

**PROTECTION OF TRADE SECRETS AND
UNDISCLOSED INFORMATION:
LAW AND LITIGATION**

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Abstract

The intellectual property rights play a very important role in the development of trade and industry. The right to protect trade secrets is one of those rights. This right can be protected under the intellectual property laws as well as law of tort, contract and criminal law. The remedies include not only payment of compensation for loss but also injunction to restrain a person from using trade secret in an unauthorized manner. In India, trade secret protection is still in an embryonic stage, with no special legislation codifying the principles of trade secret law. The TRIPS Agreement 1995 and article 10 of the Paris Convention impose a duty on signatory states to protect confidential information. The TRIPS Agreement imposes an obligation on India to codify the law on trade secrets. The proposed legislation may be based on the principles evolved by the common law courts or the Federal Trade Secrets Law of USA under the Uniform Trade Secrets Act, 1990 and the Restatement of the Law (Third) of Unfair Competition and the related judicial pronouncements. The codified law must define trade secret and its pre-requisites and also recognize the tort of misappropriation, which can be committed through improper means or breach of confidence.

I Introduction

Imagination is more important than knowledge.

- Albert Einstein

INTELLECTUAL PROPERTY (IP) plays an important role in the development of industry, commerce and trade. It is also significant for the growth of creative efforts in almost every field of human endeavour.

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IP is an important source of wealth creation and economic growth. Managing IP is becoming a unique competitive advantage for businesses. Companies are forging alliances with each other in order to heighten the value of their IP assets as well as to obtain mutually beneficial competitive advantages through cross licensing. Thus, organizations accumulate large IP assets for use through mergers and acquisitions, joint ventures, cooperative R & D and licensing agreements.

As global trade has crossed all barriers, intellectual property law is now an indispensable part of trade and industry laws throughout the world. The different branches of intellectual property law - patents, designs, copyrights, geographical indications, trademarks and trade secrets, *etc.*, confer legal exclusivity in the market place. A balance between protection of intellectual property rights over such knowledge and their quick dissemination and assimilation in the productive enterprise is essential for continued growth of the country's economy.

The scope and subject of IP protection has undergone a remarkable transformation in the past decade. The most significant areas of change include business methods and software patents. Business method patents are gaining global acceptance. Online content issues have influenced the dot com thinking in the new economy. Given the dramatic developments in these and other related areas of intellectual property like trade marks, domain names and trade secrets, *etc.*, the legal protection and management of IP have become increasingly crucial.

II Trade secrets

The term trade secret refers to information that is maintained in secrecy and has commercial value. There is no unique or universally accepted definition of 'trade secret'. A trade secret is a formula, practice, process, design, and instrument, pattern, or compilation of information used by business to obtain an advantage over competitors or customers. In some jurisdictions, trade secrets are referred to as confidential information. World Trade Organization (WTO) treaties, General Agreement on Trade and Tariffs [GATT] and the Agreement on Trade-Related Aspects of Intellectual Property Rights [TRIPS] address the concept of trade secrets as follows:¹

1. General Agreement on Tariffs and Trade, Multilateral Trade Negotiations (Uruguay Round). Agreement on Trade-Related Aspects of Intellectual Property Rights (TRIPS), 15 April 1994. Part II, section 7: Protection of Undisclosed Information, article 39 (2).

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.

The American Uniform Trade Secrets Act (UTSA) of 1985, defines trade secret as follows:²

A trade secret is any information, including a formula, pattern, compilation, device, method, technique, or process, that: (i) derives independent economic value, actual or potential, from not being generally known to, and not being readily ascertainable by proper means by, other persons who can obtain economic value from its disclosure or use, and (ii) is the subject of efforts that are reasonable under the circumstances to maintain its secrecy.

The definition of trade secret found in the *Restatement of Torts*³ reads:⁴

A trade secret may consist of any formula, pattern, device or compilation of information which is used in one's business, and which gives him [or her] an opportunity to obtain an advantage over competitors who do not know or use it. It may be a formula for a chemical compound, a process of manufacturing, treating or preserving materials, a pattern for a machine or other device, or a list of customers.

There is no authoritative text or case law existing to determine the nature and scope of trade secrets in India. The courts, however, have

2. Uniform Trade Secrets Act, 1(4), 14 U.L.A. 372 (1985 & Supp. 1989).

3. Restatement of the Law (First), Torts (1929).

4. *Id.*, Comment b.

tried to place trade secrets within the purview of various legislations in order to protect them. They have also tried to define 'trade secret'. In *American Express Bank Ltd. v. Ms. Priya Puri*,^{4a} the Delhi High Court defined trade secrets as formulae, technical know-how or a peculiar mode or method of business adopted by an employer which is unknown to others.

III Legal provisions on trade secret

Trade secrets are defined under U.S. law as “any information that can be used in the operation of a business or other enterprise and that is sufficiently valuable and secret to afford an actual or potential economic advantage over others.”⁵ Although parties to a restrictive covenant may agree that certain information will be deemed to be a trade secret but courts consider several factors when deciding if a particular formula, plan, or other information is a trade secret to support a restrictive covenant. The most commonly used factors are:⁶

- (i) The extent to which the information is known outside of the business;
- (ii) The extent to which it is known by employees and others involved in the business;
- (iii) The extent of measures taken by the business to guard the secrecy of information;
- (iv) The value of the information to the business and its competitors;
- (v) The amount of effort or money expended by the business in developing the information; and
- (vi) The ease or difficulty with which the information could be properly acquired or duplicated by others.

Thus, like confidential information, the most important factor indicating the presence of a trade secret and supporting its enforcement is actual secrecy.⁷ In this sense, trade secrets are similar to confidential information

4a. (2006) III LLJ 540 (Del); see also *Michael Heath Nathan Johnson v. Subhash Chandra*, 60 (1995) DLT 757 and *John Richard Brady v. Chemical Process Equipments P. Ltd.*, AIR 1987 Del. 372, in which the court took note of the contentions of the counsels who referred to English decisions to define trade secrets.

5. Restatement of the Law (Third), Unfair Competition-39 (1995).

6. *Id.* at comment d.

7. *Id.* at comment b; see also *Estee Lauder Co. Inc. v. Batra*, 430 F. Supp. 2d 158, 175 (S.D.N.Y. 2006).

because, once established, they can facilitate an employer to obtain injunctive relief even without proof of an employee's wrongdoing.⁸

In India, trade secrets are protected under common law as there is no legislative protection for the same. However, India, being a party to TRIPS Agreement, is obligated to protect undisclosed information but the kind of protection and its modalities are left to the discretion of the member states. They can have a *sui generis* mechanism in place as provided under article 10*bis* of the Paris Convention and article 39(2) and (3) of TRIPS Agreement.

Trade secrets and other intellectual property rights

Trade secrets are basically the information which are economically beneficial to the organization. It may vary in nature and, if a business company follows certain process which helps in reduction of cost, it may be treated as a trade secret. Similarly, if a threat to file a case against a company has financial impact, this information of threat of filing a case is a trade secret.

Trade secret protection presents no conflict with other intellectual property rights. In fact, trade secrets along with patents and copyrights are very important as they cumulatively provide security to the business organization's inventions, process, creative works, products and know-how, *etc.* and have profound implications on an organization. The economic value of trade secrets can be easily assessed by the famous example of Coca Cola which is a soft drink giant having huge market capital. The Coca Cola's secret lies in its formulation of the drinks which it protects with all severe measures. In the early 1970s, Coke had been India's leading soft drink. Later on, with the change regime in the mid-1970s, Coke was pressed to provide the details of Coke's secrets formula. In 1977, Coca Cola preferred to quit Indian market than to disclose the formula of Coca Cola. It did not return until 1993 when the new government began to aggressively promote foreign investments.⁹

8. See *Batra*, 430 F. Supp.2d at 174-75; *Continental Group v. Kinsley*, 422 F. Supp. 838, 841 (D. Conn. 1976); see also Wendi S. Lazar, "Employment Agreements and Cross Border Employment-Confidentiality, Trade Secret, and Other Restrictive Covenants in a Global Economy", 24 *Labor Lawyer* 195 (2008).

9. *Coke in the Cross Hairs : Water, India and the University of Michigan*, William Davidson Institute case 1-429-098, July 25, 2010.

Trade secrets are the first-line defense. They come before patents, go with patents and follow patents.¹⁰

The patents are more restrictive and demanding than trade secrets. However, for trade secret protection, uniqueness in the patent law sense is not necessary. Further, the owner of a trade secret, unlike the holder of a patent, does not have complete monopoly on the information or data that comprises the trade secret. Other companies and individuals also have the right to discover the elements of a trade secret through their own research and hard work.¹¹ Consequently, inventors of objects that may meet the standards of patentability would prefer to seek patent protection because such protection is much superior to the protection afforded by trade secret laws.

Thus, patents and trade secrets are not mutually limited but actually highly complementary, supplementary and mutually supportive. The U.S. Supreme Court also recognized trade secrets as perfectly viable alternatives to patents: “The extension of trade-secret protection to clearly patentable inventions does not conflict with the patent policy of disclosure.”¹² Thus, it is clear that patents and trade secrets can not only coexist but are also in harmony with each other because they serve different economic and ethical functions.¹³

It is a universal practice in industry to look for and obtain patents on that part of a technology which is open to patent protection, while preserving related technological data and other information in confidence. Some regard patent as a little more than an advertisement for the sale of accompanying know-how.¹⁴ In technology, licensing related to patent rights generally are mentioned late in the discussion and are perceived to have not much value relative to the know-how. Thus, trade secrets are a component of almost every technology license and they can increase the value of a license up to three to ten times the value of the deal if no trade secrets are involved.¹⁵

10. Edward Kahn, *Innovate or Perish: Managing the Enduring Technology Company in the Global Market* 336 (Wiley, 2006).

12. *Kewanee Oil Co. v. Bicron Corp.*, 416 US. 470 (1974).

13. Chisum DS and MA Jacobs, *Understanding Intellectual Property Law* 3–7, (Matthew Bender: New York, 1992).

14. P. Rosenberg, 23 *Patent Law Fundamentals* (2nd ed., 2001 West Group: St. Paul, Minn).

15. Jager M. 2002. The Critical Role of Trade Secret Law in Protecting Intellectual Property Assets. In *The LESI Guide to Licensing Best Practices* (R Gold Schneider,

As far as copyright protection is concerned, there is no copyright in ideas and hence copyright law cannot protect confidential information. The Copyright Act, 1957 states that nothing in that Act should be considered as restraining an action for breach of confidence or breach of trust. Thus, there is no copyright pre-emption of trade secret misappropriation claims.¹⁶

IV Trade secrets litigation

In India, several cases in courts and tribunals have been filed dealing with trade secrets, confidential information and know-how. The courts in these cases were confronted with the issues of copyright, contract law, law of injunctions, privileged communication, *etc.* Trade secrets can be generally protected by an action of misappropriation under common law. Misappropriation of trade secrets may occur by way of breach of obligation of confidence and obligation of confidence which can arise expressly when it is stipulated by a contract between two or between employer and employee or when while information was disclosed, the confidential nature was expressly spelt out or impliedly existed when the circumstances were such that any reasonable person would have realized that upon reasonable grounds the information was being given to him in confidence. The other way of misappropriation may be theft when the third party accessing confidential information in an unauthorized manner and without consent.¹⁷

The courts in India have given due appreciation to the common law principles like obligation of confidence to protect trade secrets and the courts, while dealing with the cases, have frequently pointed out that in the absence of legislation, it is protecting trade secrets under the common law. In *John Richard Brady v. Chemical Process Equipments P Ltd.*,¹⁸ the Delhi High Court in a case involving unauthorized use of trade secrets observed that it would also be in the interest of justice to restrain the defendants from abusing the know-how, specifications, drawings and other technical

ed.) Wiley: Hoboken, New Jersey. p. 127. See also, Jorda, F. Karl, *Trade Secrets and Trade Secrets Licensing. In Intellectual Property Management in Health and Agriculture Innovation: A Hand book of Best Practices*, available at www.iphandbook.org.

16. The Copyright Act, 1957, s. 16; see also Vandana Pai and Ramya Seetharaman, "Legal Protection of Trade Secrets", (2004) 1 *SCC (Jour)* 22.

17. Harshwardhan & Saurav Keshri, "Trade Secrets Still to Unveil", 13 *Journal of Intellectual Property Rights* 210 (2008).

18. AIR 1987 Del. 372.

information regarding the plaintiffs' fodder production unit entrusted to them under express condition of strict confidentiality, which they have apparently used as a 'spring-board' to jump into business field to the detriment of the plaintiffs or from using in any other manner whatsoever the know-how, specifications, drawings and other technical information about the fodder production unit disclosed to them by the plaintiffs.

In *Daljeet Titus v. M Alfred A Adebare*,¹⁹ the learned judge observed, "I am in full agreement with the views expressed in *Margaret, Duchess of Argyll (Feme Sole) v. Duke of Argyll*,²⁰ that a court must step in to restrain a breach of confidence independent of any right under law. Such an obligation need not be expressed but be implied and the breach of such confidence is independent of any other right as stated above." The court while granting injunction also directed that the defendants would not be entitled to make use of the stuff of the plaintiff to which the defendants had access in a confidential manner. The defendants, having worked with the plaintiff, cannot utilize the agreements, due diligence reports, list of clients and all such materials which had come to their knowledge or had been developed during their relationship with the plaintiff and which was *per se* confidential.

In the light of the responsibility of banks to maintain secrecy towards its customers under the common law, the Delhi High Court held that the bank owed a duty of secrecy to its customer which arose out of the confidential nature of bank-customer relationship and was not limited to contractual and equitable obligations and was well established in bank's fiduciary duty towards its customers. But the court also observed that if the customers decided to do trade with the employee of bank, particularly even when they joined a new bank, the obligation could not be pleaded as no secrecy was hampered.

Protection under copyright law

In *Puneet Industrial Controls (P) Ltd. v. Aditya Enterprises Pvt. Ltd.*,²¹ the issue related to the determination of infringement of copyright by the defendant under sections 55 and 51 of the Copyright Act, 1957, by using the drawings of the plaintiff for manufacturing electronic relays and timers. The court held that the plaintiffs had made out a *prima facie* case for injunction and that the balance of convenience was in favor of the

19. 130 (2006) DLT 330.

20. [1965] 1 All ER 611.

21. 78 (1999) DLT 811.

plaintiffs. The court further held that the plaintiffs were the rightful owners of the copyright and that they could rightfully restrain the defendants *from imitating the products* of the plaintiffs. In *Burlington Home Shopping Pvt. Ltd. v. Rajnish Chibber*,²² the plaintiff was a mail order service company. It published mail order catalogues dealing with several consumer items and posted to the select list of the plaintiff's clients. The defendant was at one time an employee of the plaintiff and later established himself as a competitor by entering into mail order shopping business. He managed to get a copy of the database, an otherwise guarded secret of the plaintiff and started making use of the same for the purpose of establishing relationship with the plaintiff's customers.

The questions arose whether a database consisting of compilation of mailing addresses of customers can be subject matter of a copyright and whether the defendant can be said to have committed infringement of the plaintiff's copyright. Section 2(o) of the Copyright Act, 1957 defines 'literary work' to include, among others, computer programmes, tables and compilations including computer databases. Section 2(y) defines 'work' as meaning any of the following works, namely (i) a literary, dramatic, musical or artistic work, (ii) a cinematographic film, (iii) sound recording and under section 14, literary work is one of the items wherein exclusive rights can be claimed so as to amount to copyright. Under section 17(c), if a work is made in the course of other's employment under a contract of service or apprenticeship, it is the employer who is the first owner of the copyright therein in the absence of any agreement to the contrary. It was held that the defendant was restrained during pendency of the suit from carrying on any business including mail order business by utilizing the list of clientele/customers included in the database exclusively owned by the plaintiff. Thus, it is recognized by the courts that a database consisting of compilations of mail addresses of clients and subscribers can be subject matter of copyright and cannot be used without prior permission.

In *Tractors and Farm Equipment Ltd. v. Green Field Farm Equipments Pvt. Ltd.*,²³ the plaintiff wanted to restrain the respondents/defendants from manufacturing, selling, offering for sale, advertising or directly or indirectly dealing, in tractors named Maharaja or substantial imitation and reproduction of the digital images, photographs, drawings of the

22. 61 (1995) DLT 6.

23. AIR 2005 Mad. 19.

applicant's Hunter tractor, thereby amounting to infringement of applicant's copyright. Also the second respondent was a former employee was charged with *passing on the trade secrets* of the plaintiff to the respondent.

The suit was filed under sections 51, 55 and 62 of the Copyright Act but since the Hunter tractor remained an incomplete concept, it was not a production model and this being the position, there was no question of the first respondent/defendant passing of their products as that of the applicant's products. The court decided to grant injunction but held that if the respondents did not use the digital images and other plans of the Hunter tractor project, they were free to manufacture tractors.

In *Pepsi Foods Ltd. v. Bharat Coca-cola Holdings Pvt. Ltd.*,²⁴ it was alleged that Coke started approaching the employees of Pepsi with inducements to terminate their existing contracts with Pepsi and enter into an employment contract with Coke. It was further mentioned that in certain cases, Coke had successfully approached and induced some of Pepsi's employees into illegally terminating their existing contracts and entering into new employment contracts with Coke.

The employment contract, *inter alia*, contained a provision that the contract can be terminated only by a three months notice. The employees had also executed a confidential undertaking in favor of Pepsi, wherein they had undertaken, *inter alia*, to keep secret all information, knowledge, data, *etc.* acquired by them during the course of their employment with Pepsi and had also undertaken not to take up any employment with the competitor of Pepsi within one year of leaving Pepsi's employment for any reason whatsoever. The issue was whether Coke induced the employees of Pepsi to breach their contract of employment. It was held that the principles of law as laid down in English case *Greig v. Insole*²⁵ was fully applicable to the facts of the present case, particularly regarding the *principles of the tort of inducement of breach of contract*. The defendant must be shown to have knowledge of the relevant contract. He must be shown to have the intent to interfere with the contract. In bringing an action other than *Quia Timet Action*, the plaintiff must show that he suffered a special damage, *i.e.* more than the nominal damage.

In *Torquay Hotel v. Cousins*,²⁶ Lord Denning M.R. *extended liability to direct and deliberate* interference with the execution of a contract without causing a breach thereof. He stated that there were three requirements of

24. 81 (1999) DLT 122.

25. [1978] 3 ALL ER 449.

26. [1969] 1 All ER 522.

such extended liability: (i) an interference in the execution of a contract, extending to cases where the defendant “prevents or hinders” performance (even though there is no breach) which is (ii) deliberate and (iii) direct. Such interference with business did not require proof that existing contracts had been breached; but the cause of action existed only when the defendant had brought about damage. On consideration of the totality of the facts and circumstances of this case, *prima facie*, the plaintiffs were not entitled to injunction. Thus, the defendants were held to have not induced breach of contract between employees and Pepsi.

Employment agreement and trade secrets

In general, an employee cannot be restrained by contract of confidence after termination of his employment for making use of the skill, knowledge and experience acquired by him during the course of employment. He is at liberty to use the expertise and knowledge acquired by him for his own benefit or for the benefit of others. But an employee may not, either during his employment or after the termination of his employment divulge or use confidential information obtained by him during the course of his employment. An ex-employee may be restrained from using or disclosing a chemical formula or a list of customers, which he has committed to memory. There is a distinction between an employee and an ex-employee regarding the obligation of fidelity. There is a contractual obligation of fidelity by the employee to the employer, express or implied, preventing a skilled employee from assisting to a competitor despite the fact that no information has been disclosed to the employee in confidence. The obligation of an ex-employee to his employer is obviously more restricted. A person can work for a competitor of his former employer save in so far as he is restrained by a valid restrictive covenant. The ex-employee also may be under an obligation not to make use of or disclose information imparted to him in confidence by his former employer.²⁷

The protection of trade secrets is of paramount importance for maintaining and increasing market share. The largest threat to a company's trade secrets originates from current and former employees. The number one risk factor associated with the theft of trade secrets is from those with the trust relationship, with the organisation, primarily current and former employees. As Justice Holmes noted long ago, misappropriation of trade secrets is fundamentally rooted in the unique nature of employer and employee relationship. The word ‘property’ as applied to ... trade

27. 2003 (3) Bom CR 563.

secrets is an unanalysed expression of certain secondary consequence of the primary fact that law makes some rudimentary requirements of good faith. Whether the plaintiff have any valuable secret or not, the defendant knows the fact, whatever they are, through a special confidence that he accepted. The property may be denied, but the confidence cannot be. Therefore, important point in case of trade secret matter is not property or due process of law, but that the defendant stood in confidence relations with the plaintiffs.²⁸

Employee mobility and departures pose a unique threat. According to Justice Posner, a trade secret is really just a piece of information such as a customer list, or a method of production, or a secret formula for a soft drink. The only way the secret can be unmasked is by unlawful activity. In other words, trade secrets comprise information that is fundamentally defined by a confidential relationship the employee enjoys with his or her employer. Unlike patent, copyright and trademark, where the plaintiff claims a clear property right against whole world, trade secret information is fundamentally relational in nature. However, if an employer establishes the existence of the trade secret and that the current or former employee misappropriated it, the employer must still establish that it took reasonable measures to protect its confidential property in its relations with its employee. This poses new problems on the modern business when employees are well versed in using private web e-mail accounts and other means of communication that transcend the company email system.²⁹

Thus, the employee mobility has potential adverse impact on the ability to protect trade secrets from disclosure to competitors. Some companies focus on creating and implementing internal controls in this area before it is too late. Intellectual property management systems may not effectively protect trade secrets unless they have backing and sanction of law.

Section 27 of the Contract Act, 1872, gives statutory recognition to the common law principle of restraint of trade. This section has attracted most of the trade secret litigation in India. Section 27 provides that every agreement by which a person is restrained from carrying on any trade,

28. Bradford K. Newman, "Protecting Trade Secrets – Dealing with brave new World of Employee Mobility", 17 *Busi. L. Today* 25 (2007-2008).

29. *Ibid.*

business or profession, is invalid. In *Wipro Limited v. Beckman Coulter International SA*,³⁰ Delhi High Court dealt with the existing authorities on the doctrine of restraint of trade and trade secrets in India. In this case, the court initially referred to *Star India Pvt Ltd v. Laxmiraj Seetharam Nayak*³¹ and quoted the observation of the court that “[I]f the plaintiff had right to terminate the contract on the ground of misconduct it cannot be said that the defendant had absolutely no right to resign from the employment on account of better prospects or other personal reasons.”

The court in *Taprogge Gesellschaft MBH v. LAEC India Ltd.*,³² observed that the distinction between the restraints imposed by a contract, operative during the subsistence of the contract and those operative after the lifetime of the contract is of a fundamental character, the purpose for which a restraint is expected to serve determines the character of the restraint. The restraints which operate during the term of the contract should fulfill purpose of furthering the contract whereas the restraints operative after the termination of the contract should strive to secure freedom from competition from a person who no longer works within the contract. Generally speaking, the negative covenants operative during the term of the contract are not hit by section 27 of the Contract Act because they are designed to fulfill the contract and not to restrict them. On the other hand, when a restriction applies after the contract is terminated, the restriction on freedom of trade, business or profession takes the form of restraint on trade, business or profession. This distinction which is of a fundamental nature has to be borne in mind.

In *Ambiance India Pvt. Ltd. v. Sbri Naveen Jain*,³³ the plaintiff sought an *ad interim* injunction till the disposal of the suit to restrain the defendant from continuing in the employment of another and to divulge information, know-how and trade secrets which the defendant had acquired during his employment with the plaintiff company. The primary issue was whether an employee can be restricted from taking employment elsewhere and whether that attracted section 27 of the Contract Act. In *Krishan Murgai v. Superintendence Co. of India*,³⁴ it was held that an employee, particularly after the cessation of his relationship with his employer, is free to pursue his own business or seek employment with someone else. However, during

30. 2006 (2) CTLJ 57 (Del).

31. 2003 (3) Bom CR 563.

32. AIR 1988 Bom. 157.

33. 122 (2005) DLT 421.

34. AIR 1979 Del. 232.

the subsistence of his employment, the employee may be compelled not to get engaged in any other work or not to divulge the business/trade secrets of his employer to others and, especially, the competitors. Thus, in such a case, a restraint order may be passed against an employee because section 27 of the Contract Act does not get attracted to such situation. In the present case, the court was of view that the agreement between the parties prohibiting the defendant for two years from taking employment with any present, past or prospective customer of the plaintiff was void and hit by section 27 of the Contract Act.

In *Niranjan Shankar Golikari v. The Century Spinning and Mfg. Co. Ltd.*,³⁵ the appellant accepted the post of shift supervisor offered by the respondents and signed standard form of contract of five years. The appellant received training for nine months but due to some difficulty between the respondent and the appellant, he absented himself from work and then handed over his resignation letter which was not accepted. The appellant informed the respondent that he had joined another company for a higher pay. The company proceeded for an injunction against the appellant to restrain him from employment pursuant to clause 9 of the contract for four years and not to divulge secrets as in clause 17 of the contract. The issue involved was whether the above mentioned clauses of the contract were unreasonable in the light of section 27 of the Contract Act. It was held that the negative covenant in the present case restricted as it was to the period of employment and to work similar or substantially similar to the one carried on by the appellant when he was in the employment of the respondent company was reasonable and it was necessary for the protection of the company's interests and not such as the court would refuse to enforce. There was, therefore, no validity in the contention that the negative covenant contained in clause 17 amounted to a restraint of trade and, therefore, against public policy. A negative covenant that the employee would not engage himself in a trade or business or would not get himself employed by any other master for whom he would perform similar or substantially similar duties is not, therefore, a restraint of trade unless the contract as aforesaid is unconscionable or excessively harsh or unreasonable or one-sided as in the case of *W. H. Milsted & Son, Ltd.*³⁶ Thus, negative clauses in the agreement did not amount to restraint of trade, as per section 27 of the Contract Act.

35. AIR 1967 SC 1098.

36. [1927] W.N. 233.

In *Sandhya Organic Chemicals P. Ltd. v. United Phosphorous Ltd.*,³⁷ there was an application to restrain the defendant from producing aluminum phosphide and zinc phosphide by applying method as used by the plaintiff. There was evidence to prove that the defendant was carrying on production earlier also and same was within the knowledge of the plaintiff but the plaintiff failed to object to such operation of defendant at that time. Thus, the court was of the view that the balance of convenience, as per principles of equity and fraud, was in favour of the defendants and if the injunction as granted by the trial court was continued, the defendants would certainly suffer irreparable loss which will not be compensated in terms of money and especially when the plaintiff had already claimed damages to the tune of Rs. 10 crore. Therefore, the court sought to achieve a balance between the right of livelihood of the employees and the right of the employer to make profit. In *M/s. Sociedade de Fomento Industrial Ltd. v. Ravindranath Subraya Kamat*,³⁸ plaintiff company's assertion was that contract against the employee was binding forever and, therefore, company could seek restraint against the employee from competing and engaging in business similar to one of the company. The issue was examined by the court within the purview of section 27 of the Contract Act which held that specific pleading with facts was to be made for the plea to be accepted; a mere submission on the plea was not sufficient and engagement in similar business could not be *per se* termed as being similar business. Thus, it was held that when the period of appointment was upto a specified date, the plaintiff company's assertion that the contract was binding for all the time was not tenable. The court also held that the contract cannot be termed as void under section 27 of the Contract Act till the period of agreement was in force.

In *Shree Gopal Paper Mills Ltd. v. Surendra K. Ganeshdas Malhotra*,³⁹ the appellant sought an injunction to restrain the defendant during the continuance of the agreement of employment from giving his services or advice to any person or company whatsoever other than the plaintiff or from becoming interested or engaged in any enterprise or undertaking either alone or jointly with other or any other in any business or trade other than the plaintiff's business or trade was sought. The defendant was given special training in the manufacture of paper and, by reason of his

37. AIR 1997 Guj. 177.

38. AIR 1999 Bom. 158.

39. AIR 1962 Cal. 61.

association with the said paper mills, the defendant acquired special knowledge and experience in the manufacture of paper and by reason of his having acquired such knowledge and experience, the plaintiff came to repose confidence in him. Later on, the defendant abruptly left the employment of the plaintiff to join another competitor. The defendant stated that the plaintiff committed breach of the agreement by not giving him necessary training as provided in the agreement of apprenticeship but by utilising his services for gain and manufacturing work. The defendant denied that he was given any special training or that he acquired any special knowledge or experience in the manufacture of paper.

The question before the court was whether the said contract of employment attracted section 27 of the Contract Act. The court was of the view that there was no enforceable covenant preventing the defendant from being employed at another place and the plaintiff was not entitled to an injunction. The court is empowered to decide whether restrain in question is valid and justified. Thus, the court held that it had to test the validity of restrain and whether the covenant of restrain was designed to protect legitimate proprietary interest of the covenantee. The employer may protect his *trade secrets* against disclosure or revelation by employee. Similarly, a buyer of goodwill of any business may protect it from competitive activities of seller, but, in no case, law will allow an action merely to avoid competition and the restrain wider than protection of proprietary interest will also not be permitted under the law.

In *Pramod, Son of Laxmikant Sisamkar and Uday Narayanrao Kirpekar v. Garware Plastics and Polyester Ltd.*,⁴⁰ the respondent claimed that petitioners, who were ex-employees of respondent's company, were under possession of some important documents of the company which they were required to handover at time of leaving company. But no specification was given by the respondent as to which documents were in possession of the petitioners. The issue was whether the petitioners were liable for possession of secret documents and as they were spreading of trade secrets of the respondents and were liable for conviction under sections 408 (criminal breach of trust) and 420 (cheating) of the Indian Penal Code, 1860. It was held that neither in the complaints nor in the verification statement, any specific documents were mentioned which were in the possession of the petitioners at the time they left the service. There was not even a general statement which documents of the company used to be in their

40. 1986 (3) Bom. CR 411.

possession during their services which they would be required to hand over at the time of leaving their service. Thus, the court held that no offence could be said to be committed by the petitioners by merely carrying the said technical know-how in their hands unless their malafide intention can be proved.

In *American Express Bank Ltd. v. Ms. Priya Puri*,⁴¹ the issue involved was of enforcement of post-employment contract. The defendant employee was restrained from using information and data regarding wealth of customers of the plaintiff bank. The defendant contended that the allegation had been made against her only with a view to coerce her to remain in her job and not to join any competitor bank. The legal question was whether the said post-employment contract attracted section 27 of the Contract Act and whether the said restraint was unreasonable. It was held that, *prima facie*, the defendant did not obtain any data as alleged by the plaintiff-bank. Further, mere knowledge of names and addresses and even the financial details of a customer would not be material, as the consent of the customer and his volition as to with whom was of prime importance. The rights of an employee to seek and search for better employment are not to be curbed by an injunction even on the ground that she had confidential data. Balance of convenience was, therefore, held to be in favor of the defendant. Thus, the court differentiated between service trade secrets and what were routine day-to-day affairs of employer which were in the knowledge of many and were commonly known to others which could not be called trade secrets. Trade secret could be a formula, technical know-how or a peculiar mode or method of business adopted by an employer, which was unknown to others.

In *Control Print (India) Limited v. Sanjay Sribastab*,⁴² the plaintiffs filed a suit for permanent and mandatory injunctions and recovery of damages against the respondents and to stop them from manufacturing, dealing in or servicing for ink jet printers and to hand over all toolkits, service manuals and/or literature as well as consumables including parts and components of ink jet printers lying in their possession and custody. The respondents were former employees of the plaintiff and were also charged with misusing the trade secrets of the plaintiff. The respondents were also privy to and had access to information, formulae, process, method,

41. 2006 (110) FLR 1061.

42. (2006) 2 CALLT 145 (HC).

composition, service manuals, technical communications, field bulletins, documents concerning the said equipments and/or the process of servicing and maintenance thereof. During the course of their employment, the respondents received diverse nature of specialized training in respect of their work and in respect of marking and coding machines and/or parts, ink, make up cleaning solution, filters, maintenance and servicing thereof. After resigning from their employment, these respondents through another respondent were participating in the business of selling, manufacturing and/or servicing, products services similar to and/or comparable with and/or competitive to the appellant business and/or services. The respondents were purporting to render services and maintenance in respect of the appellant's machinery, which only the appellant was authorized or entitled to do. The appellant had come to learn that the respondents were attempting to procure and/or entice further customers of the appellant. The court held that there was no merit in the case of the appellant and that the respondent engineers were free to repair and modify any equipment of their like, if their customers so desired. Therefore, the court refused to allow the appeal since the law afforded no protection to the appellants.

Misappropriation of trade secrets

U.S. courts have developed the tort of misappropriation, which imposes liability on third parties for the use of trade secrets. The tort of misappropriation is not committed by a person who applies or publishes a trade secret unless that person has used some unlawful means or breached some duty created by contract or implied by law resulting from some employment or similar relationship.⁴³ It is the use of improper means to procure the trade secret, rather than the mere copying or use, which is the basis of liability.⁴⁴ UTSA contains definitions of "misappropriation" and "improper means".

"Misappropriation" means:

- (i) acquisition of a trade secret of another by a person who knows or has reason to know that the trade secret was acquired by improper means; or
- (ii) disclosure or use of a trade secret of another without express or implied consent by a person who

43. *Smith v. Snap-On Tools Corpn.*, 833 F 2d 578, 581 (5th Cir. 1988).

44. *Trandes Corpn. v. Guy F. Atkinson*, 996 F 2d 655, 660 (4th Cir. 1993).

- (A) used improper means to acquire knowledge of the trade secret; or
- (B) at the time of disclosure or use knew or had reason to know that his knowledge of the trade secret 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
- (C) 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.

“Improper means” is defined to include theft, bribery, misrepresentation, breach or inducement of a breach of duty to maintain secrecy, or espionage through electronic or other means.

The *American Restatement of Laws* has given the definition of “improper means” to include the unauthorized interception of communications and may involve computer hacking in the definition of improper means. The improper means those are either wrongful in themselves or wrongful under the circumstances of the case come within the tort of misappropriation.⁴⁵ The courts have held that even if there was no contractual nexus between the parties, liability arises if the confidentiality of the information is obvious.⁴⁶ It must be emphasised that third parties are liable only when the information is not only known, but also known to be confidential in character.⁴⁷

In India, the tort of misappropriation has not achieved judicial recognition. However, Indian courts may adopt the common law approach and grant relief in case of misappropriation of trade secrets. The case of misappropriation of trade secrets can be brought under criminal offences.⁴⁸ However, criminal route for good reasons is rarely used. *Firstly*, it is the government which has to prosecute the case which places unnecessary burden on the government in respect of a dispute which is essentially civil

45. *Restatement of Laws* (3rd ed., 1995).

46. *Saltman v. Campbell* [1963] 3 All ER 413.

47. *Fraser v. Thames Television Ltd.* [1983] 2 All ER 101.

48. These offences may be theft (s. 378), criminal misappropriation (s. 403) and criminal breach of trust (s. 405) under the Indian Penal Code, 1860.

in nature, and even though private persons under section 302 can launch prosecution, the discretion lies with the magistrate to allow it which makes such recourse uncertain. *Secondly*, the burden of proof is higher than in civil cases and *thirdly*, the remedy or relief, which is granted by a criminal court, makes less sense to business and commerce of an entrepreneur and does not curb the economic loss.⁴⁹

V Remedies

The remedies for breach of confidence generally consist of an injunction and damages. The injunction may be interlocutory or permanent. The information may remain confidential only for a limited period in which case the injunction will not extend beyond that period. The principles governing the grant of interlocutory injunction are the same for all kinds of actions. Since the information alleged to be confidential may be of value to the plaintiff only for a certain period, *interim* injunction will ordinarily be granted only for a specified period depending upon the circumstances and the nature of the confidential information.

In regard to balance of convenience, the following factors are considered: (i) whether the effect of an injunction would be disastrous to the defendants; (ii) whether the terms of injunction are such that it is extremely difficult for the defendants to know what they may do and what they may not do; (iii) whether it is certain upon the material before the court that even if they were successful at the trial, the plaintiff would obtain an injunction rather than damages. Damages or compensation is determined on the basis of the market value of the confidential information based on a notional sale between a willing seller and a willing purchaser. This method may be more appropriate for confidential information relating to industrial designs or processes or business secrets.⁵⁰

In case of infringement of trade secrets, the remedy may be injunction or damages. The Specific Relief Act, 1877 is applicable for an action of injunction. The requirements of *prima facie* case and balance of convenience and irreparable injury must be established. In many cases, the courts have refused to grant injunction for breach of obligation of confidence in the absence of a *prima facie* case or for insufficiency of evidence. The courts

49. Jayashree Watal, *Intellectual Property Rights in the WTO and Developing Countries* 187 (Oxford University Press, 2005).

50. P. Narayanan, *Intellectual Property Law* 375 (3rd ed., 2001, Eastern Law House, New Delhi).

have observed that in order to obtain an injunction from the court there should not be concealment of material fact by the plaintiff before getting the equitable relief from the court. The Act provides that an injunction which cannot be specifically enforced and supervised by the court should not be granted.⁵¹ The Act also prohibits grant of such injunctions.⁵²

Proper disclosure of trade secret

The proper disclosure of trade secret involved in the case is significant for obtaining relief. In *Star India Private Limited v. Laxmiraj Seetharam Nayak*,⁵³ the court pointed out that the trade secret involved should be brought into the notice of the court for claiming relief. In response to the company's protest that in case the trade secret was revealed, it will be no more a secret, the court said that it did not want to know the method or contents of the trade secret but the name or the item involving trade secret would be sufficient.

VI Conclusion

In India, trade secret protection is still in an embryonic stage, with no special legislation codifying the principles of trade secret law. In this era of globalization, multinational corporations want assurances that the national law should protect their secrets. This is clear from the TRIPS Agreement 1995 and article 10 of the Paris Convention which incorporates a duty on signatories to protect confidential information. The kind of protection envisaged by the TRIPS Agreement is not afforded by the Indian law relating to trade secrets. The TRIPS Agreement imposes an obligation on India to codify the law on trade secrets. The proposed legislation may also be conveniently based on the principles evolved by the Common Law courts or the Federal Trade Secrets Law of USA under the Uniform Trade Secrets Act, 1990 and the Restatement of the Law (Third) of Unfair Competition and the related judicial pronouncements. The codified law must define trade secret and its prerequisites and also recognize the tort of misappropriation, which can be committed through improper means or breach of confidence.

51. The Specific Relief Act, 1877, s. 41(e).

52. *Id.*, s. 14 (c) and (d).

53. 2003 (3) Bom CR 563.