenario for the effective protection of trade secrets, and must be respected as a business choice that does not contravene Section 27 of the Contract Act.

The law of trade secrets is evolving globally and consolidated efforts towards their protection are certain to foster growth and to provide a more congenial business environment, as well as healthy competition. ●●●●●

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