

# TRADE SECRETS LAW AND INNOVATION POLICY IN INDIA

*Faizanur Rahman*<sup>\*</sup>

## INTRODUCTION

Innovation is a key driver for growth and expansion in a knowledge based economy. The industrial applicability of innovation helps to identify solutions for business and encourage further advancement. Innovation policies are required for science and technological research to maintain competitiveness in the global village. The dynamic nature of science and technological disciplines calls for creative ideas flowing from diverse and robust research base. An adequate infrastructure to foster innovation thus becomes essential to keep pace with current needs as well as provide a platform for future technology.<sup>1</sup>

Indian Government has taken a step ahead by releasing a draft National Innovation Act (NI Act), 2008 to boost research and innovation. The legislation is released by the Department of Science and technology and aims at building a comprehensive framework to

encourage innovation. Promotion of innovation was one of the policy objectives of the Science and Technology Policy, 2003 which intended a comprehensive national system of innovation covering science and technology as also legal, financial and other related aspects. The proposed National Innovation Act if passed by the Parliament will become a realization of the policy objective. The proposed legislation will be effective in promoting excellence in technology, education and science as it boost research and innovation with specific safeguards to protect confidential information, trade secret and innovation. The broad objectives of the draft legislation are: facilitating public, private, or a consortium of public-private initiatives to build an innovation support system, evolving a National Integrated Science and Technology Plan and Codifying and consolidating the law of confidentiality to protect Confidential Information, Trade Secrets and Innovation. But title of the draft Act indicates that, it is primarily concerned with development and encouragement of innovation in India. Therefore, in this work an attempt has been made to critically examine the provisions of the

---

<sup>\*</sup>Assistant Professor, Faculty of Law, Jamia Millia Islamia, New Delhi-25

<sup>1</sup>Tanushree Sangal, *Unfurling the Proposed National Innovation Act*, 3(3) MANUPATRA INTELLECTUAL PROPERTY REPORTS 29 (2007).

Act whether they would really stand as supporting aid in protecting confidential information and interest of proprietors along with present mechanism to protect trade secrets in India.

### **AMERICA COMPETES ACT, 2007**

The draft National Innovation Act is framed on the lines of America's COMPETES Act (America Creating Opportunities to Meaningfully Promote Excellence in Technology, Education and Science Act), which was enacted to create opportunities to meaningfully promote excellence in technology, education and science. The America Act contains provisions for industry, academic and government participation to harness and magnify intellectual capital and enhance legal and regulatory framework for these efforts. It has a long-term perspective to reap the benefits of innovation in science, technology, industry and academics as the nation has built up its economic and industrial superstructure on these pillars. Accordingly, the policy framework outlined here relates to research funding, taxation benefits, immigration, international trade, incentive and support programmes for higher education and collaborative activity between industry and federal and private corporations, universities, associations and research organisations. It speaks of allocation of

Federal resources in education, job training, technology research and development, considering global trends in competitiveness and innovation.<sup>2</sup>

The Preamble of the COMPETES Act puts the objective of the law as to invest in innovation through research and development, and to improve the competitiveness of the United States.<sup>3</sup> It focuses on three primary areas of importance of maintaining and improving United States' innovation in the 21<sup>st</sup> Century: (1) increasing research investment; (2) strengthening educational opportunities in science, technology, engineering and mathematics from elementary through graduates school; and (3) developing an innovation infrastructure.

### **NATIONAL INNOVATION LAWS**

It might be useful in this connection to look at the US position. In the US, laws protecting trade secrets are enacted by the states, but most such laws are based on the model Uniform Trade Secrets Act, 1970. Under this model US draft (only New York and Massachusetts have not yet adopted the UTSA), a "trade secret" is defined as "information,

---

<sup>2</sup> *Id.*, at 30.

<sup>3</sup> Kamakhya Srivastava, *Indian Innovation Act: Trade Secrets and Confidentiality*, (March, 2015) <http://ipfrontline.com/2008/10/indian-innovation-act-trade-secrets-and-confidentiality/>.

including a formula, pattern, compilation, program 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.<sup>4</sup>

This might very well be compared with the rather similar Section 2 (3) of the Indian Innovation Bill which defines “confidential information”:

*Confidential Information means information, including a formula, pattern, compilation, program device, method, technique or process, that: (a) is secret, in 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 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 responsible steps under the circumstances by the person lawfully in control of the information, to keep it secret.*

It is debatable whether “information” is to be treated as property. In the US, in addition

---

<sup>4</sup> Uniform Trade Secrets Act, § 1 (1970).

to the model Trade Secrets Act, trade secrets are protected under the Economic Espionage Act, 1996 which, under some circumstances, makes “theft” of confidential information a crime. This might lend credence to the view that confidential information is “property”. Under (English) common law principles, the protection of confidential information is looked at as an equitable right rather than a property right. In such circumstances, it might be necessary to be cautious before borrowing straight from the US position.<sup>5</sup>

However, the definition in the Innovation Bill also appears to be based (more than the US model law) on Article 39.2 of the TRIPS Agreement. It may be recalled that under the TRIPS Agreement ‘trade secrets’ are referred as ‘Undisclosed Information’.<sup>6</sup> A commentary note on Article 39.2 on the WTO official website states, “*The Agreement does not require undisclosed information to be treated as a form of property, but it does require 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 his or her consent in a manner*

---

<sup>5</sup> Zafar Mahfooz Nomani & Faizanur Rahman, *Intellection of Trade Secret and Innovation Laws in India*, 16(4) J. INTELL. PROP. RTS. 341-347 (July 2011).

<sup>6</sup> *Protection of trade secrets, undisclosed information*, THE HINDU (March, 2015), <http://www.thehindu.com/thehindu/biz/2001/11/22/stories/2001112200060100.htm>.

*contrary to honest commercial practices.*” For the purpose of this provision “*Manner contrary to honest commercial practices*” includes breach of contract, breach of confidence and inducement to breach, as well as the acquisition of undisclosed information by third parties who knew, or were grossly negligent in failing to know, that such practices were involved in the acquisition.” The definition in the Bill is thus consistent with the nature of the right sought to be protected.

The draft NI Act through codification and consolidation of the law of confidentiality demonstrates the significance of trade secrets and confidential information within the realm of innovation. Innovative ideas, products and business practices help enterprises to maintain competitive superiority in the market alongside furthering their economic interests.<sup>7</sup> It is for this reason that there is a need to prevent others from taking advantage of the breakthrough ideas and knowledge or in ordinary parlance the confidential information or trade secrets.<sup>8</sup>

## SYNERGISING TRADE SECRET

In India, protection of trade secret is governed under Common Law remedy as

---

<sup>7</sup> Malathi Lkshamikumaran et al., *Utility Models: Protection for Small Innovations*, 46 (2) JOURNAL OF INDIAN LAW INSTITUTE 322-332 (2004).

<sup>8</sup> R. Shah, *Management of IPR in Small Scale Industries*, a paper presented in TRIPS Congress, 2002 held at New Delhi on 6-8 October, 2002.

evident under Section 27 of the Indian Contract Act 1872. Under the draft NI Act, trade secret and confidential information are elucidated in Chapter VI titled as “Confidential and Confidential Information and Remedies and Offences”. The chapter explicates on Obligations of Confidentiality and remedies to protect and preserve confidentiality. The obligations to maintain confidential information under the draft statute rest on the contractual terms and conditions, government recommendation and on any right arising in equity. The draft NI Act casts an obligation of confidentiality to parties contractually set out the terms and conditions governing rights and obligations in respect of confidential information and prevents misappropriation.<sup>9</sup> The confidentiality arising from non-contractual relationships such as equitable considerations may also create rights to maintain and obligation as to preserve confidentiality and rights to prevent disclosure into public domain.<sup>10</sup>

The remedies to protect and preserve confidentiality and misappropriation include granting mandatory protective orders in connection with discovery proceedings, holding in-camera hearings, sealing the confidential information including confidential filings or

---

<sup>9</sup> Draft NI Act, Art. 8.

<sup>10</sup> *Id.*, Article 9.

records of the action, and ordering any person.<sup>11</sup> The exception to misappropriation of confidential information enumerates that confidential information shall not have been misappropriated if available in the public domain and held to be in public interest by a court of law.<sup>12</sup> The remedy under the draft NI Act include preventive or mandatory injunction restraining misappropriation of confidential information<sup>13</sup> besides the mandatory damages<sup>14</sup>.

## DISAMBIGUATION OF DRAFT NATIONAL INNOVATION ACT

Chapter VI of the draft NI Act titled as “Confidential and Confidential Information and Remedied and Offences containing sections from 8 to 14 and deals extensively with confidentiality, confidential information and its allied issues.<sup>15</sup> Initial sections of the chapter lay down obligations on the party received the confidential information.

### *Confidentiality and Confidential Information*

Specifically, section 8<sup>16</sup> of the draft NI Act casts an obligation of confidentiality to

---

<sup>11</sup> *Id.*, Article 10.

<sup>12</sup> *Id.*, Article 11.

<sup>13</sup> *Id.*, Article 12.

<sup>14</sup> *Id.*, Article 13.

<sup>15</sup> <http://www.dst.gov.in/draftinnovationlaw.pdf> (March, 2014).

<sup>16</sup> *Id.*, § 8 read as: Obligations of Confidentiality:

(1) Parties may contractually set out the terms and conditions governing rights and obligations in

parties contractually set out the terms and conditions governing rights and obligations in respect of confidential information and prevents misappropriation.

The section states that parties are at liberty to contractually set out the terms and conditions governing rights and obligations in respect of maintenance of confidentiality and to prevent misappropriation of confidential Information.

The confidentiality arising from non-contractual relationships such as equitable considerations may also create rights to maintain and obligation as to preserve confidentiality and rights to prevent disclosure into public domain.<sup>17</sup>

---

respect of Confidential Information, including with a view to maintain confidentiality and prevent Misappropriation.

(2) Subject to any terms and conditions agreed to between parties, the respective rights and obligations in relation to the said Confidential Information shall be governed by such terms and conditions as may be prescribed by the Appropriate Government pursuant to Section 15(d).

(3) Notwithstanding anything contained in sub-section (1), parties may nevertheless enforce any rights in Confidential Information arising in equity or as a result of circumstances imparting an obligation of confidence.

<sup>17</sup>*Id.*, § 9 read as- Confidentiality Arising from Non-Contractual Relationships: Obligations of confidentiality and equitable considerations may also create rights to maintain and obligation as to preserve confidentiality and rights to prevent disclosure or release into the public domain of Confidential Information by any third party who has received such information other than with the consent of a complainant.

Section 9 imposes an obligation of confidentiality even in the absence of contractual obligation on party who received confidential information to preserve confidentiality and not to disclose or release it in the public domain or third party without the consent of a proprietor of information on the basis of equity principles.

### ***Remedies and Offences***

The remedies to protect and preserve confidentiality and misappropriation include granting mandatory protective orders in connection with discovery proceedings, holding in-camera hearings, sealing the confidential information including confidential filings or records of the action and ordering any person.

Section 10<sup>18</sup> of the Act deals with remedies to protect and preserve confidentiality and orders to prevent threatened or apprehended misappropriation of information. It prescribes certain guidelines to preserve and protect

---

<sup>18</sup> *Id.*, § 10 reads as: In relation to any proceeding concerning actual or apprehended Misappropriation of Confidential Information, the court shall preserve the secrecy of the subject matter of the dispute claimed as Confidential Information by reasonable means, which may include granting mandatory protective orders in connection with discovery proceedings, holding in-camera hearings, sealing the Confidential Information including confidential filings or records of the action, and ordering any person or class of persons impleaded in an action not to disclose the Confidential Information referred to in the claim without prior orders of the court.

confidential information from being misused during court proceedings. Guidelines include:

- (i) grant of mandatory protective orders
- (ii) holding proceedings in-camera
- (iii) filings or recording confidentially of the information, and
- (iv) ordering any person or class of persons impleaded in an action not to disclose the confidential information without prior orders of the court.

The exception to misappropriation of confidential information enumerates that confidential information shall not have been misappropriated if available in the public domain and held to be in public interest by a court of law<sup>19</sup>. According to the section followings shall not be considered as misappropriation of confidential information under the Act:

- (i) if the information is available in the public domain; or
- (ii) if it has been independently developed by the alleged Misappropriator, or by any third party or;
- (iii) where disclosure of information is considered by court of law in the interest of the public.

---

<sup>19</sup> *Id.*, § 11.

The remedy under the draft NI Act include preventive or mandatory injunction restraining misappropriation of confidential information<sup>20</sup> besides the mandatory damages. Significantly, Section 12 is an extensive section providing for preventive or mandatory injunctions restraining the misappropriation of confidential information. An injunction, being an equitable remedy, is generally only issued when other remedy at law (such as damages) is inadequate. Mandatory damages on proof of breach of confidentiality are also provided for in Section 13.

According to section 12 of the Act, court is authorized to grant interim, ad interim or final injunctions, as it may be necessary to restrain actual, threatened or even apprehended misappropriation of confidential information. Further, if the court have already granted an injunction, may vary or vacate it, if is found that, information in question will under fall under any of exceptions mentioned in preceding section. The Section speaks about preventive or mandatory injunction restraining misappropriation of Confidential Information:

(1) A court shall grant such injunctions, including interim, ad interim or final injunctions, as may be necessary to restrain actual, threatened or apprehended

Misappropriation of Confidential Information.

- (2) A court may vary or vacate an injunction granted under sub-section (1) in the event that the Confidential Information in question is found to fall under any of the categories described in clause (a) to (c) of Section 11.
- (3) In the event a complainant secures an interim injunction against an alleged or apprehended Misappropriation and is later found not to have been entitled to such relief for failure to establish any of the grounds essential to securing interim relief, or where the issue relating to which interim relief was initially secured, is eventually decided against the complainant, then such complainant shall be liable to compensate the defendant for actual losses arising as a direct result of the interim relief earlier secured.
- (4) In exceptional circumstances, an injunction may stipulate conditions for future use upon payment of a reasonable royalty for no longer than the period of time for which use could have been prohibited.
- (5) The Appropriate Government shall provide its machinery, including police and local administration, to aid and assist in

---

<sup>20</sup> *Id.*, § 12.

implementation/enforcement of any injunction granted or other direction passed by a court under sub-section (1).

In addition to this, section imposes an obligation on the complainant who secured an interim injunction against defendant and is later found by the court that the complainant is not entitled to such relief for failure to establish any of the grounds essential to securing interim relief, then such complainant shall be liable to compensate the defendant for actual losses arising as a direct result of the interim relief earlier secured. In addition to this, the provision asks the appropriate Government to provide machinery including police and local administration to aid and assist in implementation/enforcement of any injunction granted section.

Section 13 speaks about mandatory damages on proof of breach of confidentiality. The section read as follow:

(1) Where a Misappropriator has utilized Confidential Information or is directly or indirectly responsible for Confidential Information falling into the hands of a third party or into the public domain, the complainant shall be entitled to elect to receive anyone of the following:

- a. such mandatory damages not exceeding the limit as may have been notified by the Appropriate Government from time to time as under Section 15 (c), which sum shall be recoverable as a contract debt; or
- b. such damages as may have been agreed upon by contract between the parties; or
- c. actual damages as may be demonstrated, including consequential losses;

(2) In addition to damages provided for in sub-section (1), where a Misappropriator is found to have acted with wilful or malicious intent, the complainant shall be entitled to not more than three times the mandatory damages provided for in Section 15 (1) (a) and costs including attorney fees.

(3) Subject to the requirements for securing grant of interim relief, a court may require an alleged Misappropriator to pre-deposit upto 10 percent of the damages claimed by the complainant as under sub-section (1), as a pre-condition to a continued right to defend the suit.

According to the section where a misappropriator has misappropriated confidential information either directly or indirectly or made it to fall into the hands of a



third party or into the public domain without consent and knowledge of the complainant, he shall be bound to give damages, hence the complainant is entitled to elect and receive anyone of the following damages:

- (i) such mandatory damages not exceeding the limit as may have been notified by the appropriate Government from time to time;
- (ii) such damages as may have been agreed upon by contract between the parties; or
- (iii) actual damages as may be demonstrated including consequential losses.

In addition to damages, the complainant is entitled to receive but not more than three times the mandatory damages as prescribed by the appropriate Government including attorney fees, if it is found that the misappropriator have acted with wilful or malicious intent to incur loss to complainant in pursuance of this the defendant is required to deposit upto 10 percent of the damages claimed by the complainant in order to defend his right in the suit.

The final section of the chapter, i.e. Section 14 provides immunity for acts done in good faith, or purporting to do so. Section states that:

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

Section 14 immunes all persons who come under the ambit of the Act from taking up any judicial proceedings against them for acts done in good faith or purporting to be so done under this Act or the Rules and Regulations made under the Act.

## CRITICAL ANALYSIS OF THE NI ACT

The draft Act does not stands as piece of legislation to codify and consolidate the law of confidential information because it does not address the issue of confidential information in proper manner to be a successful law relating to confidential information. Since, the Act does not deal with subject matters ideally but also includes other allied areas such encouragement and development of innovation, marketing of results of innovation, therefore, it can be stated that it is the first time in the history of India that Government has proposed to enact legislation which combines allied subject matters each other.<sup>21</sup>

Chapter VI containing sections from 8 to 14 exclusively discusses on allied issues concerning to confidential information. Section 9 deals with obligation of confidentiality on the person who received the confidential

---

<sup>21</sup>Gouramma Patil, *Critical Analysis of 'The National Innovation (Draft) Act, 2008*, (Retrieved on March, 2015), <http://ssrn.com/abstract=2239718> or <http://dx.doi.org/10.2139/ssrn.2239718> .

information on contractual terms to maintain secrecy or not to disclose to the public or third party without the consent and knowledge of the person who conveyed the information. In addition to this, it further states that the respective rights and obligations of parties in relation to the confidential information shall be governed by such terms and conditions as may be prescribed by the appropriate Government. Generally it would be reasonable that if the parties have contractual agreements to govern their rights and obligations in relation to confidential information but it is irrational and unjust that such power has been conferred on Government to direct and govern rights and obligations of parties because if such absolute power has been bestowed on Government to oversee right and duties of parties it would lead to irrationality, unfairness and unjustness.

The draft Act recommends common law remedies such as injunctions and damages etc. in case of misappropriation of confidential information which already exist in India in case of misuse or infringement of confidential information; so the Act again fell short in providing any new remedies in case of misappropriation of confidential information. In addition, to this the Act has failed to lay down any penalty provisions in case of misappropriation of confidential information

which is regarded as grave offence in relation to confidential information.

Section 11 provides an exception to the offence of breaching trade secrets. It says that disclosure of the confidential information can be held to be in public interest by a court of law. The ground for criticism is the term “public interest” which in the Act is too vague.<sup>22</sup> Moreover Section 12(4) is also controversial. This says that an injunction restraining uses of confidential information “may stipulate conditions for future use upon payment of a reasonable royalty for no longer than the period of time for which use could have been prohibited.” This proposed exception from infringement tantamount to introduce a compulsory license in trade secrets.

Apart from bunch of flaws just discussed above another fault of the Act which joins the same group lies in section 14 of the Act because section absolutely immunises person for acts done in good faith or purporting to be so done under the Act, rules or regulations made there under, this provision can be misused by any person who might come under the ambit of the Act like complainant, defendant and authorities who acts under provisions of the Act.

---

<sup>22</sup> Peter Ollier, *Managing Intellectual Property: India trade secrets law dubbed “absurd”*, (March, 2015), [https://www.tradesecretsblog.info/2008/10/managing\\_intellectual\\_property.html](https://www.tradesecretsblog.info/2008/10/managing_intellectual_property.html) .

## CONCLUSION

In this era of globalization, multinational corporations want assurances that the national law will protect their trade secrets in order to invest in India; and legislation in this regard may also specify how a court must conduct its proceedings because litigation in this aspect is a delicate which might either kill the plaintiff's economic benefits derived from the secret or his prospects of competition if the information is leaked even by mistake to some other person. Further, by encoding substantive provisions in relation to protection of trade secrets, the Draft Act will go a long way in creating an effective trade secrets regime in India.<sup>23</sup>

The draft Act has suitably identified the performance metrics for building up an innovation-based competitive economy, but the parameters and roadmap for their execution has to be designed. The Draft is open to public suggestions and debate following which it shall become a final legislative enactment. The final Act should reflect the plans and measures to be undertaken in furtherance of the broad goals, the corpus to be set aside to realize them and should also identify the various governments and

authorities responsible for clearances, infrastructural support, participation and benefit sharing. It needs to be furnished with sound provisions for different sectors for execution of the goals have to be put down. The enforcement mechanisms and the infrastructural set up to effectuate the substantive provisions have to be stated clearly. There is a need to integrate planning with building linkages across different sectors to spur innovative activity. A well-prepared trade secret programme will then complement a company's other IP protection strategies to reward innovation.<sup>24</sup>

---

<sup>23</sup> Gaurav Wahie, *Evaluating Trade Secret under the IPR Paradigm: The Hypothesis of Trade Secrets as Rights Analyzed in the Pure Hohfeldian Sense*, (April, 2016), <http://www.legalservicesindia.com/articles/tradesecrets.htm>.

---

<sup>24</sup> Anirudh Hariani, *The Draft National Innovation Act, 2008: Breaking the Shackles of Indian Innovation*, (February, 2015), [http://indialawjournal.com/volume3/issue\\_1/article\\_by\\_anirudh.html](http://indialawjournal.com/volume3/issue_1/article_by_anirudh.html).

UJLPP 3.1

UJLPP 3.1