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## Q247

### Trade secrets: Overlap with restraint of trade, aspects of enforcement

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## I. Current law and practice

Aspect (i) - Overlap with restraint of trade

1) Is trade secret protection viewed as a form of restraint of trade and, if so, under what circumstances and under which legal regimes (e.g. competition law)?

a) If so, under what circumstances and under which legal regimes (e.g. competition law)?

In India, there is no statute governing Trade Secrets or Confidential Information. Trade Secrets and Confidential Information protection have evolved in Indian jurisdiction through process of judicial pronouncements and they are governed under the principles of equity and at times, under a common law action for breach of confidence, which in effect amounts to a breach of contractual obligation. [1]

The provisions relating to restraint of trade are contained in Section 27 of the India Contract Act, 1872 which specifically provides that an agreement in restraint of trade is void. The said section reads as under:

**27. Agreement in restraint of trade, void.** – Every agreement by which any one is restrained from exercising a lawful profession, trade or business of any kind, is to that extent void.

*Exception 1.- **Saving of agreement not to carry on business of which goodwill is sold.** - One who sells the goodwill of a 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 on a like business therein, provided that such limits appear to the Court reasonable, regard being had to the nature of the business.*

The doctrine of restraint of trade is not applicable during the continuation of a contract of employment. It is applicable only when the employment contract specifically provides for post-employment restrictions.[2] As far as the post-employment restraints, the Indian law lays down too rigid a rule of invalidity. Unlike English law, in case of restraints during the post-employment period, Indian law does not distinguish between such restraint being reasonable or unreasonable or partial or general and considers all such restraints, not covered by the aforesaid exception, as void.[3]

An agreement in restraint of trade is different than the obligation on an employee to protect trade secrets and/or confidential information of its employer. An agreement to protect trade secrets and/or confidential information, even after the completion of the term of employment, is not an agreement in restraint of trade and is not hit by Section 27 of the Indian Contract Act, 1872. However, such an agreement is enforceable only so far as it is meant for the protection of the employer's trade secrets and/or confidential information. An employer, under the pretext of protecting trade secrets or confidential information, cannot seek protection against competition or against the use of a personal skill or knowledge acquired by the employee which does not form a part of the employer's trade secret or confidential information.[4]

[1] *Fairfest Media Ltd. v ITE Group Plc* GA No. 3174 of 2014 and CS No. 329 of 2014 at para 29.

[2] *Superintendence Company of India (P) Ltd. v Sh. Krishan Murgai* AIR 1980 SC 1717 at para 18.

[3] *Id* at para 46-52.

[4] *Shree Gopal Paper Mills Ltd. v Surendra K. Ganeshdas Malhotra* AIR 1962 Cal 61 at para 20.

2) How does your law distinguish between general skills or knowledge acquired during the course of employment, confidential information, and trade secrets? What protection is extended to each?

**General skills or knowledge acquired during the course of employment:**

General skills or knowledge acquired by an employee during his/her course of employment usually do not fall in the category of trade secrets or confidential information and therefore the same can be freely used/exploited by an employee after the end of employment without any restraint from the ex-employer. The reason is that a man's aptitude, skill, dexterity, manual or mental ability - virtually all those things which in sound philosophical language are not objective, but subjective are considered to be the employee's own property and not the property of the employer.[1] Such human skills therefore can never qualify as trade secrets of the employer and consequently the employer cannot put any restraint against the use/exploitation of the same by the employee after the end of employment. Anyone in employment for some period would know certain facts and would learn some information

without any special efforts and in such case, the person cannot be said to have known the trade secrets or confidential information.[2] Routine day to day affairs of the employer which are in the knowledge of many and are commonly known to others cannot be called trade secrets.[3] Therefore, an employee is free to use/exploit any such general knowledge acquired during the course of employment, after the end of such employment.

**Confidential Information:** Some of the facts relevant for determination whether the information is confidential are: (i) the extent to which the information is known outside the business of the owner; (ii) the value of information to the owner and the competitors and (iii) the ease or difficulty with which the information could be properly acquired or duplicated by others. Confidential information is not something which is a public property or within the public knowledge. However, it is perfectly possible to have a confidential document, be it a formula, a plan, a sketch, or something of that kind, which is the result of work done by the maker on materials which may be available for the use of anybody but what makes it confidential is the fact that the maker of the document has used his brain and this has produced a result which can only be produced by somebody who goes through the same process.[4] Something that has been constructed solely from the materials in the public domain may possess necessary quality of confidentiality; for something new confidential may have been brought into being an application of skill and ingenuity of the human brain. Novelty depends upon the thing itself and not upon the quality of its constituent parts. [5]

The essence of the law relating to confidential information is that a person who has obtained information in confidence is not allowed to use it as a spring board for the activities detrimental to the person who made the confidential communication. He who has received the information in confidence shall not take unfair advantage of it. The confidante must not make use of the information without obtaining the consent of the person who gave such information to the confidante and thereby cause prejudice to such person. If ideas and information were acquired by a confidante in such circumstances that it would be a breach of good faith to publish them and a confidante has no just cause or excuse for doing so, the Court shall grant injunction against such a confidante.[6]

#### **Trade Secrets:**

Trade secret is defined to mean a formula, process, device or other business information that is kept confidential to maintain an advantage over the competitors. It is the information which includes formula, pattern, compilation, programme, device, method, technique or process that derives independent economic value from not being generally known or readily ascertainable by others who can obtain economic value from its disclosure or use.[7] The following are the elements of a trade secret:

1. The extent to which the information is known outside the business;
2. The extent to which it is known to those inside the business i.e. by the employees;
3. The precautions taken by the holder of the trade secret to guard the secrecy of the information;
4. The savings effected and the value to the holder in having the information as against competitors;
5. The amount of effort or money expended in obtaining and developing the information; and
6. The amount of time and expense it would take for others to acquire and duplicate the information.[8]

#### **Protection extended to general skills or knowledge acquired during the course of employment:**

No protection is extended to the general skills or knowledge acquired during the course of

employment.[9]

### **Protection extended to Confidential Information and Trade Secrets**

There is no specific legislation in India to protect trade secrets or confidential information. However, since confidential information and trade secrets are considered as the property of the holder, Indian courts have time and again afforded protection to confidential information and trade secrets by applying the principles of equity. A person is entitled to protect his interest in the confidential information and/or trade secrets by restraining others from unauthorized divulging or using the same to his detriment. In a typical suit for breach of confidential information and/or trade secrets, the Plaintiff may seek injunctive or any other equitable reliefs apart from claiming compensation or damages suffered by him/her due to divulgence or disclosure of such confidential information and/or trade secrets.

Apart from aforesaid civil remedies, misappropriation of confidential information/ trade secrets may also attract criminal liability under Section 405 of Indian Penal Code, 1860. The said provision reads as under:

#### ***"Section 405. Criminal breach of trust***

*Whoever, being in any manner entrusted with property, or with any dominion over property, dishonestly misappropriates or converts to his own use that property, or dishonestly uses or disposes of that property in violation of any direction of law prescribing the mode in which such trust is to be discharged, or of any legal contract, express or implied, which he has made touching the discharge of such trust, or willfully suffers any other person so to do, commits "criminal breach of trust".*

Section 406 provides for punishment for criminal breach of trust. The said provision reads as under:

*406. Punishment for criminal breach of trust.—Whoever commits criminal breach of trust shall be punished with imprisonment of either description for a term which may extend to three years, or with fine, or with both.*

Apart from the aforesaid provision, in the absence of any entrustment of confidential information and/or trade secret, if the same is unauthorizedly moved from the holder, it may amount to theft under Section 378 of Indian Penal Code, 1860. The said provision reads as under:

**Section 378: Theft.**—*Whoever, intending to take dishonestly any movable property out of the possession of any person without that person's consent, moves that property in order to such taking, is said to commit theft.*

*Explanation 1.—A thing so long as it is attached to the earth, not being movable property, is not the subject of theft; but it becomes capable of being the subject of theft as soon as it is severed from the earth.*

*Explanation 2.—A moving effected by the same act which affects the severance may be a theft.*

*Explanation 3.—A person is said to cause a thing to move by removing an obstacle which prevented it from moving or by separating it from any other thing, as well as by actually moving it.*

*Explanation 4.—A person, who by any means causes an animal to move, is said to move that animal, and to move everything which, in consequence of the motion so caused, is moved by that animal.*

*Explanation 5.—The consent mentioned in the definition may be express or implied, and may be given either by the person in possession, or by any person having for that purpose authority either express or implied.*

Section 379 provides of punishment for theft. The said section reads as under:

**Section 379. Punishment for theft**

*Whoever commits theft shall be punished with imprisonment of either description for a term which may extend to three years, or with fine, or with both.*

The term “property” has not been defined in the India Penal Code, 1862. However, it has been held that whether the offence defined in a particular section of the Indian Penal Code is committed in respect of any particular kind of property will depend not on the interpretation of the word “property” but on the fact whether that particular kind of property can be subject to the acts covered by that section. It is, in this sense, that it may be said that the word ‘property’ in a particular section covers only that type of property with respect to which the offence contemplated in that section can be committed.[10] Movable property may be said to include incorporeal property including patents, copyrights and other rights in rem.[11] Confidential information and trade secrets are considered as “property” of the employer. If an employee who is entrusted with confidential information or trade secrets, dishonestly misappropriates or converts to his/her own use that property or dishonestly uses or disposes of that property, he may become liable for criminal breach of trust under Section 406 of Indian Penal Code, 1860. Therefore, confidential information and/or trade secrets entrusted upon the employees can be the subject matter of criminal breach of trust. Further, if a third party with the intention to dishonestly take away the confidential information or trade secret of the holder, moves the same may be said to commit theft under Section 378 of Indian Penal Code. 1860. However, this is not a settled position.

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[1] *V.N. Deshpande v Arvind Mills Co. Ltd.* AIR 1946 Bom 423 quoting Lord Shaw from *Herbert Morris, Limited v. Saxelby* [1916] 1 A. C. 688.

[2] *Star India Private Limited v Laxmiraj Seetharam Nayak and Anr.* 2003(3)BomCR563.

[3] *American Express Bank Ltd. v Ms. Priya Puri* (2006) IIIILJ 540 Del.

[4] *Fairfest Media Ltd. v ITE Group Plc* GA No. 3174 of 2014 and CS No. 329 of 2014 at para 35 quoting the ratio in *Saltman Engineering Co. v Campbell Engineering Co. Ltd.* 1963 (3) ALL ER 413.

[5] *Zee Telefilms Ltd. v Sundial Communications* 2003 Vol.105(3) BomLR 678 at 690 quoting Justice Megarry in *Coco v A.N. Clark (Engineering) Ltd.* (1969) RPC 41.

[6] *Fairfest Media Ltd. v ITE Group Plc* GA No. 3174 of 2014 and CS No. 329 of 2014 at para 33.

[7] *Bombay Dyeing and Manufacturing Co.Ltd. v Mehar Karan Singh* 2010 (112) BomLR 3759 at page 3768 quoting Black’ s Law Dictionary Eight Edition at page 1533.

[8] Id at 3773.

[9] *Sandhya Organic Chemicals Pvt. Ltd. Vs. United Phosphorous Ltd. & Anr.* AIR 1997 Guj 177

[10] *R. K. Dalmia Etc. v Delhi Administration* AIR 1962 SC 1821.

[11] *Vikas Sales Corporation & Anr. v Commissioner of Commercial Taxes & Anr.* (1996) 5 SCC para 42.

3) Are employees under a duty of confidence whether or not such a duty is set out in their contract of employment?

yes

If yes please answer the following sub-questions::

a) are express confidentiality clauses to protect classes of information broader than would anyway be protected by the employee's duty of confidence permitted; and

Yes, employees are under a duty of confidence even if such a duty is not set out in their contract of employment.[1] Even in the absence of a contract, if the employee comes to learn about any confidential information and the employee has knowledge that the information is in fact confidential, the employee is under a duty of confidence to protect the said confidential information. The implied terms in the contract of employment of the employee resisting giving out any confidential information despite there being no express mention of it in the contract is based on the law of confidence.[2]

The right of confidentiality can be extended or curtailed by a contract.[3] The defined terms of contract allow the employees to unequivocally identify the class or category of information which is confidential and towards which they have a duty of confidence to protect against divulgence or disclosure. However, even an express confidentiality clause in an agreement cannot qualify any information as confidential which, by its very nature, is not confidential.

[1] *John Richard Brady and Ors. v Chemical Process Equipments P. Ltd. and Anr.* AIR 1987 Delhi 372 quoting Lord Greene M. R. in *Saltman Engineering Coy. Ltd., Ferotec Ltd. and Monarch Engineering Coy. (MITCHAM) Ltd. v. Campbell Engineering Coy., Ltd.* (1948) 65 RPC 203 as also *Konard Wiedemann GMBH v Standard Castings P Ltd* 1985 IPLR 243.

[2] *Bombay Dyeing and Manufacturing Co.Ltd. v Mehar Karan Singh* 2010 (112) BomLR 3759 at page 3769.

[3] *Villa Moda General Trading Co. W.L.L. and Anr. v Chordia Fashions Pvt. Ltd.* 2005 (3) BomCR 41.

b) how long after the end of employment does an ex-employee's duty of confidence in relation to trade secrets last in the absence of any express confidentiality clause?

Even in the absence of any express confidentiality clause, the employee's duty of confidence in relation to trade secrets survives the termination of employment.[1] The said duty of confidence will last till the time the trade secret does not fall in public domain and thereby cease to be a trade secret.

[1] *Intec Polymers Ltd. v Rajendra Eknathrao Tambe* 2005 IPLR 48 at 64 (para 9).

4) If not constrained by an enforceable non-compete agreement, may workers use knowledge acquired in the course of earlier employment in their new employment?

yes

If yes, is there any distinction between the types of knowledge they can use?:

Yes, workers may use a certain type of knowledge acquired in the course of their earlier employment in their new employment. For the said purpose, knowledge can be distinguished into two types:

(i) **General Knowledge:** General knowledge acquired during the course of the earlier employment can be freely used/exploited by the employee in his new employment. This is so because the general knowledge which is acquired only by virtue of day to day working and without any special efforts do not qualify as trade secrets/ confidential information and the employer would have no right over these trivial knowledge/ information which are in the knowledge of many and are commonly known to others. Therefore, the employer cannot restrain the employee from using/exploiting the knowledge acquired in the course of their earlier employment in their new employment.

(ii) **Confidential Information:** The information that the employee has come to learn under a duty of confidence and the employee has knowledge of such information being confidential, cannot be used/ exploited by the ex-employee in his/her new employment. Such confidential information by virtue of being a property of the employer, cannot be used or utilized by the employee without the consent of the employer.

In general, the test that is laid down is that whatever information can be carried by an employee in his/her head, the same may be used by him/her after his/her contract expires or in his/her business thereafter, but all the confidential information including the list of customers which cannot be verbatim copied (in head) by the employee cannot be used by him to the detriment of his employer.[1]

[1] *Bombay Dyeing and Manufacturing Co.Ltd. v Mehar Karan Singh* 2010 (112) BomLR 3759 at 3768.

5) Are certain employees subject to a higher obligation of confidentiality / non-use?

no

Aspect (ii) - Ensuring confidentiality during Court proceedings

6) What measures or provisions are available to preserve the secrecy of trade secrets during Court proceedings?

The measures and/or provisions as described in the answers to questions 6 (a) to 6 (d) below are

available.

For example, do trade secret proprietors have access to the following mechanisms to preserve the secrecy of a trade secret during proceedings (subject to the Court's discretion to allow/disallow such access):

a) restricted access to the hearing and / or evidence;

The Indian Courts have accepted the concept of forming a Confidentiality Club in cases of litigation involving trade secrets and/or confidential information. Confidentiality "clubs" or "rings" are a common feature in particular types of litigation and impose restrictions on the disclosure process by stipulating who on the opposing side can have access to the documents being disclosed, how documents may be copied, where they may be viewed and how the information they contain may be disseminated. In such cases, the access of sensitive information may be restricted to the named members of the opponent's Advocates only, excluding the opponents and/or their employees/representatives.

In India, in a given case, the Judge may call upon the parties to furnish him/her the confidential documents in a sealed cover.[1] The Judge may direct the hearing in related to trade secret or confidentiality violation to take place "in-camera" or in Judge's chambers, where only the members of confidentiality club may remain present. The Judge may take assistance by appointing an expert/advocate on the subject in order to arrive at a decision.[2]

[1] *M. Sivasamy v Vestergaard Frandsen A/S & Ors.*, 2009 (41) PTC 273 (Del.)(DB) as also in *Intec Polymers Ltd., Mumbai v Rajendra Eknathrao Tambe & Ors.* IPLR 2005 JANUARY 48.

[2] *MVF 3 Aps & Ors. v M. Sivasamy & Ors.* 2012 (52) PTC 552 (Del.)

b) disclosure of evidence only to the legal representatives of the opponent, but not to the opponent themselves;

Yes, in a given case, the Court may allow formation of a Confidentiality Club which would typically include the Advocates for both the parties, the Commissioner appointed for recording evidence, Court staff/ personnel such as reporters, videographers, stenographers etc. who may be associated with the proceedings. After the formation of such a confidentiality club, the disclosure of confidential documents can be made only to the members of confidentiality club and not to the individual parties.[1]

[1] *Ibid.*

c) non-confidential versions of documents being provided to all except authorised individuals;

Before the formation of a Confidentiality Club, non-confidential or redacted version of the



documents containing confidential information/ trade secret can be produced by the confidential information/ trade secret holder. After the formation of a Confidential Club, the original version of documents containing confidential information/ trade secret can be provided only to the members of such Confidentiality Club.

d) only non-confidential parts of any judgment / decision publicly available?

Depending upon the facts and circumstances of the case, the Court in its own discretion, may allow the judgment to be made available only to the parties to the proceedings or may allow only the non-confidential part of the judgment to be made available to public.[1]

[1] As done in *JCIT, Special Range 47 v Associated Capsules Pvt. Ltd.* (2008) 117 TTJ (Mum) 339 at para 16 and also in *Additional Commissioner of Income Tax, Gujarat v Ahmedabad, Mill owners' Association* [1977] 106 ITR 725 (Guj) at para 34.

7) If such (or similar) measures are available, do they apply by default, or must the trade secret holder submit sufficient evidence to convince the Court that the information merits protection?

Such measures are usually not applied by default. For application of such measures, upon a formal application made by a party, the Court has to come to at least a prima facie conclusion that the document/information for which disclosure is sought by one party may qualify as a trade secret/confidential information and the disclosure of the same during the court proceedings may cause prejudice/ irreparable injury to the holder of such information. The Court may come to such a conclusion on its own motion considering the peculiar facts and circumstances of the case or on a formal application made by a concerned party. After coming to such a conclusion, Court may pass a Protective Order devising the procedure for filing, analyzing and recording the documents containing confidential information/ trade secrets.

8) Whether or not such measures are available, does the Court restrict the defendant's or claimant's use - after the proceedings have terminated - of the information they gain during the proceedings?

The use of general information gained by the Defendant or Claimant during the proceedings which do not qualify as confidential information and/or trade secrets are usually not restrained by the Court. However, if the Defendant or Claimant has gained access to opponent's confidential information or trade secret during the proceedings, then the Court upon an application made by an appropriate party or otherwise in its discretion may pass an order restricting the unauthorized use of such confidential information/ trade secret of the Opposite party after the termination of proceedings.

Aspect (iii) - Valuation of loss

9) Are damages available as a remedy for trade secret violation?

yes

If so please answer the following sub-questions::

a) how (if at all) is that value diluted by publication?

Damages are available as a remedy for trade secret violation. Like any other tort, the breach of confidentiality and trade secrets also entitles the right holder to sue for damages. In a given case, where the ex-employee, admittedly, after his resignation, had started working for a competitor of the ex-employer, the Bombay High Court awarded damages of Rs.1,00,000/- to the ex-employer holding that the possibility of the ex-employee having used his ex-employer's client lists and confidential information in his new employment could not be ruled out.[1]

*How (if at all) is that value diluted by publication?*

The prerequisite for an information or document to qualify as "confidential information" or "trade secret" is that it is something which is not public property or in public knowledge. The publication of a confidential information or trade secret would put the same in the public domain. The publication would change the fundamental nature of confidential information/ trade secret and the same will not remain confidential anymore. Such publication would therefore dilute the value of confidential information/ trade secret to a great extent.

[1] *Anindya Mukherjee v Clean Coats Pvt. Ltd.* 2011(3) BomCR 70 at para 25.

b) how are those damages quantified? Specifically, is allowance made for loss of profits; unjust enrichment; and /or what the trade secret holder would or might have charged as a reasonable royalty fee or licence?

Generally, there is no cut and dried rule for quantification of damages. However, the damages are usually assessed by the loss that the Claimant has suffered due to the Defendant's unauthorized use of confidential information/ trade secret. In the alternative, the Claimant may ask for accounts of the profits earned by the Defendant by use of the Claimant's confidential information/ trade secret. However, there are hardly any cases in India where post trial, damages have been quantified and awarded in an action for violation of trade secret or confidential information.

c) can damages be awarded for moral prejudice suffered by the trade secret holder? If so, how is moral prejudice defined, and how are such damages quantified?

d) If so, how is moral prejudice defined and how are such damages quantified?

The law in respect of awarding damages for moral prejudice in case of breach of confidentiality or trade secret is not settled. However, in a given case, considering the principles on which the law of damages for moral prejudice are based, it may be possible for the Court to consider and grant such damages in case of breach of confidentiality and/or trade secret.

#### Aspect (iv) - Proving infringement

10) What elements must be proved to establish violation of a trade secret?

In India, the Courts have not provided clear distinction between confidential information and trade secret and the said terms have often been used interchangeably.

The Elements to prove violation of Confidential Information:

1. The Plaintiff must identify clearly what is the information he is relying upon;
2. The Plaintiff must show that it was handed over in circumstances of confidence;
3. The Plaintiff must show that it is the information of the type which can be treated as confidential;
4. The Plaintiff must show that it was used without his license or was a threat to use it.[1]

[1] *Intec Polymers Ltd., Mumbai v Rajendra Eknathrao Tambe & Ors.* IPLR 2005 JANUARY 48 at 66 and *Fairfest Media Ltd. v ITE Group Plc* GA No. 3174 of 2014 and CS No. 329 of 2014 at para 42; both quoting Lord Justice Laddie in *CMI Centers for Medical Innovation GmbH v Phytopharm PLC* (1999) FSR 235.

11) What additional elements must be proved (if any) for a trade secret violation in comparison to a breach of confidence, to the extent those are different types of violations?

Please see the answer to Question No.10.

12) Can constructive knowledge of a trade secret by an ex-employee or a new employer be imputed, e.g. if the subject-matter of that ex-employee's work was closely linked to the trade secret?

yes

If so, in what circumstances? :

The constructive knowledge of a trade secret by an ex-employee cannot be imputed to the new employer in all the cases. In the facts of the case, if, it is proved that the work of the ex-employee, in the new employment, is in fact, closely linked to the trade secret that was within the knowledge of the ex-employee (from his previous employment), such knowledge of a trade secret by an ex-employee should be imputed to his new employer. In case, however, it is proved that the new employer had in fact developed the product independently or before the said ex-employee joined the new employer or if the new employer has a plausible justification for coming up with a similar product, then the knowledge of the ex-employee should not be imputed to the new employer.[1]

[1] *Intec Polymers Ltd., Mumbai v Rajendra Eknathrao Tambe & Ors.* IPLR 2005 JANUARY 48 at page 67-68 and 66.

13) Does your jurisdiction provide for discovery?

yes

If yes, does it provide for discovery at the pre-action stage; and / or against third parties?:

Yes, Order XI Rule 12 of Code of Civil Procedure, 1908 provides for making an application for discovery of documents. The said provisions is reproduced hereinbelow:

**12. Application for discovery of documents.-** Any party may, without filing any affidavit, apply to the court for an Order directing any other party to any suit to make discovery on oath of the documents which are or have been his possession or power, relating to any matter in question therein. On the hearing of such application the court may either refuse or adjourn the same, if satisfied that such discovery is not necessary, or not necessary at that stage of the suit, or make such order, either generally or limited to certain classes of documents, as may, in its discretion, be thought fit:

*Provided that discovery shall not be ordered when and so far as the court shall be of opinion that it is not necessary either for disposing fairly of the suit or for saving costs*

India does not recognize the concept of pre-action stage. Unless appropriate action is filed by the claimant, he/she cannot make an application for discovery of documents from the Defendant. Further, the law does not provide for discovery of documents against third parties.

14) Does the burden of proof switch to the defendant if the applicant is able to demonstrate, to a certain level of probability, that there has been a violation?

yes

If yes, what is this threshold?:

In case, the Plaintiff is able to demonstrate to a certain level of probability that the Plaintiff had handed over the confidential information to the Defendant in circumstances of confidence and that such information was of the type which could be treated as confidential and that such information was used without the Plaintiff's license<sup>[1]</sup>, the burden would then shift upon the Defendant to prove that the information was not handed over to the Defendant in circumstances of confidence by the Plaintiff or that the information alleged to have been infringed by the Defendant was in fact not confidential in nature and was either available in public domain or was general information / knowledge or that the information was used with the Plaintiff's license/permission.

[1] *Intec Polymers Ltd., Mumbai v Rajendra Eknathrao Tambe & Ors.* IPLR 2005 JANUARY 48 at 66. and *Fairfest Media Ltd. v ITE Group Plc* GA No. 3174 of 2014 and CS No. 329 of 2014 at para 42; both quoting Lord Justice Laddie in *CMI Centers for Medical Innovation GmbH v Phytopharm PLC* (1999) FSR 235.

15) Does your law provide for any other methods for securing evidence, such as seizures or ex parte measures?

yes

If so, what requirements must be fulfilled in order for the measure to be ordered and what safeguards are in place to prevent abuse?:

Order XL, Rule 1 of Code of Civil Procedure, 1908 provides for appointment of a Receiver of the Defendant's property. The said provision reads as:

**1. Appointment of receivers.-** (1) *Where it appears to the court to be just and convenient, the court may by order—*

(a) *appoint a receiver of any property, whether before or after decree;*

(b) *remove any person from the possession or custody of the property;*

(c) *commit the same to the possession, custody or management of the receiver; and*

(d) *confer upon the receiver all such powers, as to bringing and defending suits and for the realization, management, protection, preservation and improvement of the property, the collection of the rents and profits thereof, the application and disposal of such rents and profits, and the execution of documents as the owner himself has, or such of those powers as the court thinks fit.*

(2) *Nothing in this rule shall authorise the court to remove from the possession or custody of property any person whom any party to the suit has not a present right so to remove*

Such a receiver is an officer of the Court and has the authority to protect, preserve and manage the property during the pendency of the suit. The receiver also has the power to seize and take charge, possession and control of the documents and information pertaining to the subject matter of the dispute and also to take charge, possession of records, accounts books etc. of the Defendant showing manufacture, stock and sale of the impugned goods. After taking the aforesaid steps, the receiver is to prepare a report to this effect and submit that same before the Court. Since the receiver is appointed by the Court and is an officer of the court, the question of abuse seldom arises.

The Indian Courts also pass Anton Piller orders i.e. the orders providing right to search premises and seize evidence without prior warning. Such orders can be passed in the following situations:

(i) where the plaintiff has an extremely strong prima facie case;

(ii) where the actual or potential damage to the plaintiff is very serious;

(iii) where it was clear that the defendant possessed vital evidence;

(iv) there was a real possibility that the defendant might destroy or dispose of such material so as to defeat the ends of justice; [1]

For obtaining an ex-parte order from the Court, the Plaintiff has to show and the Court has to be satisfied that the object of granting the injunction would be defeated by the delay in case such ex-parte order is not passed against the Defendant and in favour of the Plaintiff. Further, the Plaintiff has to show that if the Defendant gets notice of the Plaintiff's application, then the Defendant is likely to remove the existing stock of the impugned goods from its possession and/or is likely to dump the impugned goods in the market and flood the market with their impugned goods and/or the Defendant may destroy the impugned goods and/or is likely to alter, amend or destroy its books of accounts and records showing manufacture, stock and sale of impugned goods. Generally the ex-parte measures are coupled with the prayer of appointment of a court receiver under Order XL, Rule 1.

[1] *Bucyrus Europe Limited and Anr. v Vulcan Industries Engineering* 2005 (30) PTC 279 Cal (DB)

16) Where seizure is available, for what purposes can it be used? To secure evidence, to prevent items entering into circulation or for other reasons?

Seizure is used for securing evidence as also to prevent items from entering into circulation. However, in case of a criminal action, such seizure is limited for the purpose of securing evidence.

## II. Policy considerations and proposals for improvements of the current law

Aspect (i) - Overlaps with restraint of trade

17) Should limits be placed on the protection of trade secrets to avoid unlawful restraints on trade?

no  
If not, why?:

No limit should be placed on the protection of trade secrets. The Indian Contracts Act, 1872 adequately prevents unlawful restraints on trade.

18) Should different obligations of confidence / non-use apply to different employees? Why/why not?

Though the employees working at different levels may have different level of access to confidential information, all the employees should be equally bound to maintain confidentiality in respect of the confidential information learnt by them during the course of their employment. There seems no reason / justification to apply different obligations of confidence / non-use to different employees.

Aspect (ii) - Ensuring confidentiality during Court proceedings

19) Should a defendant, who is sued unsuccessfully for a trade secret violation, and who learns of the trade secret during the course of the litigation, be required to not use the trade secret after the proceedings? Why/why not?

Yes. A Defendant who is sued unsuccessfully for a trade secret violation and who learns the said trade secret of the Plaintiff during the course of the litigation must be required to not use the trade secret (to the extent and for as long as the information is protected as trade secrets under law), after the proceedings. Even though a Plaintiff is not successful in proving a trade secret violation against a Defendant, the fact that the Plaintiff is the owner/proprietor of the said trade secret and that the Defendant has learnt the said information only during the proceedings and has also learnt that that information is a trade secret which the Plaintiff desires to protect from unlawful use, necessitates that the Defendant be ordered to not use the said trade secret after the proceedings.

20) Should such obligations of confidentiality attach to information that the defendant developed independently prior to the trade secret proceedings, or develops independently after the trade secret proceedings? Why/why not?

The protection of trade secrets does not extend to information that is developed independently. So long as the Defendant is able to prove that the information was in fact developed by him independently and prior to/after the proceedings, the obligation of confidentiality should not attach to such information. If

such limitation is not put, it may lead to restraint of trade.

Aspect (iii) - Valuation of loss

21) Should damages as a remedy be available by default, or only where injunctive relief is (a) not possible, (b) adequate, or (c) not necessary? If by default, why?

yes

If yes please answer the following sub-questions::

a) only where injunctive relief is not possible?

b) only where injunctive relief is not adequate

c) only where injunctive relief is not necessary?

d) If by default, why?

Damages as a remedy should be available by default irrespective of whether injunctive relief is not possible, adequate or not necessary. Once it is proved that the Defendant has in fact infringed the Plaintiff's trade secret or confidential information, damages must follow, though quantum of damages may differ depending upon facts and circumstances and actual loss to the owner of trade secret.

Aspect (iv) - Proving infringement

22) Should constructive knowledge of a trade secret by an ex-employee be imputed to their new employer?

yes

If yes, in what circumstances? :

The constructive knowledge of a trade secret by an ex-employee cannot be imputed to the new employer in all the cases. In the facts of the case, if, it is proved that the work of the ex-employee, in the new employment, is in fact, closely linked to the trade secret that was within the knowledge of the ex-employee (from his previous employment), such knowledge of a trade secret by an ex-employee should be imputed to his new employer. In case, however, it is proved that the new employer had in fact developed the product independently or before the said ex-employee joined the new employer or if the new employer has a plausible justification for coming up with a similar product, then the knowledge of the ex-employee should not be imputed to the new employer.

23) Availability of pre-action evidence orders and seizure orders.

a) Should pre-action evidence preservation orders be available?

yes

If so, should the hearings to decide whether or not to grant them be able to take place ex parte?:

In India, there is no provision of pre-action evidence preservation orders or pre-action seizure orders. However, in an action for infringement of intellectual property right, once an action/complaint/suit is filed against the Defendant, the Plaintiff can make an ex-parte application for appointment of Court Receiver/ Commissioner in respect of any property including the impugned

goods or evidence relating thereto and/or preservation thereof. The system of passing ex-parte order is correct, since, if a prior notice/opportunity is given to the Defendant, there is a chance that the Defendant may dispose of or destroy or alter the impugned goods or evidence relating to infringement. However, the material seized should not be automatically made available to the Plaintiff but instead be first assessed by the Court or its officers.

b) Should pre-action evidence seizure orders be available?

yes

If so, should the hearings to decide whether or not to grant them be able to take place ex parte?:

In India, there is no provision of pre-action evidence preservation orders or pre-action seizure orders. However, in an action for infringement of intellectual property right, once an action/complaint/suit is filed against the Defendant, the Plaintiff can make an ex-parte application for appointment of Court Receiver/ Commissioner in respect of any property including the impugned goods or evidence relating thereto and/or preservation thereof. The system of passing ex-parte order is correct, since, if a prior notice/opportunity is given to the Defendant, there is a chance that the Defendant may dispose of or destroy or alter the impugned goods or evidence relating to infringement. However, the material seized should not be automatically made available to the Plaintiff but instead be first assessed by the Court or its officers.

24) What if the claimant learns of new trade secrets (of the defendant) during the course of a seizure?

A seizure order should provide safeguards to prevent the Claimant from gaining access to the seized information especially the new trade secrets of the Defendant and if he gains knowledge to the new trade secret of the Defendant, the Claimant should be restrained from using/disclosing the said trade secret of the Defendant. In any event, if the Claimant learns of new trade secrets of the Defendant during the course of such seizure, the Defendant should have an option of filing a cross action against the claimant restraining the claimant from using, disclosing or dealing in any manner whatsoever the trade secrets (to the extent and for so long as the information is protected as trade secrets under law) of the Defendant.

### III. Proposals for harmonisation

25) Is harmonisation in this area desirable?

Yes

If yes, please respond to the following questions without regard to your national or regional laws. Even if no, please address the following questions to the extent you consider your national or regional laws could be improved.

Aspect (i) - Overlaps with restraint of trade

26) Please propose principles for the circumstances in which trade secret enforcement actions should fail, because such actions would be de facto restraints of trade.

Trade Secret enforcement actions should fail in the following circumstances:

- If under the pretext of an action for trade secret enforcement, the action actually intends to and eventually results into restraint of trade, such action should fail;
- If the action is taken against any ex-employee preventing him from using the knowhow or information



which he generally learnt during the course of his employment, such action should fail. Ex-employees should not be prevented from using their general skills.

27) What relief should courts give when a trade secret violation has occurred or is about to occur, but an enforcement action is barred as a restraint of trade?

The Courts should give only those reliefs which will, if possible, prevent disclosure of trade secret but at the same time would not result into restraint of trade and thereby strike a balance between the rival rights.

28) Should employees subject to a stricter obligation of confidentiality be released from that duty in certain circumstances? If so, in what circumstances?

Generally all employees should be under the obligation of confidentiality. However, if the stricter obligation of confidentiality results into restraint of trade or if the employee was made to sign a complete unilateral contract or where the employee was in a very disadvantageous position while negotiating his contract, it may be fair to release the employee from the strict obligation of confidentiality.

#### Aspect (ii) - Ensuring confidentiality during Court proceedings

29) What protection for trade secrets should be available during Court proceedings, and what conditions should be satisfied for that protection to be given?

The following protection for trade secrets should be made available during the Court proceedings:

- Forming a Confidentiality Club and ensuring that the disclosure of trade secrets/confidential information and confidential documents should be made only to the members of the Confidentiality Club and not to the representatives of the parties to the litigation;
- Production of confidential documents only in a sealed cover/envelope;
- Hearing to take place "in-camera" or in Judge's chambers;
- Before the formation of a Confidentiality Club, the holder of confidential information / trade secret should be permitted to produce only the non-confidential or redacted version of the documents containing confidential information/ trade secret.
- Court should preferably allow its judgment to be made available only to the parties to the proceedings or may allow only the non-confidential part of the judgment to be made available to public.

The aforesaid protection should be made available only when the Court is fully satisfied that the information sought to be protected qualifies as a trade secret/confidential information.

30) If an enforcement action fails (e.g. because the defendant had independently developed the secret information and did not misappropriate it), what type(s) of confidentiality or non-use obligation, if any, should continue or cease to apply?

If it is held that the defendant had independently developed the secret information and did not misappropriate it, the obligation of confidentiality or non-use should cease to apply to such information.

Aspect (iii) - Valuation of loss

31)	Please propose the principles for quantifying damages for trade secret violations.
	Damages for trade secret misappropriation should be quantified on the basis of the following: <ul style="list-style-type: none"><li>• the trade secret owner's actual loss, including its lost profits, caused by the misappropriation;</li><li>• account of profit of the Defendant;</li><li>• the Defendant's unjust enrichment caused by misappropriation;</li><li>• punitive damages</li></ul>

32)	Should courts award moral damages?
	yes If so, how should they be quantified?:  In case of a trade secret violation, the Court may award moral damages in the given facts and circumstances. This may have a deterrent effect. However, it is difficult to lay down hard and fast rules for determining quantum of moral damages.

Aspect (iv) - Proving infringement

33)	What measures to secure or preserve evidence should be available?
	The same measures as summarized in the answers to question Nos.6 and 8 should be maintained.

34)	What restrictions should apply to the use of seized evidence by the claimant?
	There should be limitations on the use of the seized material. The claimant should not be allowed to have unlimited or unfettered access to the seized material. The access and use of the seized material by the claimant should be subjected to the orders of the Court. In case, if any confidential information or trade secret or any documents or things which fall outside the scope of the claimant's case are seized, the same shall not be made available to the claimant. The claimant shall be made to give an undertaking that the claimant will make good the loss or damage, if any, is caused to the seized material or by using the seized material, if such material is outside the scope of the Claimant's claim.

Summary
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Please comment on any additional issues concerning trade secrets you consider relevant to this Working Question.
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