Million Dollar Secrets

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MILLION DOLLAR SECRETS

Introduction

Next time if you are drinking a coke you could be proud that you are drinking a piece of history. To be very specific the formula for a coca-cola is one of the oldest and most famous trade secrets in the world. The makers of the soft drink that is the employees are made to sign an agreement of not disclosing the formula. Non-disclosure agreements are not new and have been around for a long time. Companies are very meticulous in handling their trade secrets and they cannot afford any kind of a goof up in their business, as the rat race does not allow them to be complacent in their trade at any point of time. Accordingly Intellectual Property Rights have been molded in such a way that it provides a wide ambit of rights to protect the interests of the businessmen who are in the constant fear of being thrown out of business in this competitive world. A 1996 study conducted by the American Society for Industrial Security estimated that trade-secret thefts amount to an aggregate U.S. industry loss of two billion dollars per month, this study also reported an average of 32 successful trade-secret thefts per month in 1995, up some 320% from 1992. Apart from providing, the traditional type of intellectual property rights like that of copyright, patent and trademarks, new genre of rights namely industrial designs, geographical indications and trade secrets have been developed to give an incentive to further the production of intellectual capital.

Non-disclosure agreements have become a norm in companies. Every company in the fear of losing important data relating to their trade make their employees sign non-disclosure agreements which would not allow them to disclose any data which would hamper their trade if their employee leaves the company and joins any other rival company or firm. Even with the most stringent security arrangements, trade secrets will be lost, often due to loose talk by the employees or effective surveillance or industrial espionage by competitors. Thus, trade secrets like other forms of IPR are valuable commercial assets that should be protected. The value of a trade secret is actually felt when it is lost to a competitor and thus to protect the interest of such people trade secrets have developed into one of the most pertinent rights of a firm or an industry.

The history and development of trade secrets as would be discussed in the following chapters in length stems out from the common law principles and have been incorporated in the United Kingdom and the United States of America that have well developed principles of trade secret laws. Unfortunately, the presence of trade secret laws in Asia particularly in the Asian powerhouses China and India have disregarded the importance of trade secret laws and they do not have any particular laws that give people the power to enforce their rights in a definite plane. They can enforce their rights under the breach of contractual obligations e.g. under the Indian Contract Act, 1872 one can enforce their civil right over a breach of contractual obligation.

This paper is an attempt to do a comparative study of trade secret laws. Countries that would be used for comparative study are the United States of America, India and China. The reason to choose these countries is their importance in the current economic arena.

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We see the emergence of the two Asian countries as the only competitor to the United States in the years to come. We are witnessing a shift of power from the west to the east thus, it would be imperative to study their Intellectual Property Laws. As the balance of power shifts, it is important to see how the IP laws in the country provide an impetus to trade.

The paper would start with a brief history and concept of trade secret laws and its developments and would discuss the laws in United States of America, China and India. The paper moots for the viability of trade secret laws in India and China where no such laws exist.

**Brief History and Concept of Trade Secret Law**

“A trade secret is information that can be used in the operation of a business or other enterprise that is both sufficiently valuable and sufficiently secret to give the owner an actual or potential competitive advantage.” It is difficult to describe what specifically a trade secret would be because of the variations in which trade secret exist makes it difficult to pen down an exact definition. However, the factors that would be typically associated with trade secrets are:

- The extent to which the trade secret is known in the public domain i.e. outside the business. A known fact cannot be called a trade secret.
- The extent to which the employees or other people belonging to the business know. If the secret were well known among all the employees and subordinate staff then it would obviously cease to be a secret.
- The steps taken by the employers in protecting the secret. It would be very futile to grant a status of a trade secret if the employee did not guard it adequately.
- The value of the information to the employer and to his competitors. The secret has to be valuable not only to the employer but also to his competitor; pragmatically a competitor would never lay hands on a futile data or information of its rival.
- The development of the secret should have cost the employer considerable effort or a princely sum of money.
- How easy would it have been to acquire the secret also has to be taken into consideration.

The trade secret law has its genesis from the common law doctrines. As early as 1817, the courts identified the importance of trade secret laws. In *Williams v. Williams* a son sold medicines for his own account, although he had prepared them from formulas given to him by his father on the understanding that the two would use the formulas for their joint benefit. The Chancery trial court issued an injunction restraining the son from using or divulging the trade secret and from selling the medicines. Even on appeal, the court said that the son cannot breach the contract setup by his father but the court did not go into the injunction much because the formula had already been given out. Here we see the development and recognition of secret formulas in trade. The next case came to the court

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after three years that talked about trade secrecy.\textsuperscript{4} The defendant had been employed as a journeyman to a veterinarian. The plaintiff alleged that the defendant had copied the plaintiff’s recipes and instructions for the manufacture and use of various medicines. When the defendant set up a competing practice, Lord Eldon issued an injunction that restrained the defendant from using or communicating the recipes or instructions, and based the relief on the defendant’s “breach of trust and confidence.”

The grounds stated for the protection of trade secrets were not only contract laws but also the law of property and the obligations arising out “trust and confidence”. The only remedy available earlier was the injunctive remedy. The courts followed the principle of tort law of bringing the victim of a tortuous act to the same position he would have had the act not occurred. This doctrine seemed to be fine but it later rubbed shoulder with other policy concerns. The laws on trade secrets started to face problems with the patent laws as trade secrets became the back door entry for gaining monopoly in the garb of trade secrets that would otherwise be prohibited by patent or antitrust requirements. This concern was expressed in the earliest cases, but by the early twentieth century, there was general agreement that the secrecy element in the definition of trade secrets allowed room for trade secret protection that did not undercut patent law.\textsuperscript{5}

Another cause of concern for the courts came up with the question of trade secret acting as restraint to from practicing their professions. Free and liberal competition in the labor market and fundamental fairness both require that employees be allowed to capitalize on their development of expertise.\textsuperscript{6} The Court addressed the concern by balancing and drawing the line between confidential information and attempts to restrain trade or employees’ freedom.

**Trade Secrets in United States and Case Laws**

The earliest modern definition was given in the Restatement of Torts, Section 757, Comment b, 1939\textsuperscript{7}. The definition in the Restatement of Torts, Section 757 balanced the

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\textsuperscript{4} Yovatt v. Winyard, 1 Jac. & W. 394, 37 Eng.Rep. 425 (1820)


\textsuperscript{6} Id. at 526

\textsuperscript{7} 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. 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. It differs from other secret information in a business in that it is not simply information as to single or ephemeral events in the conduct of the business, as, for example, the amount or other terms of a secret bid for a contract or the salary of certain employees, or the security investments made or contemplated, or the date fixed for the announcement of a new policy or for bringing out a new model or the like. A trade secret is a process or device for continuous use in the operation of the business. Generally it relates to the production of goods, as, for example, a machine or formula for the production of an article. It may, however, relate to the sale of goods or to other operations in the business, such as a code for determining discounts, rebates, or other concessions in a price list or catalogue, or a list of specialized customers, or a method of bookkeeping or other office management. The subject matter of a trade secret must be secret. Matters of public knowledge or of general knowledge in an industry cannot be appropriated by one as his secret. Matters which are completely disclosed by the goods which one markets cannot be his secret. Substantially, a trade secret is known only in the particular business in which it is used. It is not requisite that only the proprietor of the business knows it. He may, without losing his protection, communicate it to employees involved in its use.
policy concerns of like the concern of overlapping definition with patents. The definition given in the Restatement provided: that a secret need not require novelty and even if it is clearly anticipated in the prior art, its secrecy can be protected as long as it provides some commercial advantage. Meanwhile the principles of tort law - requirement of good faith, breaches of duty, whether of contract, confidence, or improper means of acquiring the secret were still held to be justifications for acquiring a remedy. The problem with this law was that it was not followed uniformly in all the states of United States of America. Some states protected trade secrets under the common law and some enacted statutes specifically directed to their protection. Thus, trade secret law developed unevenly around the United States, which was a problem because of its commercial importance to interstate business. Moreover, the lengthy definition in Section 757 was also eliminated adding to the confusion.

The American Bar Association in 1968 appointed a committee to develop a uniform trade secret law. In 1979, Uniform Trade Secret Act (UTSA) was approved by the American Bar Association. Minnesota was the first state to adopt the Uniform Trade Secret Act (UTSA) in 1980, and more than forty other states have since followed suit. The UTSA was adopted in the wake of an increasing reliance by businesses on trade secret protection and a desire to codify common law trade secret principles. The UTSA defines trade secrets as: “Trade secret” means information, 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

Most part of the definition is a reflection of the Restatement but the UTSA provided a wider ambit of protection to a trade secret owner who has not yet had an opportunity or acquired the means to put a secret to use which was not available in the Restatement. The UTSA codified the basic principles of common law on trade secret protection while preserving the essential difference between patent and trade secret laws. For example the
common law and the UTSA provides for more than one person being entitled to trade secret protection of a similar secret. Trade secrets normally reflect knowledge derived from significant trial-and-error investment which a misappropriator of the secrets would be able unfairly to usurp.\textsuperscript{13} The “sweat of the brow”\textsuperscript{14} doctrine is of no consequence in copyright protection but it is the heart of trade secrets protection. Moreover, as stated earlier the novelty doctrine of patent law is not required in trade secrets, nor must trade secrets be fixed in a tangible medium of expression, as required for copyrightable works.\textsuperscript{15} Under U.S. law, trade secret liability may arise against a third party who acquires a trade secret from an intermediate party or where the third party knew or was on notice of facts raising questions about the intermediaries’ rightful possession of the information.\textsuperscript{16} The claim for misappropriation could be defeated by proof of independent invention or reverse engineering, as the UTSA does not prohibit reverse engineering by lawful means. Misappropriation is defined in UTSA\textsuperscript{17}. “Misappropriation” covers both obtaining trade secrets through improper means and disclosing or using them without consent. The UTSA also casts a broad net to include not only actual misappropriation (where the theft or disclosure has actually occurred), but also “threatened” misappropriation (which some courts have held to include events such as a key employee bolting to a competitor and putting a trade secret at serious risk of disclosure).\textsuperscript{18}

For liability to exist the two-fold test has to be satisfied. Thus, under the UTSA\textsuperscript{19}:

1) you must have knowledge or information that derives independent economic value from not being generally known or readily ascertainable
2) must have taken reasonable efforts to maintain the secrecy of the knowledge or information

The UTSA apart from providing the definition of trade secrets and misappropriation also provides remedial methods. The most common of all the remedies is the granting of injunction. Injunction is granted against actual or threatened misappropriation. The general rule of the UTSA on granting of injunction is that the injunction would last only

\begin{itemize}
\item \textsuperscript{13} Katsh, S.M., Globally, Trade Secrets Laws are All Over the Map, (1995) 7 NO. 11 Journal of Proprietary Rights 12, 12
\item \textsuperscript{14} Feist Publications Inc. v. Rural Telephone Serv. Co., 499 U.S. 340 (1991), Available at www.international.westlaw.com
\item \textsuperscript{15} Katsh, S.M., Globally, Trade Secrets Laws are All Over the Map, (1995) 7 NO. 11 Journal of Proprietary Rights 12, 12
\item \textsuperscript{16} \textit{Id.}
\item \textsuperscript{17} (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 (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 had 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/her 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.
\item \textsuperscript{18} Kahnke, R.E., Bundy, K.L., An Overview of Trade Secret Protection, 2006, Available at http://www.faegre.com/article, Last visited on 5\textsuperscript{th} April, 2006
\item \textsuperscript{19} \textit{Id.}
\end{itemize}
as long as is necessary, but no longer, to eliminate the commercial advantage or “lead
time” a misappropriator has over good faith competitors.\textsuperscript{20}

Remedies available for misappropriation also include damages as the UTSA permits
recovery of damages based on actual loses caused due to the misappropriation. Similarly,
the damage remedy is appropriate only for the time the information is entitled to
protection as a trade secret plus the additional period, if any, in which a misappropriator
retains an advantage over good-faith competitors because of misappropriation.\textsuperscript{21}

In the case of \textit{El Du Pont de Nemours v Christopher},\textsuperscript{22} the defendants were retained to
take photographs from a plane of a chemical plant under construction and which Du Pont
owned. The plant was being designed to carry out a new and secret process for producing
methanol and it would have been possible to discover the secret process by studying
photographs of the plant in a partially completed state. Du Pont sued them, arguing that
the photography amounted to the wrongful obtaining of Du Pont’s trade secrets. The
defendants argued that they had done nothing wrong; they had not engaged in any
fraudulent or illegal behavior and their activities were carried out in public air space. The
court held that aerial photography of plant construction is an improper means of
obtaining another’s trade secret.

In \textit{Coco v. AN Clark (Engineers) Ltd},\textsuperscript{23} Coco designed a moped engine and entered into
negotiations with defendant that included sharing of technical details for licensing the
said product to defendant. Finally, negotiations broke down and no contract was signed,
later on, the defendant started manufacturing the moped engine that closely resembled
Coco’s invention, Coco filed the case against the defendant for misappropriating his
confidential information. The court framed the three essential requirements for protecting
confidential information.

1. The information must have the necessary quality of confidence about it
2. The information must have been imparted in situations involving an obligation of
   confidence
3. The must be an unauthorized use of that information to the detriment of the party
   communicating it

Finally, in this case the court asked the defendant to pay a royalty of 5 pound per engine.
In a very recent case of AT Poeton (Gloucester Plating) Ltd. v. Michael I Horton\textsuperscript{24} the
Petitioner had an electroplating business for plating surfaces of internal combustion
ingines, defendant who was his sales manager left the company and started the same
business. The case was filed with the allegation that defendant misappropriated the
confidential information relating to electrolyte, apparatus used by petitioner and the list
of his customer. Here the appeal court noted that the following factors are relevant for
proving misappropriation:

1) The nature of employment
2) Nature of information

\begin{footnotes}
www.bannervitoff.com\%5Carticles/briefhistory1.pdf, Last visited on 6\textsuperscript{th}
April, 2006
\item[21] \textit{Id.}
\item[22] 431 F2d 1012 (1970) Court of Appeals for Fifth Circuit, Available at www.international.westlaw.com
\item[23] (1969) RPC 41, Available at www.international.westlaw.com
\item[24] (2001) FSR 169, Available at www.international.westlaw.com
\end{footnotes}
3) Whether the employer impressed upon the employee the confidentiality of the information
4) Whether the information can be easily isolated from the information the employee is free to use or disclose, thus after examining these the court held that there is no violation

Thus in almost all cases involving employees the law is faced with a dilemma of balancing the interests of the employer who has an interest in protecting information associated with his business and the employee who has a competing interest in freely using his skill and knowledge to earn a living in some other place.

The cases cited above is just small illustrations of the ever increasing number cases which are coming to court concerning trade secrets and the laws in the US are well equipped to handle the cases. The laws also are also developing with the change in time. The UTSA is considered a valuable update of the laws but a lot was needed to cover other liabilities like that of criminal liability. The Congress in 1996 passed the Economic Espionage Act (EEA) in recognition of the growing importance of intellectual property in general and trade secrets in particular. The EEA’s definition of trade secrets is much wider than that of the UTSA and Restatement.25 The EEA provides for criminal liability for misappropriation and theft of trade secrets. Some acts that are prohibited by the EEA include unauthorized taking, copying, and receiving of trade secrets.26 Also included in the penal list are conspiracies and activities of behalf of foreign governments or corporations.27

The constant development in the laws governing trade secrets in the United States warrant the conclusion that trade secrets have become an integral part of intellectual property laws and have to be taken sincerely. Thus, countries like India and China need to take into account the laws in US before proposing any sort of legislation relating trade secrets

**Trade secrets in India**

When we discuss the issue of trade secrets and non-disclosure agreements in India, we first need to understand the present position of such a law. It has taken a lot of time for the Indian Legal System to formally recognize the concept of trade secrets.

Today, the only formal legal instrument where the issue of trade secrets and non-disclosure agreements has been discussed is the Indian Contract Act, 1872. Non-disclosure agreements come under the ambit of contracts28 which are agreements

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25 All forms and types of financial, business, scientific, technical, economic, or engineering information, including patterns, plans, compilations, program 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 if — (A) the owner thereof has taken reasonable measures to keep such information secret; and (B) the information derives independent economic value, actual or potential, from not being generally known to, and not being readily ascertainable through proper means by, the public


27 Id.

enforceable by law. In this realm, they are a sort of employee-employer contracts by which the employees are bound in some way by the terms that may also involve leaking of trade secrets. However, there is a lot of confusion as to whether a particular section in the Act is for or against the idea of non-disclosure agreements. Section 27 of the Indian Contract Act says,

Section 27, Indian Contract Act, 1872,
Every agreement by which any one is restrained from exercising a lawful profession, trade or business of any kind, is to that extent.
Saving of agreement is not to carry on business of which goodwill is sold; One who sells the goodwill of any business, may agree with the buyer to refrain from carrying on a similar business, within specified local limits, so long as the buyer, or any person deriving title to the goodwill from him, carries along a like business therein, provided that such limits appear to the court to be reasonable, regard being had to the nature of the business.

On the face of it, this Section denies the fact that non-disclosure agreements are valid under Indian Law. However, the Indian Courts have interpreted this section scrupulously to include trade secrets and non-disclosure agreements. The Courts in India have stated that a restraint by which a person binds himself during or after the term of his agreement directly or indirectly not to take service with any other employer or competitor or be engaged by a third party has been held not to be void and not against section 27 of the Contract Act. The clause “after the term of employment” has been subject to a lot of controversy. It is to be noted that the term may not be continuous or indefinite but only to such an extent as may be reasonable in nature. In a particular case, the Supreme Court of India had an occasion to deal with the post-service restraint. Here the contract of employment placed the employee under a post-service restraint that he shall not serve in any other competing firm for two years at the place of his last posting after leaving the job. The services of the employee were terminated by the employer. It was held that the post service restraint was found to be reasonable in the factual circumstances, that restraint was only for a period of two years after the employee left the company.

Section 27 of the Indian Contract Act is a statutory recognition of the Common Law doctrine of restrain on trade. Once statutorily enacted, the rule must be interpreted based on the language of the statute uninfluenced by "the manner in which the analogous provision comes to be construed... in order to bring the construction within the scope and limitations of the rule governing the English doctrine of restraint of trade". Whether an agreement is void under Section 27 of the Contract Act must be decided upon the wording of that section. All agreements in restraint of trade are void. The only exception is in exception No. 1. Section 27 of the Contract Act does not admit, of the test of reasonableness unless the case falls within the exception.

There have been very few cases where the issues of trade secrets being let out have come before the Indian Courts. However since, there is no law regarding the same the Courts

29 Supra n. 28.
have used the provisions of contracts and Specific Performance in restraining a person from leaking a trade secret when arising from a breach of a non-disclosure agreements. In our submission, the basic problem of the law relating to trade secrets in India lies out here, its inadequacy to deal with complex issues such as those involving intellectual property rights and trade secrets. The problem also arose in the area of foreign investment where from the period of 1977 till 1991, foreign investments were contingent upon the disclosure of trade secrets of the companies concerned. Such a commitment was what made companies like Coca – Cola think twice before coming to India then.

In the above paragraph, we have talked about the present law existing in India for trade secrets and non-disclosure agreements. It is observed that this law is inadequate to deal with the issue of trade secrets in India. To put it simply, an Act of 1872 cannot accommodate itself to suit the needs of a complex concept involving intellectual property rights. We shall now explain in detail as to why we need such a law in India.

a) Contracts by their very nature provide for compensation and not damages. The Courts in India have been very reluctant to offer exemplary damages for breach of contracts. So then, what happens when a “trade secret” has been leaked? It is difficult to ascertain damages in this area and award the same. In practice, the courts in India have been seen to take a practical approach in this area and if necessary, provided for only nominal damages to the plaintiff.

b) There has been no formal recognition of the concept of “trade secrets” in India. In fact, this is one area where India has not fulfilled its obligation under the TRIPS agreement and incorporated it in its legal system. Even if certain valuable information is preserved as a trade secret, there is some statutory protection through the Designs Act, the Copyright Act, the Trade and Merchandise Marks Act, the Patents Act, the Contract Act, the Specific Relief Act or the Code of Civil Procedure. However, these are not quite satisfactory. Therefore, even though the TRIPS agreement has no such requirement, it might be a good idea to enact a fresh piece of legislation on trade secrets.

However, the application of the Springboard Doctrine in India to prevent the leakage of a trade secret has been noteworthy. Under this doctrine a person may be prohibited from using the information he has revealed to the public himself on the logic that the defendant has been in possession of it for a sufficiently long time to have learnt how to implement it to its best effect. Specifically, the doctrine provides “injunctive relief” so that the Defendant “is not allowed to use the information as a springboard for activities detrimental to the Plaintiff”.

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31 Dubey, "India Clears Some Foreign Investments, Sending Bullish Signal on Reform Drive," Wall Street Journal, June 24, 1993
34 “Can we keep a secret”, Available at http://feclolumnists.expressindia.com/full_column.php?content_id=16624
37 Terrapin Ltd. v. Builders’ Supply Co. (Hayes) Ltd., (1967) RPC 375
c) There is no provision of law that provides for the extent to which a company can go in protecting a trade secret in India. Neither is there any deterrent that would prohibit a person from leaking a trade secret (apart from a contractual obligation). Unlike the United States, where in 1996, President Clinton passed that Economic Espionage Act and made leakage of a trade secret a criminal offence, no such law exists in India. This is a major development in the law of trade secrets in the United States.

When such a law is existent, the fear of a criminal prosecution acts as a deterrent and prevents a person from misusing that confidential information. It is pretty obvious that the non existence of such a law in India lets the law breakers take advantage of the breach of a contractual obligation as they make huge profits by leaking the trade secret and pay only nominal damages.

d) Non disclosure agreements and the leakage of trade secrets is easily possible as the provisions in India in this regards do not have extra territorial application. Therefore, if the agreement is in India, nothing prevents a person from leaking the trade secret abroad. However, in a country like the USA such a concept does exist and bars a person from leaking a secret anywhere in the world. The Indian law is thus inadequate to deal with this situation. Such a provision of extra territorial application will prevent the willful evasion of liability for trade secret misappropriation by using the Internet or other means to transfer the trade secret information outside the Country.

The above points show us in what ways the present Indian Law is inadequate to deal with the issue of non-disclosure agreements and trade secrets. Also with the era of globalization having far-reaching effects and technological advancements gaining momentum, it becomes necessary to preserve the ethno biological diversity and the trade secrets related to them. There are many tribes and indigenous communities in India and other Asian countries. Each of them has certain customs and some ethno biological knowledge. Such knowledge is at most times the medicinal knowledge held by these indigenous communities. Intellectual property today is one of the fastest growing areas of law. The idea of applying intellectual property laws to protect such indigenous ethno biological knowledge from exploitation is spreading as pharmaceutical companies and other major corporations earn greater profits from plant research in the development of medicine.

The best example of indigenous knowledge and its misuse in India can be given by the Neem case. Neem is a tree grown in India that is very useful, especially for its high medicinal value. It so happened that two entities, W.R. Grace and Agrodyne, obtained patents for derivatives of the neem plant developed in their laboratories as an environmentally friendly alternative to commercial synthetic pesticides. Scientists first learned of this drug and its insecticidal properties from farmers in India who had used ground neem seed for centuries as pesticides and medicines. So the Scientists had actually worked upon the existing indigenous knowledge and methods of extraction, *Gelvina Rodriguez Stevenson, “Trade Secrets: The Secret to Protecting Indigenous Ethno biological (Medicinal) Knowledge”, New York University Journal of International Law and Politics, Summer 2000.*
identification, isolation, and purification of the active components to develop a pesticide. However, since the companies synthesized the active chemical in the laboratory, and did not merely extract it from nature, a patent was granted to the companies on the neem derivatives. Thus, in spite of the fact that the insecticidal, nontoxic, and biodegradable properties of neem were known to millions of Indian farmers, the seed derivatives were deemed not obvious and the pharmaceutical companies were granted a patent for their derivative of neem.

This was by far the single most shattering instance for India where big companies misused certain secrets that did not belong to them and sought to make profits from it. However such an incident today can be defended by the concept of a “geographical indication”. Geographical indications under the TRIPS are defined as indications which identify a good as originating in the territory of a Member, or a region or locality in that territory, where a given quality, reputation or characteristic of the good is essentially attributable to its geographical origin. India has in 1999 also introduced a law protecting geographical indications. In fact, when the whole basmati rice controversy arose, the Indian government played an important role in recognizing ethno biological knowledge and goods and protecting them with the help of this Act. So today such a ground may be used for protecting the ethno biological knowledge and goods of indigenous people in a country. But the anomaly in this area is that at most times these indigenous communities do not have the money and legal resources to overcome their exploitation. Most corporations come to local regions, steal their trade secrets and patent them in their own country and earn good profits from such knowledge that is in no way, ‘their own’. The governments must take proactive measures to protect the ‘trade secrets’ and interests of such communities. This is one area where most Asian countries are lacking and a solution to this must be found at the earliest.

Another area of trade secrets that requires attention in India is in the matter of pharmaceutical and drug companies. Day by day these companies invent new medicines and even though they are patented, the process and ingredients of the drug must be protected.

While the 1970 Patents Act helped the Indian pharmaceutical industry to become a vibrant and globally competitive segment, particularly in the area of bulk drugs production. The period also witnessed the proliferation of a large number of manufacturing and marketing units all over the Country reaching figures as high as over 20,000. In the changed scenario of global competition, the majority of these companies will become, if they are not already, unviable, sick and bankrupt, as they lack technology strengths, economies of production scales, infrastructure and finance. One of the reasons

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43 Article 22.1, TRIPS.
44 The Geographical Indications Of Good (Registration And Protection) Act, 1999 No.48 Of 1999
for such a development has been the practice of unlicensed transfer of production technology from the original producers to several start-up companies in the last three decades. For the effective manufacture of products, whether they are patented or not, it is essential to have, besides licences for the use of patents, the details on the production know-how, which is largely in the realm of undisclosed information or trade secrets. Such trade secrets require to be protected not only by the companies but also by the Government. The TRIPS Agreement under Article 39.3 states, "Members, when requiring, as a condition of approving the marketing of pharmaceutical or of agricultural chemical products, which utilize new chemical entities, the submission of undisclosed information or other data, the origination of which involves a considerable effort, shall protect such data against unfair commercial use. In addition, Members shall protect such data against disclosure, except where necessary to protect the public or unless steps are taken to ensure that the data are protected against unfair commercial use."

The test data are neither in the public domain nor completely in the private domain to be recognized as confidential information. The information has been divulged to the government and there is a third party involved. Unlike conventional Undisclosed Information, Article 39.3 of the TRIPS is an obligation on the government that test data be protected against disclosure and unfair commercial use.\textsuperscript{47} However, the important point to note is that India has not yet come up with a formal law in this regard. The problem here is not mainly that of the requirement of a statutory provision but also something that requires administrative control. The protection of such trade secrets will also help in the development of the economy as these pharmaceutical and drug companies play an instrumental role in economic growth.

Thus we have seen from what has been written above that the present Indian Law is inadequate to deal with trade secrets. This law needs to be developed soon as it will facilitate the growth of the Indian Economy and promote healthy competition amongst companies. Later in this paper we have proposed certain requirements that a law on trade secrets and undisclosed information must have in Asian Countries.

**Trade secrets in China**

China, unlike India does have provisions for the enforcement of trade secrets and undisclosed information. However, it is our submission that these provisions are not enough to equate itself with the growth of the Chinese economy. Most of the laws were made as a result of the Chinese obligations under the World Trade Organization after joining it in 2001. However, the first formal piece of law regarding protection of trade secrets in China is the Law for Counteracting Unfair Competition (LCUC) made in 1993\textsuperscript{48}. Under the LCUC, the injured party can rely on a legal definition of "trade secrets," sue third parties, and expect that authorities will investigate violations. We find that this

\textsuperscript{47} “Can we keep a secret”, Available at http://fecolumnists.expressindia.com/full_column.php?content_id=16624, Last Visited 18\textsuperscript{th} March 2006.

legislation was applied in the case *Beijing Kexing New Materials Research Institute v. Beijing Zhitong Technology-Industry-Trade Company*. The case addressed the concept of trade secrets under the LCUC but at the same time brought out some inconsistencies in the LCUC. The first of these is the provision for damages which were held that have to be more or less equal to the loss suffered and not punitive in nature. The second and more important one is the acceptance of the notion of free movement of labour in the Chinese market. Such movement of people who carry secrets of previous companies with them leads to unfair competition between the former and the new units of the concerned employees.

Apart from the criminal provision which shall be discussed later on, the next important piece of law came when China’s State Administration of Industry and Commerce introduced the “Regulation on the Prohibition on Acts Infringing Trade Secrets”. This law strengthened the protection of trade and commercial secrets in China. The regulations clearly explain the factor that secrets need to be “outside public domain” to qualify unlike India and some SAARC countries. Even so, this promulgation fails in some circumstances. The first of which is the remedies that are provided for under Article 25 of China's Competition Law, which says that, “if any party who infringes the business secret of another in contravention of Article 10, the relevant control and inspection authority shall order that party to desist from the illegal act" and may, according to circumstances," impose on the party a fine of more than $1,200 and less than $25,000 (converted to approximate U.S. dollars). Secondly, the Chinese Competition Law and the Promulgation are less than satisfactory as they provide for a cause of action only for usage and involvement of a profit motive unlike the UTSA which provides action also for mere acquisition of a trade secret.

As is evident, China has passed the Intellectual Property laws required by their accession into the WTO in 2001, however, in our opinion they are not nearly as strong as they could and need to be. Gradually, as China's administrative agencies and courts are empowered with greater authority, and the rule of law carried out uniformly, including cross-locality enforcement, China could justify stronger laws that will serve as a realistic deterrent to misappropriation. But one area of trade secrets where China distinguishes itself from other Asian Countries is the criminal and penal provision for its violation. In 1997, China amended its criminal law and inserted a new chapter regarding crimes of infringing intellectual property. These included patent violations, copyright infringement and more importantly leakage of trade secrets. Before this amendment, there was a lot of doubt as to whether trade secrets come under ‘private property’ as criminal sanctions were imposed for obtaining private property by unlawful means. The Amendment to the Criminal Law in 1997 was instrumental and dedicated Article 219 which for the first time

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49 Ibid.
51 South Asian Association for Regional Co-operation (SAARC). An organization that includes India, Pakistan, Sri Lanka, Bhutan, Nepal, Bangladesh and Myanmar.
made infringement of trade secrets a punishable crime.\textsuperscript{55} The following acts were regarded as crimes for trade secret infringement:

1. Obtaining trade secrets of the party that has rights therein by theft, enticement by promises of gain, duress or other unfair methods;
2. Divulging, using by oneself or allowing others to use trade secrets of the party that has rights therein, where such trade secrets were obtained by any of the methods set forth in the preceding item; or
3. Divulging, using by oneself or allowing others to use trade secrets in one's possession, where such is in breach of an agreement or contrary to the confidentiality requirements of the party that has rights in the trade secrets.\textsuperscript{56}

The penalty for such violations could be imprisonment up to seven years along with an unspecified fine.

What we must notice is that this provision is in many ways similar to the Economic Espionage Act of the United States. Both the laws provide criminal action for infringement of trade secrets and to a great extent act as a deterrent to people misusing trade secrets. In our submission this is the one aspect of Chinese law that distinguishes it from other Asian Countries. If a law on trade secrets needs to be developed, it must do so in all aspects possible and suit the needs of all the parties involved.

What should a law on ‘trade secrets’ have?

After discussing the irregularities with the provisions regarding trade secrets in countries like India and China, we would like to propose some essentials that a law on trade secrets must have. In the age of globalization and economies of Asian countries growing by the day, it becomes imperative that there is a law protecting the trade secrets in these countries. We put forward some requisites that a trade secret law must have when developed and at the same time we understand that the list is exhaustive in nature.

Definition and nature of trade secrets

A comprehensive definition must accompany a law of trade secrets when made. A trade secret is information that has some commercial value that a firm desires to keep confidential.\textsuperscript{57} This information thus must be a secret (i.e. it is not generally known among, or readily accessible to, circles that normally deal with the kind of information in question), must have certain commercial value because it is a secret and must have been subject to reasonable steps of protection by the rightful holder of the information to keep it secret (e.g., through confidentiality agreements).\textsuperscript{58} There must be strict provision regarding the ambit of trade secrets and their inclusion in ‘private’ and not ‘public’

\begin{thebibliography}{9}
\bibitem{55} Supra. n. 24.
\bibitem{56} Supra. n. 26.
\end{thebibliography}
As stated earlier, in most countries trade secrets are not applied in areas of public
domain as when done so their confidential nature disappears.\textsuperscript{59}

When we have such a definition and law, it must also explain as to why trade secrets and
their infringement cannot come completely under the ambit of tort or contract law.\textsuperscript{60}

What is more important is the formal recognition of trade secrets as a part of intellectual
property in national laws. So far in India, there is no formal law that recognizes trade
secrets as a part of IPR and the only such provision is the TRIPS which is a part of
international law. Trade secrets are an inherent part of intellectual property and this
concept requires urgent attention in India. China on the other hand has recognized this
fact and incorporated it in its municipal law.\textsuperscript{61}

Another important aspect as to the nature of trade secrets is distinguishing it from other
forms of intellectual property such as patents. A fear culminating over many legal bodies
is the usage of trade secrets in monopolistic practices. Trade secrets pose as an obstacle to
anti trust laws at many instances.\textsuperscript{62} So when we talk about a law on trade secrets, it must
also act in such a manner so as not to interfere with the existing competition laws. Trade
secret licensing or recognition must be subject to anti trust laws in that particular
country.\textsuperscript{63}

\textit{Ways of Protecting Trade Secrets}

There are hardly any laws that state the extent to which an employer or corporation can
protect their trade secrets. If $X$ is an employer and $Y$ goes to steal some trade secrets form
his possession then what measures can $X$ take to protect it. Can it go to the extent of
causing grievous physical injury or is there a limit to this act. A law on trade secrets
should address this concept and give a formal recognition to it. In our submission, such
extent must be reasonable in nature and this reasonableness must be construed by taking
into account external factors such a value of the information, damage that could be
caused and possibility of other relief.

\textit{Types of relief that should be granted}

1. \textbf{Injunction.}

Most often injunctions are granted to prevent the misuse of trade secrets and breach
of non-disclosure agreements. A person or corporation can be granted an injunction to
restrain the defaulter from leaking the trade secret or information that he possesses.

The application of the \textit{Spring Board Doctrine} in this area is required. As stated

\begin{itemize}
  \item Salem M. Katsh and Michael P. Dierks, “Globally, Trade Secrets Laws Are All Over the Map”, \textit{7 NO. 11 J. Proprietary Rts.} 12 .
  \item Supra n. 31.
  \item The Chinese Criminal law in Article 219 has clearly recognized this fact apart from other legal provisions.
  \item Mark A. Lemley, “Trade Secrets and Anti Trust”, \textit{CA26 ALI-ABA} 285.
  \item Such a practice is existent in the United States. For more information, see Elizabeth A. Miller, “Antitrust Restrictions on Trade Secret Licensing: A Legal Review and Economic Analysis”, \textit{52-WTR Law & Contemp. Probs.} 183
\end{itemize}
earlier, such a concept has been applied by the courts in India$^{64}$, but we propose that such a specific type of injunction must be incorporated in a law for trade secrets.

2. **Damages**
As we have discussed earlier, a major obstacle in the Indian Law on non-disclosure agreements and trade secrets is the inability to provide for exemplary damages. Contractual law provides mainly for compensation where the amount is equal to damage suffered. Such a concept cannot be applied to trade secrets. A law on trade secrets must provide for damages as a remedy as it is difficult to assess the amount upon leakage of trade secrets.

3. **Criminal and penal Provisions**
We propose that Criminal provisions must be incorporated in such a law. In doing so, such a punishment will act as a deterrent to people who breach contracts and leak confidential information. Such provisions must be made on the lines of the Economic Espionage Act, 1997 of the United States.

**Jurisdiction of the laws**
A law on trade secrets must have extra territorial jurisdiction. We see that the Economic Espionage Act, 1997 of the United States does provide for such a provision.$^{65}$ It shall otherwise become very easy for a person to divulge confidential information in some other country, return and escape from the clutches of the law. Such a concept also gains importance in the era of globalization and the expansion of the internet in everyday lives of people. Extra territorial application of the law is thus important.

**Conclusion**
In today’s era of globalization, we have seen that the development of intellectual property law and particularly trade secrets is important. It is obvious that Asia is going to be the power centre of the world economy and such an economic power must develop its laws to cope with the growth. For the development of the law and economy in Asia, a law on trade secrets must be developed. Such a law will not only give some respite to businessmen and corporations who try to evolve new methods by the day to protect their trade secrets but also bring changes in age old laws that have not been able to cope with the times.

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$^{65}$ G.S. Moohr, “The Problematic Role of Criminal Law in Regulating Use of Information: The Case of The Economic Espionage Act”, 80 N.C. L. Rev. 853