



Protecting Confidential Information And Trade Secrets As Intellectual Property

KEYWORDS

Trade secrets, Confidential Information, Protection, Intellectual Property Right

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ABSTRACT

As the name itself suggests, trade secret is a secret knowledge or information which is kept confidential. This may consist of any formula, pattern, device or compilation of information which is used in one's business and which gives opportunity to obtain an advantage over competitors who do not know or use it. The subject of a trade secret must be secret, and must not be of public knowledge or of a general knowledge in the trade or business. This necessary element of secrecy is not lost, however, if the holder of the trade secret reveals the trade secret to another in confidence, and under an implied obligation not to use or disclose it. These others may include those of the holder's employees to whom it is necessary to confide it, in order to apply it to uses for which it is intended. Often the recipient of the confidential knowledge of the subject of a trade secret is a licensee of its holder. Since some years there has been a demand for a more codified and comprehensive mechanism of protection and enforcement of the trade secrets. Some researchers have defined trade secrets from an intellectual property perspective and some from the industrial point of view. There has been therefore two demands at the same time first being the suggestion to include trade secrets as an IPR and to afford efficient protection within the IPR regime, and the second being a separate creation of sui generis system for the protection of trade secrets. This paper takes in to account trade secrets and confidential information as an integral part of business management and therefore explores the possibility of protecting this vital matter as an intellectual property of an organization.

Introduction:

Confidential information includes information that qualifies as a trade or business secret. A trade secret is any information that is not known outside the company and which is not readily ascertainable by proper means, thereby giving the company an advantage over its competitors. Whether any information is a trade secret depends on a variety of factors, such as the extent to which the information is known outside of the company's business; the extent to which the information is known by employees and others involved in the company's business; the measures taken by the company to guard the secrecy of the information; the value of the information to the company and to its competitors; the money or effort expended in developing the information; and the ease with which the information can be duplicated by others. In the globalized economy, businesses must take effective steps to protect business processes, technical knowledge and confidential information. Disclosure of such information may be potentially damaging to a company and provide an unfair advantage to its competitors. Protection of confidential information, therefore, assumes tremendous importance. While the importance of such protection is recognised by many corporations the world over, not all of them manage to take effective steps to legally protect such information.

Objective:

The objective of this paper is to understand confidential information and trade secrets from the perspective of an organization's intellectual property and protecting it in the intellectual property legal framework.

Understanding Confidential Information and Trade Secrets from Intellectual Property perspective:

A private and restricted communication shared with only few close people for guarding a purpose, where the receiver of this information is prohibited from using it in public or to take advantage by sharing it with someone else is a Confidential information and the same relating

to commercialization of an idea or concept is concerned would be considered as a trade secret. It is a matter of common knowledge that, under a system of private enterprise and of competition, it is to the advantage of a business to obtain as much information as possible concerning the business of rivals and to reveal as less as possible of one's own. This information can be a trade secret like a method of producing a product not protected by Patent or confidential information like a financial statement or list of suppliers or list of customers or salary calculation of employees or even terms of employment. Some of these information can be highly confidential considering the fact that it may be highly damaging if a competitor obtains it and gains from it.

Whether a secret information can be considered as a trade secret or not may be understood considering certain basic conditions like:

- Extent to which the information is known outside of the company;
- Extent to which it is known by employees and others involved in the company;
- Extent of measures taken by the company to guard the secrecy of the information;
- The value of the information to the company and to its competitors;
- The amount of effort or money expended by the company in developing the information;
- The ease or difficulty with which the information could be acquired and duplicated by others

Also to note is the employment terms, where on joining an organization the employee is asked to sign a Non-disclosure agreement which means the employment terms would expect the employee not to disclose the secrets of business and the information shared with him in confidence, to the outside world or to the competition. In this concern the employee has to understand and maintain certain clauses such as;

- Non-Disclosure Clauses: Covering confidentiality during employment as well as after employment ceases, such clauses typically prevent an employee from sharing confidential information with outsiders
- Non-Compete Clauses during employment: These clauses prevent the employee from engaging in activities that clash with his employment responsibilities
- Non-Compete Post-Employment Clauses: this clause is applicable when employers do not want their employees to join competitors even after quitting the job
- Non-use Post-Employment Clauses: To stop an ex-employee from making a non-competitive use of the information gained during employment

Intellectual property encompasses a broad range of confidential knowledge, including the following four categories of subject matter:

- Original artistic and literary works of authorship, such as motion pictures, books, art, photographs, music, and sound recordings (protected by Copyright law);
- Symbols, names, colors, sounds, and words that distinguish commercially offered goods and services (protected by Trademark law);
- Inventions of processes, machines, manufactures, and compositions of matter that are useful, new, and non-obvious (protected by Patent law);
- Confidential and proprietary business information.

Legal system in the India grants certain exclusive rights to the owners of these patents, trademarks, and copyrights and provides remedies in the event of those rights getting infringed.

Protection of Trade secrets and Confidential Information:

Trade secrets are rapidly becoming intellectual property of choice due to their advantages in information economy. Machinery and mechanisms were the assets of the industrial age that required the provisions of Patent law to protect them. It is accepted that trade secrets are different from other forms of intellectual property. For example, Patents require that the inventions be novel, useful and non-obvious, Trademarks protects only the printed word or image representing a product or service and Copyright protects only the manner of expression and not the content, idea, information or the concept being communicated. As researchers argue, trade secrets may or may not be novel; meaning thereby that they may or may not meet the criteria of intellectual property regime but still deserve protection because of their industrial utility. This concept is a new entrant in India, but is nevertheless a very important field of intellectual property. There is need of a dedicated legislation, which would concretize trade secret protection in India. Trade secrets are fast becoming intellectual property of choice for many corporate bodies and therefore an effective legislative intervention for it is felt even more expedient. A common way of protecting trade secrets is through confidentiality or non-disclosure and non-compete clauses in an employment contract. Companies should have rules and regulations for the protection of confidential information from contractors, consultants, vendors, customers, staff, visitors, non-employees working on site, etc. There is no government registration process in any country of the world that forces enterprises to reveal their confidential business information to the authorities in order to obtain trade secret rights. It is illegal to acquire another's trade secret if one knows or has reason to know that the trade secret was acquired by improper means. Improper means include theft, bribery, misrepresentation,

breach or induced breach of a duty to maintain secrecy, or espionage by electronic or other means. Reverse engineering or independent derivations alone are not considered improper means. Thus, a trade secret suit will not succeed if an aspect of a product's design or construction has been obtained by examination of an item purchased in the marketplace.

Article 39(2) of TRIPs lays down the essentials of undisclosed information but avoids using the nomenclature trade secrets. Article 39(3) also talks about prevention of confidential information from unfair use but is limited only to pharmaceutical products. The most comprehensive legislation in India considering the confidentiality of information is the draft Indian Innovation Act, 2008 that provides for higher level of protection to secret information. Even if the said draft is alleged to be in conformity with the international standards of TRIPs and other legislations, the confidentiality in the said Act is dependent on an industrial relationship between the parties and is not independent in operation.

The Indian legal system connected to protect trade secrets and confidential information are:

- Copyright Act, 1957 (*Section 51, 55 and 63*)
- The Designs Act, 2000
- Patents Act, 1970
- Trade Marks Act, 1999
- National Innovation Act, 2008
- The Information Technology Act, 2000 (*Section 65, 72*)
- Indian Penal Code (*Section 408, 415*)
- The Indian Contract Act, 1872 (*Section 27*)
- The Competition Act, 2002 (*Section 3*)

The damages and compensation is determined by the market value of the confidential information.

Some Suggestions and Recommendations:

Organizations must ensure that they protect trade secrets and confidential information from being infringed or stolen and hence, some tools that they can adopt are:

Employment agreement: businesses should include suitable confidentiality, nondisclosure and non-compete clauses in agreements with employees. These may include the type of information that is likely to be disclosed, the manner in which it should be used and restrictions on disclosure post-termination of employment.

Trade Secret Policy: Such a policy is a must for businesses that heavily rely on trade secrets. A basic step to develop such a policy is to identify and prioritize the business secrets based on their value and sensitivity. Employees must be informed about the policy and consequences of its breach before they agree to abide by the policy and sign an acknowledgement to that effect.

Non-disclosure Agreements (NDAs): Businesses must enter into NDAs with third parties before discussing business prospects and ventures.

Adequate Documentation: It is important for businesses to keep a track of the trade secrets that are developed and have sufficient records to show that the trade secret was developed by them and belongs to them. These records would be of evidentiary value in case of a dispute. It would also be useful for such businesses to conduct a trade secret audit at regular intervals to and keep up to date with any changes.

Security Systems: Access to trade secrets and confidential information may also be restricted to only select personnel who have to undergo proper security checks. In case of an electronic environment, the businesses should use adequate software programs, virus scans, firewalls and other security and authentication technologies to safeguard their trade secrets.

Conclusion:

A trade secret is confidential, commercially valuable information that provides a company with a Competitive advantage. As businesses are growing and going global, it becomes important for them to implement an effective framework for trade secret protection of crucial information relevant to the business operation. A judicious approach has been outlined in this paper for protection of knowledge gained through substantial intellectual labor and financial investments. Though there is no particular enactment in India that affords protection to trade secrets, organizations can use some of the tools discussed above to safeguard these trade secrets crucial to the success of their business ventures in the long term. Therefore, a statutory law on trade secrets and confidentiality in the framework of intellectual property rights is not only a very good idea but also of immediate necessity.

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