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B.A., LL.B.(Hons.), 5th Year.**PROTECTION OF TRADE SECRETS IN THE LIGHT OF BUSINESS LAWS: HOW CAN THE EXISTING CONFLICT BE ERASED****INTRODUCTION**

Businesses both on national and global levels function by using and employing a host of intellectual property tools ^[1]. Examples covers businesses that create content that is protected under copyright law; business that build up their brand using a registered and/or well-known mark; and businesses that develop (and patent) inventions or designs. These intellectual property tools are what refer to as the “overt” tools of intellectual property law. They are types of intellectual property visible to all. Their impact is felt and as well as seen directly. Frequently, these overt tools are subject to licensing, franchising, or assignment agreements. Indeed, under the functioning business, there is a wealth of information that is necessary to the functioning of the business and provides a continuous advantage to that business over its competitors. These tools are referred to collectively as “trade secrets” ^[2].

Intellectual property rights protection is one of the most important legal issues in both national as well as in international trade area. Intellectual property like patent, trademark, copyrights and trade secret needs to be a subject of global prospective with the increase of international and investment around the world. Every intellectual property needs protection from all competition till the right is granted to the owner by the government.

¹ For a review of intellectual property in the global context, with some references to U.S. law, see CROSS ET AL., GLOBAL ISSUES IN INTELLECTUAL PROPERTY LAW (2010). For a specific discussion on trade secrets in the U.S. and the global arena, see id. at 257–66.

² See Michael Risch, Why Do We Have Trade Secrets?, 11 MARQ. INTELL. PROP. L. REV. 1, 6–7 (2007).

TRADE SECRET

A general definition of Trade Secret is “*anything the owner of useful information doesn’t want the competitors to know*”.

The prefix in the name of this field (“trade”) is problematic because it implies that trade secrets are limited to the domain of trade and commerce. In fact, trade secrets contain broadly any type of information that is kept confidential by a business ^[3] that includes, consumer lists, consumer profiles, research data, supplier prices, business plans, recipes, and methods of production ^[4]. A trade secret is an item of private information or confidential information concerning the commercial practices of proprietary knowledge of a business and is subject to reasonable efforts to preserve the confidentiality. In some jurisdictions, they’re mentioned as classified information, proprietary information or know how.

Apart from all other Intellectual property right, trade secret is one among the intellectual property right that helps in protecting confidential information of a business. A trade secret is a process or a practice of a company that is generally confidential information and not known outside of the company. Information which is often a product of internal research and development is considered a trade secret that gives a company an economic advantage over its competitors. There are three factors which are common in all definitions of a Trade secret: firstly, the information is not generally known to the public; secondly, that information confers economic benefit on its holder because the information is not publicly known; and the third factor is where the holder makes reasonable effort to maintain its secrecy. In international law, these factors of a Trade secret are defined under article 39 of the Agreement on Trade-Related Aspects of Intellectual Property, which is commonly known as the TRIPS agreement. Similarly, in the United States, trade secrets are defined and protected by the Economic Espionage Act 1996. Though trade secret laws are important, but they are considered as an invisible component of a company’s Intellectual Property (IP) since they contribute to a company’s value, measured as its market capitalization. The biggest problem

³ For an expansive discussion of the origins and justifications of trade secrets, see generally Risch, *supra* note 7. For a clear indication of the broad coverage of trade secrets, see 18 U.S.C. § 1839(3) (1996) (defining trade secrets to include “all forms and types of financial, business, scientific, technical, economic, or engineering information, including patterns, plans, compilations, programmed devices, formulas, designs, prototypes, methods, techniques, processes, procedures, programs, or codes, whether tangible or intangible, and whether or how stored, compiled, or memorialized physically, electronically, graphically, photographically, or in writing”).

⁴ KEITH E. MASKUS, *INTELLECTUAL PROPERTY RIGHTS IN THE GLOBAL ECONOMY* 49 (2000) (“Trade secrets are proprietary information about production processes, including such mundane but commercially valuable items as customer lists and organizational methods.”).

is due to the invisibility the contribution is hard to be measured ^[5]. Comparing trade secret to patents, patents are visible contribution, but delayed and unsuitable for internal innovations.

In a case of Coca-Cola formula in Coca-Cola Co., 107 F.R.D. 288 (D. Del. 1985), the court held that company took reasonable measures to protect its formula. The written version of formula is kept secret in security vault in Atlanta bank and therefore the vault is opened only by the resolution by the Board of Directors. At one time only two employees of the company know the formula and only those persons oversee preparation of formula. The identification of the both employees is kept a secret and is not allowed to fly on the same plane at same time. The last element present within the formula kept secret by the company from the general public. A declaration of secrecy is not enough to claim protection under trade secret the owner must take reasonable steps and show his desire to maintain the secrecy.

WHY IS PROTECTION OF TRADE SECRET IMPORTANT?

In contrast to registered intellectual property, trade secrets are not disclosed to the world at large. Patent and trademark are the well-known form of intellectual property rights which are highly effective in protecting the creativity of a human mind. Maintaining the security and secrecy of trade secret can be a necessary component of a thriving business. As a result, the business owners understand the importance to maintain their trade secrets and what to do to take swift legal actions if the confidentiality of their trade secret is threatened. Thus, the corporate houses are trying to persuade their respective government to provide protection of their trade secret. But the protection of the trade secret especially for the small sizes industries becomes very much essential, as they cannot afford for the patent protection as it becomes quite an expensive process. The sole possession would belong to the owner as long as the owner is able to keep it a secret and if the competitor acquired the trade secret through lawful means, the original owner can file an application to protect their innovation.

The main objective behind the legal protection of trade secrets is for maintaining the ethical commercial standards and encouraging of research and innovation. Another motive behind the protection of the trade secret is to protect the creative effort of the owner in order to make them valuable assets. Legal protection encompass non-disclosure agreement (NDAs), work-for-hire and non-compete clause.

⁵ Baruch Lev (2001): Intangibles, Management, Measurement and Reporting, with comments by conference participants; Brookings Institution Press, 2001.

However, there are many pros and cons relying on the legal protection of trade secret. Trade secret system that mask the composition of chemical agents in consumer products have been highly criticized for allowing the trade secret holders to hide the presence of potentially toxic substance. It has been also pointed out that the public is being denied a clear picture of such product's safety, whereas competitors are well positioned to analyse its chemical composition [6] In 2004, the National Environmental Trust tested 40 common consumer products which had toxic and harmful substances that were not listed on the product label.

MISAPPROPRIATION

Misappropriation is a vague tort, it is the intentional and illegal use of the property or funds of another person for one's own use or other unauthorized purpose, particularly by a public official, a trustee of a trust, an executor or administrator or a dead person's estate or by any person with a responsibility of care for and protect another's assets. Trade secrets can be easily misappropriated since they consist of information that can be easily memorized or noted down by employees, customers, developers, suppliers and others which will result in the loss of trade secret status. More the people know a trade secret in an economy where employee's turnover is more, the harder it gets to keep the information as a secret. Companies often through lawful methods of reverse engineering on one hand and unlawful methods including industrial espionage on the other, try to discover one another's trade secret. Acts of industrial espionage are illegal under the relevant governing laws where penalties can be harsh [7], thus if a trade secret has been acquired via industrial espionage then the acquirer will be subject to legal liability for having acquired it improperly nevertheless the holder of the trade secret is obliged to protect against such espionage to some degree in order to safeguard the trade secret under trade secret regime.

In a Supreme Court case of *International News Service v. Associated Press*^[8], seminal 1918 created the doctrine of misappropriation as a part of unfair competition law. During this case, AP sued INS for taking its news stories on the East Coast and providing them to customers on the West Coast. INS accomplished this by taking advantage of the difference

⁶ Randall Fitzgerald (2006). *The Hunderd Year Lie*. Dutton, 2006.p.24. ISBN 0-525-94951-8

⁷ Ben Fox Rubin (2012): Former Dow Chemical Scientist Gets Five Year in Prison; Wall Street Journal, 13 January 2012

⁸ Refer to <http://www.law.uconn.edu/homes/swilf/ip/cases/ins.htm>

in time zones and using the meantime to rewrite the news stories and wire them to publishers on the West Coast. Since the essential facts were first extracted and articles rewritten, there was no infringement of copyright. Nevertheless, Supreme Court granted relief since the defendants had “misappropriated” the “hot news” generated by AP. The Court reasoned that the plaintiff had acquired an intangible quasi-property right within the news.

LIABILITY FOR MISAPPROPRIATES OF TRADE SECRETS

Unlike patent where companies required to disclose the inventive properties thus the protection they provide is limited in time, usually last not more 20 years, while trade secret remain protected indefinitely. A trade secret can be protected as long as the secret is commercially valuable; its value derives from the fact that it is secret. Any person misappropriates the trade secret he will be liable to pay damages; if the owner of the information takes reasonable precautions to maintain its secrecy. In case the trade secret is misappropriated the owner of the information can apply for an injunction to stop him from using the information. Then an injunction is usually limited in time to the "lead time" obtained by the misappropriation. That is, the court tries to work out how long it might have taken to independently come up with equivalent information, and forbids the misappropriation to use secret information for that period. If within the meantime tons of various people have legitimately acquired the protected knowledge, the court is less likely to award an injunction. The sole remedy then may be a compensation for the damages suffered by the loss of secret status. These damages are often computed because the profit made by the misappropriation. But in case the trade secret obtained by someone from another source such acquirement will not amount to misappropriation. This also applies if the information can be easily derived from the product sold by the information owner, unless the product is sold under non-disclosure-agreement (NDA), in such a case the acquirement of the information will not make the person liable for damages.

REMEDIES FOR THE TRADE SECRET INFRINGEMENT

Law encourages in determining damages for the trade secret misappropriation; there are many remedies available to the trade secret owner for the misappropriation of the trade secret.

1. CIVIL TRADE SECRET REMEDIES:

Various civil remedies are available for protecting theft of trade secrets. Many jurisdictions provide for some form of preliminary and final injunctions to prevent further disclosure and use of the confidential information. Most jurisdictions also provide for recovery of actual damages suffered by trade secret owner as a result of the misappropriation. These damages could include the gain enjoyed by the trade secret thief or the loss of profits to the trade secret owner. United States and other jurisdictions permits award of punitive damages for malicious and wilful trade secret misappropriation. The trade secret owner can also be protected by a judgment for attorney fees and for prejudgment interest to recover for the cost of the lost value of money during any ensuing litigation. These civil remedies are expanded by the contract laws from the various jurisdictions.

2. INJUNCTIVE RELIEF:

Injunctive relief is the most common form of relief. The degree for issuing a preliminary injunction under a state's trade secret act is usually the same as that for other preliminary injunctions. Court conducts a balancing test among the four factors when determining whether a preliminary injunction is warranted the likelihood of the success on the merits; The irreparable harm that could result if injunction is not issued; The impact on the public interest of granting or denying the injunctions; The possibility of the substantial harm to others, if the injunction is issued.

3. MONETARY DAMAGES:

Monetary damages can be awarded in addition to injunctive relief. Damages under the contract law will apply if the basis for a claim of confidential information infringement or unlawful use of trade secrets is a contractual provision in the agreement. The damages are provided in few cases for the infringement of the trade secret. The monetary damages are generally awarded in case where there has been wrongful use of owner's trade secret in a manner that generates measurable damages. They are calculated by case on case basis. These may be measured by profits lost due

to trade secret infringement, royalties for the use of trade secret information and profits the infringer made from the trade secret infringement.

4. CRIMINAL SANCTIONS:

Trade secret theft or infringement is considered as a criminal act in few jurisdictions. Many other industrial countries also provide for criminal sanctions against trade secret theft. Virtually all states in the U.S. have criminal laws protecting trade secrets. Moreover, Economic Espionage Act provides protection against the theft trade secrets. Sanctions under the Economic Espionage Act can be real where violation of the statute can bring fines up to \$ 10 million and prison terms up to 15 years for trade secret theft.

PROTECTION OF THE TRADE SECRET

1. LEGAL PROTECTION OF TRADE SECRET

Trade secret rights are protected under both state law and under federal law by different statute. Mostly trade secrets are mainly protected under the state law rather than federal law in many countries. A model law which is adopted by almost 40 states in United States is Uniform Trade Secret Act (UTSA)^[9]. Uniform Trade Secret Act (UTSA) was drafted by the National Conference of Commissioners on Uniform State Laws in 1970 and after that amended in 1985. Approximately 45 states have adopted the modified version of the Uniform Trade Secret Act (UTSA). UTSA is the law for the unauthorized commercial use of a trade secret by a third party, first of all enacted in United States. The methodology used in this act is quite different from the others. Under the Uniform Trade Secret Act (UTSA), a Trade Secret is defined as information that derives independent economic value especially because it is confidential and not readily ascertainable. Even though the Uniform Trade Secret Act (UTSA) has been enacted by many of the states, there are few states where the Uniform Trade Secret Act (UTSA) has not been enacted; one of the main reasons behind non enactment of this the Uniform Trade Secret Act (UTSA) is that the misappropriation or infringement of a trade secret still remains as a common tort.

⁹ Refer to http://en.wikipedia.org/wiki/Uniform_Trade_Secrets_Act

Under Federal Law misappropriation or theft of the trade secret is a federal crime ^[10] by the Economic Espionage Act ^[11] of 1996. Federal law contains two provisions for criminalizing two sort of the activity. The act criminalizes the theft or misappropriation of the trade secrets for the commercial or economic purposes ^[12] or for the benefit of the foreign powers. The statutory penalties are different for both two offenses.

2. PROTECTION OF TRADE SECRET BY SUI GENERIS SYSTEM:

The large repository of the knowledge and practices are stored with our vaidyas, hakims, artisans and artists have current or potential commercial value which remains as a trade secret. Their protection is important for the survival of these systems and practices. To protect the large repository of undisclosed information which is kept as a trade secret by their practitioners, India should consider their protection under a proactive legislation under a “sui generic” system. This sui generis trade secret protection ^[13] is provided under Article 10 of the Paris Convention and Article 39 (2) and 39 (3) of TRIPS. Most of the traditional knowledge and practise which are important for the mankind can be protected under “Sui Generis” legislation.

3. INTERNATIONAL TREATIES FOR THE PROTECTION OF TRADE SECRET:

The majority of working technologies worldwide is protected under trade secret rather than by patent due to the increasing recognition of the importance of trade secret and trade secret protection. Various treaties are therefore enacted to protect the intellectual property. Both North American Free Trade Agreement (NAFTA) and the Agreement on Trade Related Aspects of Intellectual Property (TRIPs) ratified during the Uruguay Round of the General Agreement on Tariffs and Trade (GATT) added specific provisions directing toward the protection of trade secrets. Non-America Free Trade Agreement (NAFTA) and Trade Related Aspects of Intellectual Property (TRIPS) give only minimal attention to the topic. Furthermore, within the past ten to fifteen

¹⁰ A crime that is either made illegal by federal legislation of that country or a crime that occur federal property of that country

¹¹ 18 U.S.C. section 1831 to 1839

¹² 18 U.S.C. section 1831 (a)

¹³ Refer to http://www.tradesecretsblog.info/2008/11/trade_secrets_protection_in_in.html

years, particularly among Asian nation there has been a trend toward the adoption of domestic statutes specifically directed at the increased protection of trade secrets.

TIPS FOR BUSINESSES TO PROTECT THE TRADE SECRET

1. IDENTIFICATION AND LABELLING OF DOCUMENTS

The first way to protect the trade secret of a business is by identifying what needs to be protected under trade secret law. This can be done by creating a system that identifies all newly created material that requires secrecy. All the documents that contain the confidential information which needs protection should be labelled as “confidential”. The copies must be limited along with the reduction of circulation of such documents.

2. MONITORING AND MAINTAINING SECECRY

Conducting an information audit to determine where the important confidential information is stored and who has the access to it. It includes desktop, hard copies and laptop computers and diskettes. A strict confidentiality provision regarding the trade secret is included especially in contracts with outside entities. Maintain secrecy with outside vendors by not disclosing the final product or the relationship between the pieces. Thus, there must be secrecy maintained with outside vendors for the protection of trade secret. Small business might have a locked filing cabinet for security while bigger companies might need security officers, secure zones and badges.

3. SET UP EMPLOYEE TRAINING AND POLICES

All the employees of the company working with the trade secret must undergo training procedure and sign a non-disclosure agreement and a company policy regarding protection and protect handling. There must be uniform contractual rules on non-compete and non-disclosure clauses between trade secret owners and employees in order to prevent misappropriation. They must be provided with refresher courses as well. Disciplinary actions must be taken in case information is mishandled.

COMPARISON WITH OTHER TYPES OF INTELLECTUAL PROPERTY LAW

Trade secrets are usually recognized internationally as a form of intellectual property and most clearly defined in the Trade-Related Aspects of Intellectual Property Rights (TRIPS) Agreement^[14]. They are a direct result of TRIPS which have been incorporated into the laws of many countries around the world^[15]. From the beginning, it is clear that trade secrecy is quite different in character and construct from other forms of intellectual property. In United States trade secret are not protected in the same manner as patents or trademarks by any law. Historically, patents and trademarks are protected under federal statutes, namely the Lanham Act and Patent Act, while state law protects trade secrets. However, most of the states have enacted the Uniform Trade Secrets Act (UTSA) except Massachusetts, New York and North Carolina, but since 2016 the situation changed with the enactment of the Defend Trade Secrets Act (DTSA), making trade secret protectable under a federal law. One the most apparent difference is that a trade secret is protected only when the owner has taken

¹⁴ Agreement On Trade-Related Aspects Of Intellectual Property Rights, Apr. 15, 1994, Marrakesh Agreement Establishing the World Trade Organization, Annex 1C, art. 39, 33 I.L.M. 81 (1994) [hereinafter TRIPS] (“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.” (internal footnote omitted)).

¹⁵ 5 For a comprehensive study of the trade secrets laws across the European Union, see Hogan Lovells Int’l, LLP, Report on Trade Secrets for the European Commission: Study on Trade Secrets and Parasitic Copying (Look-alikes), MARKT/2010/20/D (Sept. 23, 2011), available at http://ec.europa.eu/internal_market/ipenforcement/docs/parasitic/201201-study_en.pdf; see also Decreto No. 9.279, de 14 de Maio de 1996 (Braz.); Security of Information Act, R.S.C. 1958, c. O-5 (Can.); Hanpo Wang, Development of Law on Trade Secret Protection in China, U.S-CHINA CLEAN ENERGY RESEARCH CTR., http://www.us-chinacerc.org/pdfs/Development_of_Law_on_Trade_Secret_Protection_in_China_WAN_G_HANPO.pdf (last visited Mar. 22, 2014). In United States Law, the primary source, today, for Trade Secret protection is found in the Uniform Trade Secrets Act. See UNIF. TRADE SECRETS ACT §§ 1–12 (amended 1985), 14 U.L.A. 529–659. This Act codifies many of the features of trade secret law that were already incorporated in the common law. See Friedman et al., supra note 11. As of July 1994, forty states had adopted the Uniform Trade Secrets Act. See Legislative Fact Sheet: Trade Secrets Act, UNIFORM LAW COMMISSION, <http://www.uniformlaws.org/LegislativeFactSheet.aspx?title=Trade%20Secrets%20Act> (last visited April 24, 2014). The United States courts also look to the definition of trade secrets from the Restatement of Torts. See RESTATEMENT (FIRST) OF TORTS § 757, cmt. B (1939) (“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 an opportunity to obtain an advantage over competitors who do not know or use it..... [A] substantial element of secrecy must exist, so that, except by the use of improper means, there would be difficulty in acquiring the information.”). The essence of trade secret law was already established in the United States by the end of the nineteenth century, and the law has changed relatively little since the publication of the Restatement (First) of Torts in 1939. For a detailed account of the development of trade secret history and the drafting history of the Uniform Trade Secrets Act, see Sharon K. Sandeen, The Evolution of Trade Secrets Law and Why Courts Commit Error When They Do Not Follow the Uniform Trade Secrets Act, 33 HAMLIN L. REV. 493 (2010).

reasonable measures to protect the information as a secret and also, they are not publicly recognized or registered with the government agency.

CONCLUSION

Trade secrets as a valuable asset play an important role in economic growth and fostering innovation, as they represent an important means for companies to appropriate the returns to investments in innovation. Trade secret protection is now longer a national legal issue it is now become an international issue with a great demand for the protection of trade secret. The change in trade and investment scenario has created various new legal developments for protection of industrial and business secret information. Various international agreement and treaties like TRIPS and NAFTA are enacted but provides only minimal legal standard for trade secret protection, leaving behind the rooms for the national legislation of the member countries. However, there are many countries yet to enact laws for the protection of trade secret. The theoretical approach from where the trade secret protection arises, create various difference in the national law, therefore there is still need to think over the harmonization of the trade secret protection.

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