

- a. Justice Singh explained that traditionally our courts have exhibited a socialist tilt in such matters, often allowing the setting-up of competing industries, letting employees grow and coming down heavily on restrictive or negative covenants, allowing their operation only during employment and not post-termination etc. This was on account of the prevailing situation in our country at that point in time wherein competition was required and rights of employees needed more protection. However, over the past 5-6 years, there has been a change in perspective and the courts seem to be reorienting themselves. Slowly, the courts are becoming more liberal towards employers as well, especially in light of the economic and industrial progress. In cases of trade secrets involving employees, the courts are able to appreciate that employers invest a lot in ensuring the acquisition and development of skills by their employees especially in certain sectors where intensive training is required.
- b. On the question of whether we require a law on the subject matter, Justice Singh highlighted that in the current economic scenario we have big innovations happening, especially within the Artificial Intelligence (AI), technology and start-up ecosystem. Data is very vital to all these industries and one leak of any sensitive information can have a crippling impact on the progress of an entity, especially if it is a start-up. Even with big companies, a substantial capital is invested in research and most of the data that they seek to protect is at the research stage thus incapable of being protected under the system of patents and copyright, which may not afford adequate protection against the misappropriation of such data. Loss of such data has serious economic implications for such companies. Hence, a law on trade secrets is required.
- c. Justice Singh also highlighted that an increasing number of cases pertaining to trade secrets were being filed before the Delhi IP Division and out of every 20 cases, 3 to 4 cases were related to trade secrets.



- d. It was further highlighted that confidential information usually complements and co-exists with other forms of IP such as patents and how a dubious protection over trade secrets could come in the way of technology transfer especially in vital sectors such as pharmaceutical where a patent may not have been filed in India and the information is being protected as a trade secret. A law on this subject would serve three purposes – firstly, it would give clarity to companies and enable them to better protect their confidential information; secondly, it will increase industry confidence and enable technology transfer to India; and thirdly, absence of a clear law on trade secret often comes up as an issue during negotiation of free trade agreements.
- e. On the question of what shape the law should take, Justice Singh expressed that we should enact a law after assessing the needs of our own economy and suited to our own needs. Further, such a law may actually encourage disclosure in the sense that the companies will have more faith and assurance while sharing information which will bring in greater cooperation and collaboration as a matter of principle. A law will also aid the courts in determining the issue better.
- f. In respect to the question whether trade secrets must be treated as “property”, it was expressed that it is definitely an “intangible asset” and is nothing but a database in a larger form.
- g. On the question of registration, it was stated that registration of trade secrets should not be mandated as it may prove to be counter-intuitive. Certain issues such as jurisdiction were also discussed, Justice Singh was of the opinion that suits relating to trade secrets must fall within the scope of “commercial disputes” within the Commercial Courts Act, 2015 irrespective of pecuniary jurisdiction given the inherent nature of trade secrets. Further, while “trade secrets” or “confidential information” do not find a specific mention under Section 2(1)(c)(xvii) but it has been held by

the Delhi High Court that these fall within the purview of “commercial disputes”. Thus, jurisdiction must lie with district courts and above.

- h. Another important aspect which was brought to the Commission’s attention was that of “confidentiality clubs” as has also been incorporated in Rule 19 of the Delhi High Court Intellectual Property Rights Division Rules, 2022. Given that a lot of confidential information is involved in such suits, it would be prudent to have such a provision in order to maintain the integrity and secrecy of the information disclosed before the court.
- i. On the question of adopting criminal remedies, it was stated that the same need not be incorporated as provisions pertaining to theft etc. covered under the IPC would suffice. However, it was agreed that sensitive national data, defence, atomic energy and like sectors are an exception and higher penal consequences may be warranted in respect of these. Thus, criminal sanctions for these may be provided making these cognizable with punishable up to seven years of imprisonment. So, there can be one law for trade secrets and espionage with criminal sanctions being provided for espionage where the State is involved.
- j. Some procedural issues were also discussed and it was expressed that when it comes to inspection of electronic data, given the technical nature of such a task, an independent body such as Local Commissioners may be appointed which would be driven by the court. Order XXVI of the Code of Civil Procedure, 1908 may be utilised for the same. It must also be ensured that there is stringent discovery and preservation of evidence in compliance with Order XI of the Code of Civil Procedure.

B. Academic Perspective

- 7.3. The Commission also sought the views of **Prof. (Dr.) N. S. Gopalakrishnan** who has been the HRD Chair on IPR at Cochin

University of Science & Technology, Cochin, Kerala. He has also worked in association with the Government of India contributing towards policy making at the National and International level. Prof. (Dr.) N. S. Gopalakrishnan was accompanied by **Dr. Naveen Gopal** who was earlier a Ph.D. candidate under him and had conducted an empirical study on trade secrets in the SMEs and Ayurveda industries in Kerala (2016-2023) as part of his doctoral thesis. The interaction has been summarised below:

- a. The two invitees contextualised the entire issue in light of the post-TRIPS Agreement scenario. After signing the TRIPS Agreement, India amended all its existing IP laws, especially the Patents Act, 1970 and even introduced certain new ones. While doing so, we kept our national concerns central such as protecting our generic pharmaceutical industry. However, there has been a persistent demand from the foreign pharma industry such as protection of trade secrets, data exclusivity and introduction of utility model. The invitees drew the attention of the Commission on various efforts made by the government on the issues of protecting trade secrets. The Department of Industrial Policy and Promotion (DIPP) formed a committee referred to as the “IPR Think Tank” to formulate a National IPR Policy which also dealt with the question of enacting a legislation on trade secrets. Further, in 2021 the Parliamentary Standing Committee on Commerce had suggested enactment of a specific legislation in its Report. Further, the need for such a law also arises from the pressure exerted by our trading partners, especially during the negotiation of Free Trade Agreements as well as the consistent mention of lack of adequate protection of trade secrets in India highlighted in the USTR Special 301 Report.
- b. According to Prof. Gopalakrishnan there are three major concerns when it comes to protecting trade secrets. Firstly, trade secrets are not in tune with

the basic objective of IP – information dissemination. Secondly, IP rights are a quid-pro quo for disclosure of information and this is absolutely absent in case of trade secrets. Thirdly, IP rights are limited property rights, however, trade secrets persist in perpetuity so long as secrecy is maintained. Further, it is generally assumed that stronger trade secret laws are detrimental to the society as they adversely affect technological advancements and undermining the objectives of other IP rights. The TRIPS Agreement itself promotes information dissemination and also protects secrets. Hence, we must adopt a balanced approach.

- c. It was pointed out that from a conceptual point of view, no single theory of IPR justified protection of trade secrets. Further, there was lack of empirical evidence on the economic implication of a separate legislation or that it would in fact incentivise innovation. Furthermore, the TRIPS Agreement did not mandate a separate legislation. It was also highlighted that two approaches are available, one being the legislative approach adopted by the US which was more in favour of the trade secret holder and the other being the common law approach as adopted in the UK which was more flexible and sought to maintain a balance. It was expressed that if we look at the Indian experience, we can see through the case laws that there has been a balanced approach.
- d. Dr. Gopal also highlighted that his empirical study in fact indicated that the existing provisions remain underutilised and there is as such no demand of a separate legislation from the Ayurveda and Micro, Small & Medium Enterprises (“MSME”) industries in Kerala. The key aspect that needs to be borne in mind whether we choose to enact a separate legislation or continue the current practice is that various interests need to be balanced. There are three interests at play – first, that of the holder of information or the industry who are mostly concerned with maximum protection and prevention of misappropriation; second is that of employees who are

mostly concerned with freedom to use the skills acquired during employment and desire no restrictions post-employment or on self-employment; third is that of competing industries who are concerned with protecting independent innovation and reverse engineering. Thus, misappropriation ought to be prevented without affecting the interest of the employees and competing industries.

- e. Further, under Article 39(1) & (2), the protection is against “unfair competition”. Treating trade secret as a “property” is in itself contentious as there is no conclusive theoretical justification to treat it as property. While the US treats it as property, many common law jurisdictions including the UK treat it as “quasi-property” and under unfair trade competition. India was opposed to the inclusion of trade secrets during the TRIPS agreement negotiations and specifically stated that it is not a form of property. While the TRIPS Agreement treats it as an IP, unlike other forms of IP there is no exclusive right over it. While protecting such information the balancing of interest calls for maintaining a robust public domain as well as fair contractual terms. Article 39 provides enough flexibility to members to decide on allowing independent innovation, reverse engineering and post-employment restraints. Further, the general obligation under the TRIPS Agreement is to mandatorily provide civil remedies and criminal remedies are optional.
- f. In order to highlight the practices of Indian Industry, Dr. Gopal explained his study and its findings. With respect to the MSME sector, his Study revealed that patenting activity had been weak, hence strong secrecy had been maintained with respect to information, new processes and products. The measures adopted to safeguard trade secrets included confining disclosure to a very few employees and segmenting production-related processes among employees so as to prevent disclosure of knowledge in its entirety. Most MSMEs gave oral instructions with regard to

confidentiality of information and very few have written NDAs in place. The Study revealed that in most sectors, departing employees had set-up competing businesses while utilising such confidential information, however, no legal measures against misappropriation were instituted in such cases mainly due to absence of any market failure for the employers as a result. Further, these entities had come up with alternative measures to overcome competition including changing designs according to customer requirements, quality assurance, timely supply, pricing, reliance on other IPs like trademark and designs etc. Further, the difficulty in reverse engineering faced by the competitors had also helped secure a strong place for their products in the market. With respect to the Ayurveda industry, the Study revealed that most companies own proprietary medicines which contain secret information and such blockbuster drugs provide a competitive edge. Further, all information with respect to such medicines is not disclosed to the drug authority. While true ingredients of the medicine are required to be displayed on the label, an element of secret remains by not disclosing the exact manner of mixing components or the exact ratio of components in the composition. Confidentiality measures employed included oral contracts/instructions; Coding and pre-mixing of raw materials; and confining the knowledge of confidential information to very few employees. As with MSMEs, departing employees had taken confidential information and started competing business and no measures against such misappropriation were taken. Reverse engineering was difficult in this industry and measures taken to overcome competition include reliance on other IPs, in specific trademark, efficacy of product and quality of raw materials and preparation and standardization of products. Reliance on current trade secrets mechanisms was very low both due to lack of awareness and the difference in the cultural settings as compared to the west. No market failure was observed and the need for a law was found

to be absent. There was not a single case where legal measures were initiated against such misappropriation. This went on to confirm that companies will innovate and maintain secrecy irrespective of whether there exists a trade secret law or not.

- g. While the Indian courts have granted protection to a wide range of subject matter, common knowledge has been clearly excluded from the purview of protection. Further, a wider interpretation has been given to public domain and unreasonable restraints especially post-employment have been struck down. The courts have also adopted procedural safeguards such as confidentiality clubs.
- h. The shortcomings of the previous attempt on a specific law, the National Innovation Bill 2008, were also highlighted. The Bill adopted several provisions from the US law and was quite stringent. Further, some provisions of the Bill were in conflict with the Indian case laws and the Indian Contract Act, 1872. Further, there were no safeguards within the Bill and certain provisions were highly likely to lead to arbitrariness. Some shortcomings of the law in the US were also highlighted such as wide interpretation of protected subject matter leads to shirking of public domain and post-employment restraints affect employee mobility. Further, the Federal Trade Commission (FTC) was considering a ban on non-compete agreements.
- i. It was highlighted that a separate legislation may shift the balance in favour of a holder in contrast with the present situation wherein it is delicately balanced by the courts. It may further shrink the public domain, restrict employee mobility, stringent criminal remedies may impact independent creation, may undermine Patent Act and the ultimate beneficiary may be big industries rather than MSMEs. Thus, if it is decided to opt for a legislation, then it must follow the principle of unfair competition rather than a property approach. Further, as under the TRIPS Agreement, rather

than defining trade secrets, only the qualifying criteria must be specified in order to retain the flexibility. Common knowledge must be expressly protected along with employee mobility, reverse engineering and independent innovation. There must also be an express provision for compulsory licenses in certain cases, akin to that under the patent law. Furthermore, the law must be restricted to civil remedies and not criminal ones for which the existing provisions under IPC may suffice. Largely, the common law principles must be retained and legislated.

- 7.4. The Commission also met with **Dr. Arul George Scaria** to seek his views on legislating a separate law on trade secrets. Dr. Scaria expressed the following views:
- a. It was stated that it is difficult to justify trade secrets under any single theory of intellectual property protection. There are two approaches to trade secrets that we find across jurisdictions over the world. It is either premised on unfair competition or it is treated as a “property”. Under the principles of unfair competition, it is fairness and honesty in the market that one seeks to uphold. Further, the economic arguments justifying protection of trade secrets is that it prevents free riding and enables information sharing with employees and third parties.
 - b. It is difficult to conceptualise trade secret as an IP since no information dissemination takes place and the traditional *quid pro quo* of disclosure is completely absent in the case of trade secrets.
 - c. In India, there is no specific law on trade secrets and protection is afforded by courts based on principles of equity, common-law action of breach of confidence and contractual law. There are also certain criminal remedies under IPC and the Information Technology Act that also exist.

- d. In India the courts have taken a fairly inclusive or liberal approach and a variety of information including formulae, manufacturing processes, technical details/drawings, MoUs/joint-venture agreement, due diligence reports, concept, manuals etc. has been protected within the ambit of trade secret. The broad category of cases pertaining to trade secrets relate to employer-employee disputes governed by contracts, breach of confidence, actions against journalists, and criminal actions. With regard to employer-employee disputes, Section 27 of the Contract Act, 1872 becomes relevant. It has been observed that courts usually do not view restrictive covenants in employment especially post termination of employment in a very favourable light and are inclined to strike down the same. However, High Courts have diverging approaches when it comes to trade secrets and employment. In respect of breach of confidence, it is covered both under the law of contract and in the absence of a contract, an implied duty of confidence between the parties would give rise to an action. The courts in India have in general followed the principle laid down in *Saltman Engineering v. Campbell Engineering* [(1948) 65 RPC 203] to read breach of confidentiality even where there is no contract. When it comes to the criminal law that would apply to misappropriation of confidential information, Sections 403, 405, 408, 418, 420 and 381 of the IPC become relevant. In addition to this Sections 66, 72 and 72A of the Information Technology Act are also relevant. Hence, there is a wide variety of civil as well as criminal remedies available under the law to deal with any misappropriation of trade secrets.
- e. It was highlighted that there have been previous attempts to legislate upon this subject matter, The National Innovation Bill, 2008 was one such attempt though it failed to be introduced in the Parliament. The National Innovation Bill was not exclusive to trade secret protection and dealt with the larger issue of innovation, research and development.

- f. Certain observations can be drawn from the Indian experience on trade secrets so far. If we analyse the case laws, it shows that a balanced approach has been taken by the courts in India so far in consonance with the historical position taken by India on trade secret protection at international fora. While there may be a demand for a separate law, however, there is hardly any empirical data to illustrate inadequacies of the current legal regime. Hence, before opting for legislation, broader consultations with experts and stakeholders is required.
- g. Dr. Scaria also expressed that should we choose to go for a specific legislation on trade secrets, there are certain aspects that must be borne in mind. For instance, we must avoid pressure from trade partners and craft our own path based on judicial precedents and by carefully balancing all interests. Further certain flexibility is in law such as the very definition of trade secrets must be retained so as to permit evolution of law and have certain measure of judicial discretion in order to cater to the unique needs of each particular case that may come up before the courts. Further employee mobility is an issue that must be addressed and the spirit of Section 27 of the Indian Contract Act must not be undermined by unreasonably restricting employee mobility. Furthermore, protection of competition and free speech should also be allowed. Equally important is ensuring certain procedural safeguards for defendants so as to disincentivise frivolous suits. Perhaps the most crucial aspect to be considered is that exceptions as central to the framework of trade secrets at present. Hence, any law that is made on the subject matter must provide for broad exceptions such as reverse engineering, independent creation, whistle-blower protection etc. Given the recent global experience of COVID, we must also consider introducing provisions akin to compulsory licensing under the Act to address situations such as national or health emergencies that may arise. Lastly, such a law must limit itself to civil

remedies and must not introduce criminal remedies. The criminal remedies as available under the current scheme of IPC and the Information Technology Act can be utilised in situations where such a remedy may be warranted, however, the trade secret legislation must only restrict itself to civil remedies.

7.5. The Commission also invited **Dr. Tania Sebastian** to express her views before the Commission. Dr. Sebastian expressed the following views:

- a. Dr. Sebastian stated that it is difficult to find any empirical study on the adequacy of trade secret law in the Indian context. There is reluctance on part of secret holders in opening up on the subject. Hence, she focused her study on litigation trends in India and analysed the existing case law focusing on categories, types and outcomes.
- b. Trade secrets are present in almost all industries, for instance the criteria for the New York Times Bestseller list are a secret. Even when it comes to movie scripts, there is a lot of secrecy in order to protect the unique expression of even a generic storyline. Trade secrets cover expansive subject matters and all would fall within the framework of the TRIPS Agreement as there is great flexibility under international law. Broadly, there are two categories of knowledge – explicit and tacit. While the former will be protected, the later may not. E-mails, documents etc. fall within the category of explicit knowledge whereas experience will fall within tacit knowledge. However, this categorisation is often difficult to enforce and has to be proved with the help of evidence.
- c. Dr. Sebastian also stated that an analysis of the existing case laws reflected that the maximum number of cases arise in the context of employment which entails issues pertaining to employee mobility and it was contested that knowledge and skill gained during employment should not be taken to

the new place of employment. Such cases were usually filed by the employer and a vast number of these cases have been decided in favour of the employee.

- d. Dr Sebastian drew attention to 6 findings from her study. The first finding pertains to challenges related to evidence collection. There was inconsistency in cases and the major reason was that evidence collection, dissemination and production by parties was lacking. The parties were hesitant to share or reveal information even before courts. While parties state that their trade secret has been misappropriated, they however fail to give evidence of confidential information in the nature of a trade secret or that it was entrusted to the defendant or even specifying as to what concerned the trade secret is beyond giving vague descriptions or labels. While there are provisions under CPC and CrPC, despite this evidence collection is a challenge as parties fear unintended disclosure through such court proceedings. In other countries, sealed envelopes, in-camera trials, confidential proceedings and confidential clubs have been instituted to mitigate these challenges. The second finding highlighted was that because there is no definition of trade secret, it further results in problems with identification before courts. The third finding was the conflict of recognition of trade secrets as a right separate from copyright. In copyright suits, when evidence is lacking courts look at ancillary rights such as trade secret and provide protection thereby circumventing copyright as it does not allow rights over ideas but only on its expression. Courts in such cases have ignored precedents and have granted an injunction for in respect of a work already in public domain. The fourth finding pertains to conflict with contract and breach of confidence. Even if there is no contract, courts read the duty to maintain confidence. While post-employment restraints are void in light of Section 27 of the Indian Contract Act, 1872, courts have also upheld such clauses based on evidence adduced and in special

circumstances of the case. These cases cause worry of retention of employees by employers and reflect changing notions of employee. The fifth finding highlighted by Dr. Tania pertains to tacit and explicit knowledge. It is not very easy to demarcate between these two even if it appears so. It can be difficult to ascertain where tacit knowledge end and where explicit knowledge begins. Whenever the question of tacit knowledge has emerged Courts have expressed that some skills will be learnt as a result of job experience and there cannot be restriction on use of this tacit knowledge or skill. The sixth finding brought to the Commission's attention pertains to cases that do not have employer-employee relationship. These cases are mostly settled outside the court.

- e. It was also submitted that many countries have adopted specific legislation on trade secrets such as the US. However, despite having single definition and law concerns still remain even in these jurisdictions. While bringing a law has not provided solutions to all issues, however, it has definitely brought in consolidation. India should not base its law on any other jurisdiction but entirely based on the Indian context though we may definitely look at adopting the best practices from other countries.
- f. With respect to the adequacy of the prevailing laws, it was submitted that the current legal regime provides adequate protection as the courts have taken a balanced approach in determining trade secret litigation in the past in India. However, there is a jurisprudential split with different courts in India interpreting the use of non-compete clauses and in the repercussions regarding the issue of pre-emptive injunctions that restrained former employees from joining (or the possibility of joining) rivals and thereby a possibility of violating a duty of confidence.
- g. On being asked if we need a specific legislation, it was stated that while the present system was adequate, should India choose to legislate, it should incorporate certain elements in order to be a better law. Such a law must

provide for procedural safeguards during court litigation. The law must also address relative secrecy and the need for it to be kept so. Further, third party rights and the principle of good and bad faith must be retained. Moreover, penal provisions if included should have riders to ensure that the same are not abused. The law must also address aspects related to data protection and foreign investment protection. Further, there need to be guidelines as to destruction of evidence etc. the contours of law specifying what cannot be misappropriated, such as independent creation and reverse engineering, must also be clearly defined. For the tacit knowledge protection should be incorporated so as to ensure that employee mobility is not unnecessarily curtailed.

- h. On the aspect of creating a Registry, it was submitted that the main element of secrecy in such a case might be compromised in the case of creation of such a registry. Trade secret registries are usually the creation of an internal arrangement by companies to protect and secure their trade secrets.
- i. On the aspect of including provision(s) akin to compulsory licenses or governmental use as provided under the Patent Act or any sort of waiver in order to address exceptional situations affecting public health or national security, it was submitted that any sort of government intervention relating to the access to medicines is a welcome step especially in light of the COVID-19 pandemic. This issue also has to be addressed with an understanding of the role of technology transfer with respect to trade secrets protection. Further, incorporation of whistle-blower protection was also desirable.
- j. On the question of applying Code of Civil Procedure read with Commercial Courts Act to suits relating to trade secrets, it was stated that CPC procedures should remain intact in order to give structure to the procedural aspects of trade secrets litigation.

C. Industry Perspective

7.6. The **Associated Chambers of Commerce & Industry of India (ASSOCHAM)** was invited by the Commission in order to get an understanding of the subject matter from an industry perspective. The delegation from ASSOCHAM brought to the fore a range of issues for the Commission's consideration. These have been outlined below:

- a. The members of the association were of the view that a separate codified law on trade secrets is required. The reasons stated were that firstly, absence of a codified law retards growth of businesses both domestically and internationally. Secondly, recourse to common law and torts etc. requires a lot of effort and it is not easy to assert rights under the current framework. It is tedious endeavour for the parties as well as the judiciary. Thirdly, enacted laws with overriding effect and disposal within the time frame will instil confidence in the industry and investors. Fourthly, many other jurisdictions have codified law as well which brings in ease of doing business, upholding fair business practices and principles of justice etc. Sixthly, while the Constitution of India allows freedom of trade, it is subject to reasonable restrictions. Law should balance all considerations.
- b. It was submitted that remedies under contract law are clearly not sufficient because if there is no contract then there is no liability and the only recourse that remains is under torts. The problem here is at two levels. On the conceptual level, we have to leave it entirely to the judges to access as to how people have exercised caution and what ought to be the law. the High Court recognise equity but it takes time for them to decide and they are not guided by statute. Lower courts usually ask for statutory basis and this brings up enforcement issues. Further, while equitable relief is unbelievably wide, there is remarkable lack of awareness about equitable

relief in India. Accessing justice is in itself a problem. Furthermore, the judicial officer can decide a matter in multiple directions thereby bringing in lack of certainty which is the basic point of law. Since there is no guiding factor, it can really lead to waste of time as well as uncertainty.

- c. It was also highlighted that no civil law is sufficient on the point. Contract law governs only a limited aspect. Information Technology Act only caters to computer related harm whereas trade secrets are wider than the digital space. The example of pharmaceutical industry was cited to drive the point that market intelligence is required by competitors to survive. In fact, competitors have the right to have certain information however when it crosses the line and becomes a bad practice and unethical, liability must arise and this is what trade secret law should seek to address.
- d. On the aspect of whether or not criminal sanctions are required, it was expressed that while criminal liability is mostly not required yet in certain situations they may be warranted. Criminal provisions are necessary where there has been clear malfeasance such as bribery, unauthorised access, deliberate taking away of material by way of photo-copying, carrying samples, destruction of and breaking-in computer systems to access hard disk drives which only digital forensics later reveals etc.
- e. On the question that whether trade secret should be treated as property it was stated that it is definitely intangible property. The dichotomy between trade secret and traditional IP need not exist. There are classical statutory IPs such as patent, copyright, trademark and there are non-statutory IPs such as confidential information, trade secrets and traditional rights of indigenous people. What one must consider is does it have the capability of intellectual capital? If yes, it ought to be protected
- f. It was further stated that not having a law hurts us more as a jurisdiction as businesses are going and preferring other jurisdiction over us and there is flight of intellectual capital. Further, start-ups are most anxious about their

IP as they do not have the capital but only talent. The only trading element they have is the intellectual capital. Codification of law will help start-ups as they do not have the capital to engage in litigation with uncertain outcomes and navigate the nuances of law filled with lack of clarity. A definite law will help them enforce the rights better. Further, we see movement towards statutory law in other jurisdiction as well for instance China. Evolution must be as per what is working for the industry. We are unable to capitalising here because there is no law to address the escape of trade secrets. Further, if we do not protect, then we will be excluded from access to “know-how” and reverse engineering is not easy.

- g. Another member of the delegation stated that what we need is a strong law. While there is confusion whether trade secrets is property or not, what constitutes a trade secret is also in itself confusing. A company may have know-how to use particular technology in a new way but may not want to bring it to the market right now. In such a case, there should be a right to stop disclosure or get another patent, whether you term it as a property right or not. Currently protection is only by the interpretation of courts and we need a law to clarify the position.
- h. Further, economic espionage is a reality, for example hacking. Without law we can become a safe haven for such hackers. While developing countries do need technology, but we are no longer in the same space. Indian companies themselves invest in R&D and they need to protect outflow of their R&D and will also bring in foreign companies. This will also enable transfer of technologies and development of those technology will help the overall ecosystem. A separate law will provide a better framework to address emerging issues such as the data, AI etc.
- i. It was also highlighted that trade secrets and economic intelligence affects the state as a whole. For instance, 5G technology is being developed, if hacked by another State, we have no comprehensive law to address such a

hack. The Information Technology Act in the Indian ecosystem is insufficient as in instances where data is stored on cloud and data processing is done in the US, the Act provides no legal protection and this fails competition. Further, reverse engineering is a common defence strategy however, with machine learning wherein patterns can be recognised it is easy to crack and reverse engineer and then there is no protection left. Hence, this aspect must also be addressed especially in sectors such as banking. The repercussions in case of economic espionage are significant, for instance if a country's nuclear programme is attacked fines will serve no purpose. Artificial Intelligence and Machine Learning are in their infancy and there are no counter measures to protect us. Cyber-attacks are more common when it comes to economic espionage. While the Information Technology Act may provide relief to protect trade secrets, we need infrastructure to address economic espionage. Economic Espionage is broader than industrial espionage and a separate law is required.

7.7. A delegation from the **Confederation of Indian Industry (CII)** also presented its view before the Commission. The CII also conducted a survey amongst the industry members in order to best reflect the industry sentiment before the Commission. A brief of the submissions made before the commission and the written response along with survey finding has been provided below:

- a. There has been a demand from the industry for a separate law on trade secrets since the 2000s. It is one area of IP that remains a cause of concern for innovative industries given that a large percentage of new technology is covered by trade secrets and not the other traditional forms of IP. Loss on account of inadequate protection to trade secrets is a direct loss to the economy. Enforcement of trade secrets remains difficult especially as the

law as it stands lacks uniformity. At present, outcome or enforcement also largely depends on the court which one goes to. There is a lack of stringent provisions to create sufficient deterrence and availability of immediate relief is also an issue. Parties find it very difficult to get interim orders of protection or other relief before lower courts or the police. Further, district courts often lack understanding of trade secret laws and ask for statutory provisions when parties try to enforce rights. Lack of confidentiality of such proceedings allows critical information to flow into the public domain thereby jeopardising the confidentiality of the information. It is on this account that a specific law is urgently required. It will encourage transfer of technology and investments in India.

- b. The current position on protecting trade secrets majorly revolves around putting in place strong contracts, however, this is far from satisfactory. Trade secret violations are very common in India and there are tremendous limitations to the existing legal framework which comprises several statutes and is mostly a judge made law. The absence of a separate legislation has rendered the Indian market vulnerable, especially the pharmaceutical and chemical sectors. Improvement can be brought upon by simplification of norms and adoption of unified singular legislation. There is a need to align with developed countries like the US. While we must study laws of other jurisdictions, we must ensure that the rights in Indian companies are protected without violating any treaties that India may be a signatory to and we need to come up with our own legislation.
- c. Due to uncertainty and lack of adequate protection, a lot of novel and modern technology do not flow into India. In the Aerospace and Defence sectors, secrecy is paramount and the global Original Equipment Manufacturers (OEMs) are very zealous in guarding their IP. As an Indian partner of these OEMs it is necessary to comply with such norms, however, lack of sufficient legal framework on trade secrets in India deters them

from localising the work which is sub-contracted to vendors outside India. This stops transfer of critical technology to and development of local industry in India. Further, the police are not equipped to understand the nuances of technology thus the holders of information find it difficult to file a complaint.

- d. While legislating on trade secrets several aspects such as the parameters of what constitutes a trade secret, licensing such secrets, enforcement of rights, competent authority to determine remedial action are all required to be determined. It is necessary to accurately assess India's requirement in view of the place, time and situation in order to avoid possible risks or misuse of the adopted principles and practices. During an earlier study conducted by CII, a few judges of the Bombay High Court said that they did not feel the necessity of a separate law for protecting trade secrets. However, given the great variation in the interpretation given by courts due to multiplicity of laws on the subject, a specific law will definitely bring certainty and uniformity.
- e. A specific law will have benefits across the industry be it Pharma, MSMEs, technology etc. MSMEs often lack the financial capacity to protect such IP. Small and medium-sized enterprises often face difficulty in protecting trade secrets because of the costs involved in creating infrastructure to maintain confidentiality as well as the high cost of litigation to institute legal actions faced with misappropriation of their confidential information. A definitive law will enable even the small players to enforce their rights. Further, considering the lower standard of education and literacy, especially among workers in the MSME sector, we must be careful in suggesting criminal penalties for any sort of violation by workers or employees when a separate codified law for trade secrets is enacted.
- f. Industry survey conducted by the CII showed that the majority of the respondents had trade secrets and there was an overwhelming demand from

the industry for enactment of a specific law on trade secrets and economic espionage. This demand majorly flowed from the pharma and manufacturing companies.

- g. On the question of introducing alternative dispute resolution in such cases, it was submitted that protection of trade secrets is an in-house challenge but misappropriation when detected becomes time and resource consuming to contest in courts. In such a situation, an alternative dispute resolution system, if evolved to address these problems which are beyond a contract, could be faster, cheaper and probably more deterrent.
- h. The use of cyberspace, cutting-edge computer technologies, and mobile communication devices has increased trade secret theft making theft more covert and challenging. Even trade secrets held by the Government of India have been consistently targeted by certain foreign governments in acts of active and passive economic espionage. Hence, there is a need for a single statute that can address all issues related to trade secret leakages and economic espionage.
- i. As for the question on introducing compulsory licences or use by the government with respect to trade secrets it was submitted that the principle of compulsory licence is neither applicable nor should it be made applicable to trade secrets. Further on the point of creating an exception for public health or national security situations, it was conveyed that the argument suffers from fallacy as how does one know which trade secret is applicable and critical for public health when no disclosure of trade secret has been made. It was submitted that without knowledge it is not practicable and feasible to enforce a rule like this as even the government cannot force any company to disclose their trade secret. However, the survey conducted showed that on the aspect of introducing compulsory licences or used by the government, the number of respondents supporting and opposing the same were close. However, on the issue of exceptions for

situations affecting public health or national security, the majority of respondents said that such exceptions may be permitted under law. For instance, in situations such as COVID or in the event of a war or widespread hostility with a foreign power, when a trade secret holder is unable to meet the demands then holder could be compelled to license the know-how but not the know-why to third parties. However, the law should make clear provisions of cessation of the third-party activity utilising the trade secret immediately on cessation of war or the hostilities and also definite penalties for contravention.

- j. With respect to establishment of a trade secret board may be problematic. Registration might not even be possible for every industry and registration in itself would bring in apprehension that there may be a leak at the time of registration. Thus, registration of trade secrets should not be prescribed. While the idea of registration or creating a registry will be counter-productive, however, a specific authority or a board to implement the law would be a good idea and a separate quasi-judicial authority can be constituted.
- k. On the aspects of procedural law that should apply to treat secret litigation, such cases involve enquiry or investigation through a specialised body therefore the provisions of CPC may not be entirely appropriate. The Commercial Court Act should apply. Further, trade secret law should have linkages with criminal law in order to deter miscreants.
- l. It was also submitted that the highest level of confidentiality should be maintained for trade secrets protection and enforcement via courts by ensuring confidentiality of proceedings.
- m. The earlier attempt at a law in 2008 focused on innovation in the context of public funded research and development. However, trade secret laws should go beyond only the public funded R&D. The law should not only define trade secrets but also ways to administer the disputes in private

space by independent subject matter experts. It should also provide for damages as well as criminal penalties for violation of trade secrets.

7.8. The Commission also invited the **Federation of Indian Chambers of Commerce & Industry (FICCI)**, a businesses and industry body, its opinion on the subject matter. The following issues were discussed during the meeting:

- a. It was submitted that indeed there is a gap in existing legal protection creating uncertainty in law. This uncertainty is from the end of both those who are trying to protect such confidential information and those who are trying to enforce the same. A coherent law laying down criteria and delineating clear boundaries is required.
- b. Some sectors such as MSME require trade secret protection more than others. It is important for India to enact such a law if it wants to stand at equivalence with other jurisdictions such as the EU. We also need to build on emerging sectors such as AI, data protection and these wide facets must also be considered while enacting such a law.
- c. Unlike the US, we should take up Trade Secrets and Economic Espionage separately as trade secrets are purely from the point of view of commerce and not national security. These two operate at very different levels.
- d. On the aspect of criminal sanctions, it was submitted that perhaps these may not be a good idea in India. We should perhaps limit our prospective law to civil remedies and monetary penalties as criminal sanctions may have a chilling impact on business activity and may be prone to abuse by current employees. It is the basic principle of law that remedies must be proportionate to the breach/harm and traditionally in the context of trade secrets, civil remedies have sufficed.

- e. With respect to the question as to whether there should be a system for registration of trade secrets, it was expressed that a Trade Secret Board for registration will not be fruitful and companies will not be comfortable sharing such sensitive information with a registry especially given that companies often refuse to take part in regulatory trials because of the risk of leak of their confidential information. However, if a Board for implementation of the law or as a specialised body serving as the first level of dispute resolution is introduced, it may work.
- f. On the point of exceptions, if any, of disclosure in regulatory process etc. it was said that the same should be available only when necessary and such exceptions should be narrow and must specify the criteria of when it is necessary. Another related aspect highlighted was insistence on disclosures during investigation such as under the Competition Act, 2002 wherein parties are forced to disclose even that information which is not necessary to the investigation. The same should be prevented and it causes prejudice to the legitimate holder of information.
- g. It was further stated that both under and over protection must be avoided. While adopting a property conception of trade secrets may allow wider protection, it may be best to align with the Paris Convention and the TRIPS Agreement. Too wide a protection may lead to clogging of the system. To begin with we can start with a narrow protection and then continue to evolve the same. We must leave room for the law to grow since the law, industries and the economy are all growing.
- h. Not having a definite law in many regards allows for wide protection however it leads to uncertainty. From the broader perspective of ease of doing business, investors must know the level of protection that will be available to them. In shaping the law, we must take existing principles of common law and codify the same. This way courts will still have space for interpretation and we can include newer elements as well. While this will



ensure that rights, duties and obligations are clarified, it will not be overly restrictive. An enacted law will bring in judicial certainty and will help mitigate wide divergence in opinion of various courts.

- i. Further, it was submitted that trade secrets should be defined in an inclusive manner. This will ensure that any existing gaps are addressed by such law. For instance, in the pharma industry, there is an ecosystem of activities around the patented drug such as testing, R&D and marketing, that has no protection whatsoever and a specific legislation on trade secrets can play a key role to help protect the same.
- j. It was further discussed whether provisions for whistle-blower protection could be incorporated. It was answered in the affirmative as the protection of trade secrets can only be availed for legitimate activities.
- k. On the aspect of reverse engineering, it was stated that it cannot be disallowed but at the same time the new law should leave some space for addressing emerging threats such as using artificial intelligence and machine learning to reverse engineer with considerable ease.
- l. In order to provide effective and efficient resolution of such disputes, setting up a dedicated institutional framework along the lines of Delhi International Arbitration Centre could be considered.
- m. On request and to better gauge the industry perspective, FICCI also conducted a survey among its industry members. The survey got 16 responses and revealed industry sentiment on the issue. A majority of the respondents thought the current laws were inadequate and this has impacted their business. A considerable number of respondents were of the view that protection of trade secrets under common law, torts, the Indian Contract Act, provisions of the IPC and the Information Technology Act was insufficient and majority of them felt that it was necessary for India to enact a specific legislation on the subject of trade secrets and economic espionage as it would improve the ease of doing business. On the contents



of such a law, majority of the participants stated that trade secrets should be defined; both trade secrets and economic espionage can be dealt under the umbrella of the same Act; the trade secret law should incorporate provisions akin to government use under Patent Act or a waiver; public health and national security exceptions can be incorporated in the Act; and both civil and criminal remedies ought to be provided as criminal sanctions can vastly improve the efficacy of trade secret investigations. Further, a majority of the respondents indicated that trade secrets should be treated as “property”; there could be no negative impact on start-ups/MSMEs including the AI/Data extensive ones; and the legal contours of data protection and AI should be included in the prospective law on trade secrets.

- n. In its written response containing the survey findings, FICCI also highlighted some additional aspects such as lack of confidentiality disincentivises enforcement of trade secrets and protective measures like in-camera hearings and confidentiality clubs need to be incorporated to address the same. Further, third-party liability for misappropriation especially where acts of corporate espionage are involved must be ensured. It was further submitted that lack of weak protection, inadequate remedies and lack of confidentiality in such proceedings disincentivise entities from developing nations to license technology to India. It was submitted that there should be a definitive scope of the term “trade secret”, principles deciding ownership of trade secrets, and remedies available for infringement. Lastly, it was stated that the law should be industry friendly and the burden of proof should be on the misappropriating party.

D. Government Perspective

7.9. The Commission was sent the reference on this subject matter by the Ministry of Law and Justice, however the nodal ministry on matters pertaining to intellectual property and applicable laws is the Ministry of Commerce. Within the Ministry of Commerce, the **Department for Promotion of Industry and Internal Trade (DPIIT)** is tasked with the charge over matters related to Protection of intellectual property rights and administers acts related to IPRs. Hence, the Commission thought it necessary to invite DPIIT to articulate its understanding and position on the subject-matter. The representation from DPIIT comprised **Ms. Himani Pande** (Joint Secretary), **Mr. Karan Thapar** (Director) and **Dr. G. R. Raghvendra** (Senior Consultant). The following insights were given by the Department:

- a. Protection of trade secrets has been a matter of concern for the government and the National IPR Policy 2016 mentions it as well. The CIPAM Manual 2018 also discusses the trade secrets landscape in India. In view of the importance of the subject matter, DPIIT in the past held consultations with some ministries and had tasked FICCI with work on trade secrets. This project was still ongoing.
- b. During their consultations with the industry certain concerns were brought to the fore which DPIIT thought is also prudent for the Commission to consider. The Pharma companies, especially generic manufacturers, had expressed concerns on impinging regulatory data protection. Nonetheless, the industry largely supports enactment of a dedicated law on trade secrets; however, some concerns regarding protecting non-patentable subject matter under the garb of trade secrets remain and the same should be carefully considered. A specific law may support development of

- industries but may hinder it as well so a delicate balance has to be maintained. We must be cautious that comparative advantage in sectors such as pharma should not be defeated when enacting a trade secret law.
- c. It was further highlighted that lack of adequate trade secret protection often comes up during negotiation of free trade agreements with other nations. There is a push from our trading partners for inclusion of provisions on this subject matter. Even if India tries to rigorously push-off such clauses, the other parties try to re-word it and push it in by including such provisions in another clause. There are serious concerns with patents and trade secrets, especially allowing ever-greening etc. and this chapter often proves to be most contentious during negotiations. We must exercise caution to prevent the same while enacting a law.
 - d. It was submitted that a legislation on trade secrets should amalgamate existing laws and incorporate new elements as well. If we look at laws prevailing in other jurisdictions, the law in the EU has detailed limitations and exceptions which can aid in protecting public interest while the US law is more business friendly and is TRIPS-plus in its approach. While we can possibly look at the EU law, however, any law enacted should be from the point of view of our own economy and vital sectors such as pharma, telecomm, electronics etc. as well as catered towards domestic industries/MSMEs.
 - e. It was also highlighted that que could be taken from the 2007 Satwant Reddy Committee Report on Steps to be taken by Government of India in the context of Data Protection Provisions of Article 39.3 of TRIPS Agreement wherein in formulating the recommendations, board industry perspective and consensus was taken into consideration.
 - f. The National Innovation Bill was drafted in 2008 and there was no National IPR Policy at that point in time. The issues of a specific legislation

must be explored from the perspective of the National IPR Policy, 2016 as well as in light of the changing economic context.

- g. On the question of whether the subject matter of protection of trade secrets and prevention of economic espionage should be combined within one Act, DPIIT was of the view that these two should be dealt with under separate laws. Espionage can continue to be dealt with under common law and applicable provisions of IPC.
- h. On the question of introducing exceptions for national emergency, health and government use, it was expressed that clear and carefully drafted exceptions should be introduced so as to restrict ever-greening of patents via trade secret protection. While introducing compulsory licenses is not advisable, a provision for waiver of trade secret/confidential information etc. and for government use (similar to section 100 of the Patent Act, 1970) can be carved out. However, the same can be narrowly tailored and defined properly to strike the right balance.
- i. Regarding the possibility of putting in place alternative dispute resolution mechanisms to resolve these disputes expeditiously, it was submitted that while we can look at pre-litigation proceedings or resolution, it may be perceived as impinging on commercial freedom as it may amount to enforcing something akin to a license where there is none.
- j. Dr. G. R. Raghavendra also submitted a detailed written response on the subject in order to aid the Commission in its endeavour. In his response he highlighted the various contours of protecting trade secrets and the law in other jurisdictions as well. Attention was drawn to the relevance of trade secrets especially in emerging fields such as AI. It was submitted that trade secret protection was an area of high priority for the Government. A definitive law on the subject will help increase the confidence of international investors and in fact facilitate exchange of otherwise confidential information and foster collaboration in the industry. Thus, a

sui generis legislation on trade secrets will have a positive impact on India's economy.

E. Other Stakeholders

- 7.10. During the course of the consultations being held by the Commission, a request was made by the **United States Patent and Trademark Office (USPTO)** to allow the U.S. Intellectual Property Counselor for South Asia, **Mr. John Cabeca**, to present their view on the subject. Since trade secrets is one area where the US is actively pursuing India to adopt a standalone law, and Mr. John Cabeca wanted to share the US experience in terms of what has worked for them and what has not, the Commission proceeded to hear Mr. Cabeca. The following aspects were discussed during the meeting:
- a. Mr. Cabeca highlighted that the Defend Trade Secrets Act, 2016 (DTSA) empowered employers to preserve trade secrets shared with employees. If the employee wants to leave, they are still barred from trade secrets with a competitor. The DTSA sets parameters to enforce trade secret rights within the employee contract and allows enforcement of contractual obligation even with respect to third party vendors. The DTSA set forth guidelines, provides for whistle-blower protection and clearly sets forth what would constitute misappropriation of trade secrets.
 - b. It was stated that in line with the 2016 National IPR Policy, a law on trade secrets will benefit Indian industries as well. When DTSA was adopted as a federal law in 2016 it set the stage clearly for protection of trade secrets as prior to DTSA the trade secret law was protected by different state level legislations. It was stated that the success of a lot of initiatives and industries will be dependent on being able to safeguard certain rights such

as patents and trade secrets and hence attention must be paid towards the same.

- c. While it has been felt even in the US experience that sometimes employers try to stretch the provisions to their favour, however, they cannot stop employees completely from seeking employment elsewhere in its entirety. Trade secret law works just like a contract and allows for collaboration and sharing of know-how. Like all other IP, trade secret law would also be territory.
- d. With respect to India, USPTO also helps US companies enter and navigate the Indian economic and legal landscape. Since there is no law on the subject, US companies are apprehensive as there is lack of clarity on how they will be able to protect their valuable trade secrets in India. This hinders technology collaboration and if a law with definite criteria comes into existence, there would be clarity thereby incentivising such technology transfer and collaboration. It was also submitted that in 2015, the US and Indian Government had set up an IP working group. It was decided to have a trade secret group as well and discussions took place wherein it was concluded that a law was required on the subject.
- e. It seems that the law on the issue of misappropriation, as it currently stands, is inadequate and on the remaining aspects, there is no cohesiveness making it difficult for innovators and right holders to understand the patchwork of safeguards in place. Further, the USTR Special 301 Report, which is driven from industry input, has cited the difficulty faced by industries in navigating the trade secret landscape in India. While there is a law and companies do navigate it but by no measure is it an easy task especially for foreign companies. Such a law will further help start-ups because the first intellectual property start-ups create is a trade secret when they are at that stage of innovation and ideation. It is critical for such start-ups to be able to secure such IPs at such a critical time for them.



- f. Mr. Cabeca also offered to arrange a technical session with the team in the US that could better guide on the workings of the law in the US. This online technical session was subsequently conducted wherein the position as it exists in the US was clarified before the Commission. **Mr. Mark Abumeri**, Attorney Advisor, USPTO explained the working of the law in the US. He stated that the law on trade secrets touches many other areas of law such as patent, contract and employment. In the US, while the source of other IP rights is the Constitution, trade secrets have their source in statute. In the US, trade secrets are treated as property. Further, trade secrets are considered supplementary to patent and trade secrets are in fact closest to patents when the subject matter of protection is over an idea then it can either be protected as a patent or trade secret depending upon whether the entity seeks to disclose the information or not. In the US, there are two main levels of law. First is the USTA model law that has been adopted by most states and serves as the state-level law. The second is the federal level law which includes the Economic Espionage Act of 1996 and the DTSA, 2016, both of which are complimentary. Under state laws, trade secrets are defined as any information having independent economic value, giving a competitive advantage and there is no need for novelty but what is required is that something is not generally known and that the custodian takes steps to maintain secrecy. There is no need for registration and the owner will identify, document and protect it within the company itself. Under the federal law, though trade secrets have been worded differently, they convey the same meaning and the same criteria of any information having independent economic value, being subject to secrecy, and not being generally known have been specified. Thus, in substance there is not much difference.
- g. It was further stated that the umbrella of trade secrets is broader and hence complimentary to patents. For example, while a process may be patentable

the temperature range in which a certain process works cannot be patented but it can certainly be held as trade secret. While there are certain disadvantages towards protecting something as trade secret in the sense that the secrecy could be lost at any time on account of reverse engineering or independent creation. Furthermore, whereas the term used in respect of other IPs is “infringement”, in case of trade secrets it is “misappropriation” because if it were infringement, independent creation could not have been possible. When it comes to defining misappropriation, there is a difference between the US state-level laws and the federal law. Under state laws, they protect private owners when information is acquired by unlawful means without authorisation, or it is disclosed or used without consent. However, under the federal law the provision pertaining to misappropriation is far more extensive. Anyone accessing information by improper means or any recipient thereof is liable for misappropriation and this is punishable with imprisonment of up to 10 years or fine or both. Misappropriation can be committed by persons or a company since the term “whoever” is used. Further, because there is criminal liability, intention is required. For civil actions, intention may not be required to be established.

- h. The DTSA 2016 was monumental in the sense that it creates both civil action and criminal enforcement thus there is a private federal trade secret civil action and the recovery of value is up to 3 times. Limitation period is also specified as three years and this law has some extraterritorial applications as well. The state-level laws and the federal law work together and the state-level law is in addition to the federal law. Aspects such as confidential proceedings etc. have also been highlighted under the law while whistleblowing is a permitted exception. State District courts have jurisdiction and so does the United States International Trade Commission which can issue monetary damages and orders for customs authorities when items are being imported so as to stop the same at the border. When



it comes to employment and trade secrets, confidentiality and non-compete clauses are common, however, not all US States allow such clauses, for instance, California does not allow non-compete clauses and is very pro-competition. The law also has provisions for protective order, filing of information in sealed covers, sealing orders etc. On the question whether the State could compel divulgence of trade secret under any law such as National Defence Act or the Fifth Amendment Takings Clause to the US Constitution, it was expressed that generally the Government cannot compel a company to divulge its trade secrets but it can ask them to share, license it out and work out an alternate arrangement as was seen during COVID.

- i. As a consequence of enactment of the federal law, secret owners have direct access to the federal court which is huge as the system is more eloquent, has better resources and there are more reasoned judgements. Hence, the relief that trade secret owners get it is more comprehensive. The biggest practical difficulty that has been observed is that trade secret owners do not articulate their trade secrets well. Unlike patents, which are fixed based on the documents filed during registration, and cannot be changed, when it comes to trade secrets, the legislation must also indicate how to describe the trade secret. If there is apprehension on a trade secret violating another law, then a court hearing can be sought for only that portion of the trade secret which is allegedly in violation. Mechanism is there to divulge only that limited part of a trade secret and not the entire secret. Specific provision for whistle-blowing would suffice in order to address this issue.

8. CONCLUDING ANALYSIS AND RECOMMENDATIONS

8.1. Owing to the significance of the subject and the large-scale ramifications it can have on further innovation and development of the economy, the Commission held wide-scale consultations with a variety of stakeholders. The points considered by the Commission and its recommendations have been detailed below.

A. Whether there is need for a specific legislation on the protection of trade secrets?

8.2. In light of the in-depth analysis of laws and widespread consultations held by the Commission, the Commission is of the view that the time is ripe for enacting a specific legislation on protection of trade secrets. While India may have historically opposed the inclusion of trade secrets within the ambit of the TRIPS Agreement and fought off pressure to legislate on the subject matter, the current economic scenario and state of development of our indigenous industry is substantially different from when the TRIPS Agreement was being negotiated. In today's economic climate, there are fast emerging technologies and sectors such as artificial intelligence (AI) and data-driven technologies that have gained significance.

8.3. There is a need for transfer of technology and cooperation among industries across borders and a clear and precise law on trade secrets will enable such an ecosystem in India. The law as it stands now is fragmented and difficult to navigate. A statute will bring in clarity and espouse confidence in the legal system amongst the industry. Even when it comes to MSMEs and start-ups, which form a major chunk of our indigenous industry, such a law stands to benefit these as well. Most MSMEs and start-ups do not have

much capital but what they have is creative resource or intellectual capital and they need a clear framework to protect the same. A legislation on this subject with ensure certainty which is essential to any law. Thus, the Commission is of the considered opinion that a specific law on protection of trade secrets ought to be adopted.

- 8.4. A *sui generis* law on trade secrets evolved by consolidating the existing principles of common law, equity, confidence and contracts as affirmed in judicial precedents while also adding in new elements and contextualising it against the special needs of the Indian industry and economy would be best suited. The courts have largely followed a balanced approach and the same must be incorporated and maintained under the proposed Act.

B. Whether there should be a single law on trade secrets and economic espionage or should they be dealt separately?

- 8.5. The Commission is of the opinion that misappropriation of trade secrets and economic espionage, though they may appear to be the same, stand on different footings. Espionage itself can be economic, industrial or commercial. In economic espionage, the actor targeting domestic companies or the government entities to steal their trade secrets is a foreign government whereas in industrial espionage the actor is another company or commercial entity.⁴⁵⁵ The benefit in the former is derived by a foreign government and in the latter by another private entity.⁴⁵⁶ While industrial espionage is driven by strictly commercial motives and can be covered within the ambit of a trade secret legislation, economic espionage has

⁴⁵⁵ Mark Button, "Editorial: Economic and Industrial Espionage" 33 *Security Journal* 1 (2020), available at: <https://doi.org/10.1057/s41284-019-00195-5> (last visited on February 18, 2024).

⁴⁵⁶ *Id.*

deeper implications for the economy and national security as well and is directed at the State.

- 8.6. The aspect of economic espionage, thus, should continue to be governed under the existing provisions of Indian Penal Code and common law as was also expressed by DPIIT. An alternate and more suitable approach, however, would be enacting a separate law on prevention of and redressal for economic espionage with more focus on criminal liabilities as fines and damages will hardly suffice in such cases as they lack the requisite deterrent impact. Further, given that critical technologies and sectors such as defence, nuclear, telecom etc. may be targeted by acts of economic espionage, it is vital to have a stricter approach towards such acts. A separate legislation on economic espionage is also desirable as economic stability and national security become more intertwined. Moreover, protection of trade secrets, just like in the case of traditional forms of intellectual property, is territorial in nature; however, provisions dealing with economic espionage may require some extra-territorial application. Thus, it would be prudent to have a separate law to address the issue of economic espionage while commercial espionage will fall within the purview of the proposed Trade Secrets Act.

C. What should be the scope and shape of the proposed law?

i. Treating trade secrets as “property” or under principles of unfair competition

- 8.7. The law must codify the existing principles that have been established by the courts by way of judicial precedents. With respect to the conceptual issue of whether trade secrets should be treated as “property” or not, the

Commission is of the considered view that “trade secrets” cannot have a “property-like” conception such as in the case of other intellectual property. There are no definite monopoly rights with respect to trade secrets. Further, a strong property-like conception may not be prudent as it may blur the distinction between trade secrets and other forms of IP such as patents without even complying with the central requirement of traditional intellectual property regime, namely, disclosure of information in the public domain. In such circumstances, trade secrets law may become a gateway to sidestep the limitations of patent and copyright law and may prove to have debilitating impact on innovation, information available in public domain and further vital developments.

8.8. Further, under the TRIPS Agreement, though undisclosed information has been categorised as an “intellectual property”, such a categorisation does not *ipso facto* confer property like status on it. This owes to the fact that “intellectual property” as a term suffers from certain level of conceptual impotency as such categorisation is not instructive enough on the nature of underlying subject-matter. It is neither determinative as to the content included, nor does it suffice as a description of the very nature and character of the rights.⁴⁵⁷ Even Article 39 paragraphs 1 & 2 of the TRIPS Agreement carefully avoid the use of such language that would indicate proprietary character and consider it under the principles of preventing unfair competition.

8.9. While trade secrets and confidential information may be termed as “property” in the metaphorical sense, the overwhelming majority of case laws go on to show that relief in cases of misappropriation is not premised

⁴⁵⁷ Lionel Bently, “Trade Secrets: “Intellectual Property” But Not “Property”?” in H. Howe and J. Griffiths (eds.), *Concepts of Property in Intellectual Property Law* 81 (Cambridge University Press, 2013).

on treating the information as “property” *stricto sensu* but on principles of common law, breach of confidence, contract etc. Hence, even in India, while trade secrets and confidential information are treated within the umbrella of intellectual property, recognition and relief from courts has flown from other applicable principles and therefore, they are not treated as property per se. In enacting our law, we must avoid any terminology that would imply proprietary conceptions. Further, providing protection on the anvil of unfair competition will allow the much-required space for judicial discretion to apply the framework to emerging forms of information and secrets as well as in new sectors while also ensuring that we do not facilitate over-protection. This would allow for a more balanced approach wherein adequate protection can be afforded against misappropriation while avoiding application of the principles of strict liability and restrictive reading of exceptions traditionally associated with traditional property protection.

ii. Defining trade secrets

- 8.10. With respect to definition of “trade secret”, the proposed law must provide a broad definition that allows rooms for judicial interpretation so that emerging aspects and industries may also fit within the framework of our law. The approach followed under the TRIPS Agreement wherein the triple criteria of secrecy, commercial value and reasonable steps is specified as the qualifying criteria for protection should be adopted. Trade secrets are expansive in nature. There is ambiguity surrounding what forms trade secrets may take which may also differ based on the facts and circumstances of each case. Thus, a close-ended definition may lead to exclusion of several categories of information that may otherwise warrant protection. Hence, following the approach of Article 39.2 of the TRIPS

Agreement wherein the basic qualifying criteria is laid down is thought prudent.

iii. Defining misappropriation of trade secrets

8.11. When it comes to defining misappropriation, precaution must be exercised to avoid installing an over-protective framework. Liability, whether third-party or otherwise, should not be extended in cases where the acquisition, disclosure or use is honest or *bona fide*. Only bad faith acts must attract liability and not acts that flow from good faith. Further, what does not amount to misappropriation or is lawful acquisition or use must also be clearly defined; for instance, independent discovery, reverse engineering or anything that is a result of an honest commercial practice. A restriction on independent discovery or reverse engineering would undermine the system of patents as innovators will be incentivised to hold traditionally patentable subject matter as trade secret, thereby avoiding public disclosure while enjoying blanket monopoly in perpetuity. This would jeopardise competition, further research and development and ultimately the public interest.

iv. Trade secrets, restrictive covenants and doctrine of inevitable disclosure

8.12. Further, on the interface of trade secrets and contracts, negative covenants or post-employment restraints must not be permitted as is clearly established under the current legal framework. The spirit of Section 27 of the Indian Contract Act, 1872 that prohibits agreements in restraint of trade must not be undermined. Further, in the garb of NDAs, no claim of confidentiality or secrecy should be allowed over information that is already in the public domain.

8.13. Furthermore, the inevitable disclosure doctrine that has emerged in the US should not be applied under our proposed law. This would go against the well-established position as developed by Indian courts, wherein an employer cannot prevent a departing employee from joining a competitor based on the argument that the employee has learnt intellectual skills and knowledge that will lead to use of their trade secrets in the future employment. In India, what has to be established is that the employee either took away something concrete like emails, documents etc. or that he is using the trade secrets of his former employer in his new employment with a competitor which can be shown in the facts and circumstances of each case; for instance, showing that the competitor started manufacturing the exact same product soon after the ex-employee joined the competitor's organisation. There is no presumption that such use or disclosure will take place and the employee is not enjoined based on any such presumption. Doing so would undermine the principle against restraint of trade imbibed under Section 27 of the Indian Contract Act.

D. What exceptions should be carved out in the Act?

i. Whistle blower protection

8.14. On the aspect of exceptions, the Commission is of the opinion that the legislation must allow for the exceptions so as to ensure a proper balance of competing interests. In this vein, the Commission holds the view that the Act must incorporate a provision for protection of whistle-blowers. Illegal activities cannot be exempt from the purview of law in the garb of trade secrets. Law cannot permit use of non-disclosure agreements to discourage reporting on illegal activities. Such agreements in any case are void under Section 23 of the Indian Contract Act, 1872 as enforcing the same would have the effect of defeating the provisions of law and also

being opposed to public policy. Even where a claim for protection of trade secrets is based on the principle of equity, and where disclosure is being made to bring to light an illegal activity or contravention of law, the principle that one who comes into equity must come with clean hands would prevent such a party from getting any relief against alleged misappropriation. Thus, incorporating a provision granting immunity from civil or criminal action/retaliation to whistle-blowers is not at variance with the principles of contract law or equity.

- 8.15. Furthermore, even jurisdictions that adopt an extensive TRIPS-plus approach to trade secrets have such provisions within their law, for example, the US. The protection to whistle blowers in US is restricted in the sense that it is available only when disclosure is confidential and made to the government or in a court filed under seal.⁴⁵⁸ There is no specific clause exempting or protecting journalists or other activists, although the First Amendment may provide them protection. The EU Directive on the other hand, specifically carves out an exception for revealing misconduct, wrongdoing or illegal activity, provided it is done for the purpose of protecting the general public interest. Thus, whistle-blowers revealing the misconduct of companies or even journalists would fall under this category. In EU, there is Directive (EU) 2019/1937, which specifically addresses whistleblower protection.⁴⁵⁹ While the Directive (EU) 2019/1937 is a *lex specialis* on the subject-matter of whistle-blower protection, however, it complements the Trade Secret Directive as can be seen from Article 21(7) of the Directive (EU) 2019/1937, which provides

⁴⁵⁸ 18 U.S.C. § 1833.

⁴⁵⁹ Directive (EU) 2019/1937 of the European Parliament and of the Council of 23 October 2019 on The Protection of Persons Who Report Breaches of Union Law, available at: <https://eur-lex.europa.eu/legal-content/en/TXT/?uri=CELEX%3A32019L1937>.

that if there is a need to disclose trade secrets, when reporting or disclosing information which falls within the scope of the Directive (EU) 2019/1937, such disclosures are considered to be lawful disclosures under Article 3(2) of the Trade Secret Directive.⁴⁶⁰

- 8.16. India does not have such a whistle-blower protection law and the Whistle Blowers Protection Act, 2014⁴⁶¹ only applies with respect to disclosure of allegations of corruption or wilful misuse of power or wilful misuse of discretion against any public servant. Therefore, it is required that the proposed Act must incorporate this safe harbour clause. The proposed provision must grant immunity to whistle-blowers and not make it a mere defence, thereby saving them from protracted litigations that may discourage them to come forward. However, the requirement of good faith and public interest may be added to ensure that such immunity is not abused for personal gains.

ii. Compulsory Licensing & Government Use

- 8.17. In the considered opinion of the Commission, it is important that the proposed Act contains provisions akin to compulsory licensing and/or government use for exceptional situations such as public health and national security wherein there is an overwhelming public interest involved. However, such an exception needs to be tailored very narrowly and given a restrictive scope. Disclosure in the context where exceptional circumstances exist and public interest warrants disclosure does not

⁴⁶⁰ Sharon Sandeen and Ulla-Maija Mylly, "Trade Secrets and the Right to Information: A Comparative Analysis of E.U. and U.S. Approaches to Freedom of Expression and Whistleblowing" 21 *North Carolina Journal of Law & Technology* 1 (2020), available at: <https://open.mitchellhamline.edu/cgi/viewcontent.cgi?article=1501&context=facsch> (last visited on February 22, 2024).

⁴⁶¹ Act No. 17 of 2014.

presuppose that it is a “public disclosure”. Thus, such a provision must envisage disclosure by the lawful holder of trade secret to a third party with strict obligations of confidentiality imposed on the third party. The holder will not be forced to reveal its trade secret in the public domain thereby losing its competitive advantage entirely. Disclosure here would imply only limited disclosure with imposition of obligations on the third-party to whom such disclosure is made.⁴⁶²

8.18. Such a provision is especially relevant in the light of the recent COVID-19 experience wherein efforts for voluntary licensing of trade secrets surrounding vaccines was refused in certain instances⁴⁶³ and proved to be largely inadequate.⁴⁶⁴ Companies protect a range of information relating to different stages of vaccine development such as clinical practice and regulatory approvals, production, and distribution as trade secrets.⁴⁶⁵ Even unpatented know-hows, such as production methods or skills are also protected as trade secrets which are vital to ensuring rapid manufacturing and distribution of vaccines.⁴⁶⁶ In such a situation, a provision that would compel sharing in the absence of voluntary sharing ought to be in place so that emergency needs in such crises can be met.

8.19. There is nothing in international law to prevent the introduction of such a provision.⁴⁶⁷ In fact, Article 73 of the TRIPS Agreement which carves out a security exception during times of emergency as well as Articles 7 and 8,

⁴⁶² Olga Gurgula and John Hull, “Compulsory licensing of trade secrets: ensuring access to COVID-19 vaccines via involuntary technology transfer” 16 *Journal of Intellectual Property Law & Practice* 1242 (2021), available at: <https://doi.org/10.1093/jiplp/jpab129> (last visited on February 23, 2024).

⁴⁶³ *Id.*

⁴⁶⁴ David S. Levine and Joshua D. Sarnoff, “Compelling Trade Secret Sharing” 74 *Hastings Law Journal* 987 (2023), available at: https://repository.uchastings.edu/hastings_law_journal/vol74/iss4/2 (last visited on February 24, 2024).

⁴⁶⁵ *Id.*

⁴⁶⁶ *Id.*

⁴⁶⁷ *Id.*



will support such an exception. Attention must be drawn to the fact that while countries having trade secrets laws may not have provided such exceptions within the law, there are other legislations which could come to aid to compel sharing of trade secrets in emergency situations. For instance, the Defense Production Act, 1950⁴⁶⁸ in the US devolves on the President wide ranging powers to prepare for and respond to natural or man-made disasters. The provisions of this Act were invoked during the pandemic to prioritize production and input supply needs for a range of diagnostic, therapeutic, preventive, and other products, from ventilators to vaccines.⁴⁶⁹ Further, this Act influenced the deal between two vaccine manufacturers, Merck and Johnson & Johnson to ensure adequate production of COVID vaccine.⁴⁷⁰ So there is an argument that the US President could use this Act to compel disclosure of the trade secrets to deal with a pandemic, or for any other similar type of emergency affecting national security, such as climate change.⁴⁷¹ Hence, having a clearly delineated exception placed within the same law that addresses trade secrets is a better way forward towards a comprehensive and clear law.

- 8.20. Furthermore, even the Doha Declaration on the TRIPS Agreement and Public Health⁴⁷² would also support such a provision, especially as it seeks to protect public health and, in particular, to promote access to medicines for all. Further, the original proposal submitted by India and South Africa before the Council for TRIPS in 2020 sought a waiver from certain

⁴⁶⁸ 50 U.S.C. Ch. 55: Defense Production.

⁴⁶⁹ David S. Levine and Joshua D. Sarnoff, "Compelling Trade Secret Sharing" 74 *Hastings Law Journal* 987 (2023), available at: https://repository.uchastings.edu/hastings_law_journal/vol74/iss4/2 (last visited on February 24, 2024).

⁴⁷⁰ *Id.*

⁴⁷¹ *Id.*

⁴⁷² World Trade Organization, Doha Ministerial Declaration of 14 November 2001, WTO Doc. WT/MIN(01)/DEC/2, 41 I.L.M. 755 (2002), available at: https://www.wto.org/english/thewto_e/minist_e/min01_e/mindecl_trips_e.htm (last visited on February 23, 2024).

provisions of the TRIPS Agreement for the prevention, containment and treatment of COVID-19, including patents and undisclosed information regarding vaccines and related health technologies.⁴⁷³ However, the actual Ministerial Decision adopted by the TRIPS Council on June 17, 2022⁴⁷⁴ was much limited, only expanding conditions for compulsory licensing of patent rights (which include compensation obligations) and COVID-19-related vaccines.⁴⁷⁵ Thus, such a provision is in line with the stand that India has maintained at the international fora.

iii. Freedom of Speech & Expression

8.21. Certain jurisdictions provide for a specific exemption for exercising freedom of speech and expression. For instance, the German law exempts acquisition, use, or disclosure of a trade secret from prohibitions specified within the Act when done to exercise the right to freedom of expression and information, including respect for freedom and plurality of the media.⁴⁷⁶ This is derived from Article 5(a) from the EU Directive of 2016. Even Article 2(a) states that the Directive shall not affect the exercise of the right to freedom of expression and information as set out in the Charter, including respect for the freedom and pluralism of the media. Thus, it seems that freedom of speech and expression has been placed on a higher

⁴⁷³ Council for Trade-Related Aspects of Intellectual Property Rights, Waiver from Certain Provisions of the TRIPS Agreement for the Prevention, Containment and Treatment of Covid-19, WTO Doc. IP/C/W/669 (Oct. 2, 2020), available at: <https://docs.wto.org/dol2fe/Pages/SS/directdoc.aspx?filename=q:/IP/C/W669.pdf&Open=True> (last visited on February 23, 2024).

⁴⁷⁴ World Trade Organization, Ministerial Decision on the TRIPS Agreement, WTO Doc. WT/MIN(22)/30, WT/L/1141 (June 22, 2022), available at: <https://docs.wto.org/dol2fe/Pages/SS/directdoc.aspx?filename=q:/WT/MIN22/30.pdf&Open=True>, (last visited on February 23, 2024).

⁴⁷⁵ David S. Levine and Joshua D. Sarnoff, "Compelling Trade Secret Sharing" 74 *Hastings Law Journal* 987 (2023), available at: https://repository.uchastings.edu/hastings_law_journal/vol74/iss4/2 (last visited on February 24, 2024).

⁴⁷⁶ Gesetz zum Schutz von Geschäftsgeheimnissen vom 18. April 2019 (BGBl. I S. 466), sec. 5(1).



pedestal than protection of trade secrets.⁴⁷⁷ In the US on the other hand, the DTSA has no specific clause on freedom of speech and expression. However, wherever the enforcement of trade secrets restrains freedom of the speech and expression, a First Amendment defence may be setup. However, such cases are rare in the US and mostly in the context of freedom of press on issues of great public importance.⁴⁷⁸

8.22. In India, the issue of conflict between trade secrets/confidential information and freedom of speech and expression was dealt by the Delhi High Court in *Petronet LNG Ltd. v. Indian Petro Group*.⁴⁷⁹ The Court, in this case, endeavoured to strike a balance and weighed in favour of the right to freedom of speech and expression. The Court held that there was public interest in the news reporting and that the grant of an injunction would destroy the very essence of press freedom and the right of the general public to be informed on a matter of public concern. The Court emphasised the importance of dissemination of news and free flow of ideas to public interest while noting that unless the impugned piece of news is of such a sensitive nature that the business or very existence of the commercial entity is threatened, or it would gravely jeopardize a commercial venture, the courts would be disinclined towards injuncting the same.

⁴⁷⁷ Sharon Sandeen and Ulla-Maija Mylly, "Trade Secrets and the Right to Information: A Comparative Analysis of E.U. and U.S. Approaches to Freedom of Expression and Whistleblowing" 21 *North Carolina Journal of Law & Technology* 1 (2020), available at: <https://open.mitchellhamline.edu/cgi/viewcontent.cgi?article=1501&context=facsch> (last visited on February 22, 2024); Tanya Aplin, "A Critical Evaluation of the Proposed EU Trade Secrets Directive" paper no. 2014-25 *King's College London Dickson Poon School of Law Legal Studies Research Paper Series* (2014), available at: <http://dx.doi.org/10.2139/ssrn.2467946> (last visited on February 23, 2024).

⁴⁷⁸ *Id.*

⁴⁷⁹ (2009) 158 DLT 759.

8.23. Thus, it seems that freedom of speech and expression would not be easily curtailed in the name of trade secrecy, especially given that it flows from Article 19(1)(a).

iv. Public interest

8.24. The “public interest” exception is also a feature that can be found in different jurisdictions. What amounts to public interest can vary according to facts and circumstances as well as interpretation of the term by a particular court. The Draft National Innovation Bill, 2008, in clause 11(a), also provided disclosure held to be in public interest by a court of law to be an exception. The term ‘public interest’ is of wide import and can vary across jurisdictions. While the public interest exception is not as well developed in the US⁴⁸⁰, however, recital 21 of the EU Directive gives some direction as to the interpretation of the term:

“In line with the principle of proportionality, measures, procedures and remedies intended to protect trade secrets should be tailored to meet the objective of a smooth-functioning internal market for research and innovation, in particular by deterring the unlawful acquisition, use and disclosure of a trade secret. Such tailoring of measures, procedures and remedies should not jeopardise or undermine fundamental rights and freedoms or the public interest, such as public safety, consumer protection, public health and environmental protection, and should be without prejudice to the mobility of workers”⁴⁸¹

(emphasis added)

Thus, the law must specify a “public interest” exception as well.

⁴⁸⁰ Sharon Sandeen and Ulla-Maija Mylly, “Trade Secrets and the Right to Information: A Comparative Analysis of E.U. and U.S. Approaches to Freedom of Expression and Whistleblowing” 21 *North Carolina Journal of Law & Technology* 1 (2020), available at: <https://open.mitchellhamline.edu/cgi/viewcontent.cgi?article=1501&context=facsch> (last visited on February 22, 2024).

⁴⁸¹ Directive (EU) 2016/943 of 8 June 2016 on the protection of undisclosed know-how and business information (trade secrets) against their unlawful acquisition, use and disclosure, available at: <https://eur-lex.europa.eu/legal-content/EN/TXT/PDF/?uri=CELEX:32016L0943&rid=4>.



E. Remedies

- 8.25. The most vital aspect that a law must provide for is the remedies that are available. The remedies against misappropriation of trade secrets must include injunctive relief including interim injunctions, *ex-parte* injunctions and permanent injunctions. Further, damages or rendition of accounts or profits/disgorgement of profits, delivery up, surrender and destruction also ought to be included. The remedies under the proposed Act, however, must restrict to civil remedies and any criminal action should be left under the applicable provisions of Indian Penal Code, 1860 or the Bharatiya Nyaya Sanhita, 2023 and the Information Technology Act, 2000 or any other statute that may apply.
- 8.26. Another aspect of relief that the proposed law must contain is from the point of view of a defendant. There must be a provision for remedy in the case of groundless threats of legal proceedings. Analogous provisions can be found in other intellectual property laws such as Section 142 of the Trade Marks Act, 1999, Section 60 of the Copyright Act, 1957, Section 106 of the Patents Act, 1970 and Section 23 of the Designs Act, 2000. Such a provision will especially come to the aid of employees whose mobility might be unreasonably curtailed in the garb of trade secrecy or non-disclosure agreements that they may have been signed.

F. Procedural Issues

- 8.27. The Commission also considered certain procedural issues that the proposed Act must deal with.

i. Limitation Period

8.28. With regard to the limitation period, the same should be a period of three years from the date of misappropriation or from the date when the holder of trade secret first gets to know or could reasonably be expected to know that misappropriation has occurred. If no specific limitation period is specified for a suit, then as per Article 113 of the Limitation Act, 1963, the limitation starts running for a time period of three years from when the right to sue accrues. The same would apply to suits filed in respect of misappropriation of trade secrets.

ii. Application of Commercial Courts Act, 2015

8.29. Further, on the aspect of procedural law, the provisions contained in the Commercial Courts Act, 2015 should apply to suits brought in respect of misappropriation of trade secrets. While trade secrets have not been mentioned in Section 2(1)(c)(xvii) which deal with intellectual property rights, however, courts have held that the same would cover trade secrets as well.⁴⁸² Given the significance of trade secrets as a commercial asset, the expedited procedure under the Commercial Courts Act, 2015 is best suited to such suits in order to provide swift resolution.

iii. Trade Secret Board/Registry

8.30. Another issue considered by the Commission was the setting up of a Trade Secret Board that would function as a Registry for trade secrets. The Ministry of Law and Justice had sent a draft Bill along with the reference to the Commission and the Bill contained such a clause. The Commission

⁴⁸² *Sterlite Technologies Limited v. Anupam Singh & Ors.*, CS (OS) 349/2022 (Delhi High Court) : 2022 SCC OnLine Del 2864; *Sanofi Winthrop Industries & Anr. v. Kirti B. Maheshwari & Anr.*, CS(OS) 2265/2014 (Delhi High Court).

is of the considered opinion that such a Registry may prove to be counter-intuitive and may expose the Board to liability in case of any leak of information. The task of protecting such sensitive information could prove to be quite onerous and will be fraught with practical difficulties. Further, the holders of trade secrets themselves may be apprehensive about divulging their trade secrets in order to seek registration. If registration is made optional in order to entitle parties to bring in a claim, such as is the case with trademarks, it may inevitably lead to difficulties in enforcing unregistered trade secrets as there may be an insistence on registration. Further, putting in place adequate institutional measures in order to ensure the security and confidentiality of the trade secrets so registered with the Board may prove to be a herculean task. Hence, given the mounting challenges that compulsory or optional registration may bring in, it is best not to bring in the element of registration into the domain of trade secrets. Not mandating registration also goes best with the fundamental prerequisite for trade secrets protection, i.e., secrecy of the underlying information itself.

iv. Confidentiality Measures

- 8.31. Lastly, the Commission thinks it fit to have in-built provisions in the Act pertaining to confidentiality of proceedings relating to misappropriation of trade secrets. Such a provision will espouse confidence and will make it easier to adjudicate the dispute with the necessary and adequate disclosures being made before the court by the parties without apprehension. The concept of “confidentiality clubs” can be brought in via rules made under the Act or those prescribed by the High Courts. Confidentiality clubs allow analysis of documents comprising confidential information filed before the courts in sealed covers that may be relevant to a suit, by restricting access

to few persons including limited representatives from both the parties as well some experts. All members forming part of this club are bound by confidentiality.

8.32. The Madras High Court, in *Amica Financial Technologies Pvt. Ltd. v. Hip Bar Pvt. Ltd.*,⁴⁸³ defined the purpose and constitution of confidentiality in the following words:

17.....Confidentiality clubs are typically employed in antitrust or intellectual property litigation to protect confidentially sensitive information. However, its constitution involves a careful balancing exercise requiring the applicant to establish that there is a real risk, either deliberate or inadvertent, of a party using the sensitive information for a collateral purpose. An illustrative list of factors which the Court ought to weigh in the balance have been set out in the judgment of Hamblen, LJ of the UK Court of Appeal in The Libyan Investment Authority v Societe Generale S.A [2015] EWHC 550 (QB):

“(1) The court's assessment of the degree and severity of the identified risk and the threat posed by the inclusion or exclusion of particular individuals within the confidentiality club - see, for example, Inter Digital Technology Corporation v Nokia [2008] EWHC 969.

(2) The inherent desirability of including at least one duly appointed representative of each party within a confidentiality club - see, for example, Warner-Lambert v Glaxo Laboratories [1975] RPC 354.

(3) The importance of the confidential information to the issues in the case - IPCOM GmbH v HTC Europe [2013] EWHC 52 (Pat).

(4) The nature of the confidential information and whether it needs to be considered by people with access to technical or expert knowledge - see IPCOM GmbH v HTC Europe (supra)

(5) Practical considerations, such as the degree of disruption that will be caused if only part of a legal team is entitled to review, discuss and act upon the confidential information”

⁴⁸³ O.A. No. 794 of 2021 in C.S. No. 117 of 2021 (Comm.Div.) (Madras High Court).



It is clear from the aforesaid discussion, that the onus of pleading and establishing the necessity of a confidentiality club lies on the applicant and that orders of such nature cannot be made on the mere ipse dixits of one party.

8.33. Confidentiality clubs have become a common feature in infringement suit relating to Standard Essential Patents (SEPs). Further, constitution of confidentiality clubs has also found formal recognition as can be seen under Rule 17 of Chapter VII of the Delhi High Court (Original Side) Rules, 2018,⁴⁸⁴ Rule 11 of the High Court of Delhi Rules Governing Patent Suits, 2022,⁴⁸⁵ and Rule 19 of The Delhi High Court Intellectual Property Rights Division Rules, 2022.⁴⁸⁶ In addition to establishment of confidentiality clubs, redaction of information on application by a party, and publication of non-confidential version of judicial decision can also be incorporated by providing the same in the rules made in this regard under the Act.

G. Data Exclusivity

8.34. Test data and other data submitted before regulatory authorities may be treated as confidential information or trade secrets by an entity. However, in the considered opinion of the Commission, there is no need to include data exclusivity within the purview of the proposed legislation on trade secrets.

⁴⁸⁴ The Delhi High Court (Original Side) Rules, 2018, No. 100/Rules/DHC, chap. VII rule 17, *available at*: https://delhihighcourt.nic.in/uploads/courtrule/DownloadFile_ACT21XZ4IP9.PDF.

⁴⁸⁵ The High Court of Delhi Rules Governing Patent Suits, 2022, No. 14/Rules/DHC, rule 11, *available at*: https://delhihighcourt.nic.in/uploads/notifications/NotificationFile_WPGZPIF1R3R.PDF.

⁴⁸⁶ The Delhi High Court Intellectual Property Rights Division Rules, 2022, No. 13/Rules/DHC, rule 19, *available at*: http://dhc.nic.in/writereaddata/upload/Notification/NotificationFile_WD6KNDKFB4G.PDF.

8.35. This is specially so because the TRIPS Agreement does not explicitly endorse data exclusivity or patent linkage in the manner desired by developed nations. Prior to the negotiation of the TRIPS Agreement, many countries permitted the reliance on originator test data to approve generic products.⁴⁸⁷ In turn, simply proving bio-equivalence, meaning that their product was chemically identical to the original product, was enough for generic manufacturers. This approach was consumer-friendly as it facilitated the introduction of generics into the market immediately after the patent expiration. The significance of maintaining this traditional approach is emphasized by recent reports such as the UN High-Level Panel Report on Access to Medicines,⁴⁸⁸ the WIPO Development Agenda,⁴⁸⁹ and WHO Studies,⁴⁹⁰ all of which stress the importance of ensuring access to medicines.

8.36. Data exclusivity and patent linkage can impact the implementation of compulsory licenses. During a public health emergency, patent linkage and data exclusivity should not hinder regulators from approving drugs necessary to address the crisis. Article 39.3 of the TRIPS Agreement is not intended to impose restrictions that would obstruct public health efforts. However, even if such restrictions were implied, they would not withstand the principles outlined in the Doha Declaration on Public Health.⁴⁹¹

⁴⁸⁷ Srividhya Ragavan, "The Significance of the Data Exclusivity Debate and its Impact on Generic Drugs" 1(1) *Journal of Intellectual Property Studies* 139 (2017), available at: <https://scholarship.law.tamu.edu/cgi/viewcontent.cgi?article=1816&context=facscholar> (last visited on February 25, 2024).

⁴⁸⁸ United Nations, Report of the United Nations High Level Panel Report on Access to Medicines (September 14, 2016), available at: <http://www.unsgaccessmeds.org/final-report/> (last visited on February 22, 2024).

⁴⁸⁹ Development Agenda for WIPO, World Intellectual Property Organization, available at: <http://www.wipo.int/ip-development/en/agenda/>. (last visited February 22, 2024).

⁴⁹⁰ Ed Silverman, "Hepatitis C Drugs Remain Unaffordable in Many Countries, says Who Study", *Pharmalot*, (May 31, 2016), available at: <https://www.statnews.com/pharmalot/2016/05/31/gilead-hepatitis-drug-prices-who/> (last visited February 22, 2024).

⁴⁹¹ World Trade Organisation, "The Doha Declaration Explained", available at: https://www.wto.org/english/tratop_e/dda_e/dohaexplained_e.htm (last visited February 22, 2024).

8.37. The Commission further recommends that if deemed necessary, adequate amendments be introduced in the existing legislations that mandate such disclosure of test data and other data. However, the same would require further consultation, research and deliberation.

8.38. In light of the aforesaid discussion and recommendations, a proposed Bill on the Protection of Trade Secrets is being appended as **Annexure-I**.

The Commission recommends, accordingly.

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 5.3.2024.

[Justice Ritu Raj Awasthi]

Chairperson



[Justice K.T. Sankaran]

Member



[Prof. (Dr.) Anand Paliwal]

Member



[Prof. D.P. Verma]

Member



[Dr. Reeta Vasishta]

Member Secretary



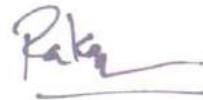
[Dr. Rajiv Mani]

Member (*Ex-Officio*)



[Mr. M. Karunanithi]

Part-time Member



[Prof. (Dr.) Raka Arya]

Part-time Member

ANNEXURE-I

THE PROTECTION OF TRADE SECRETS BILL, 2024

(___ of 2024)

A Bill to provide for effective protection of trade secrets against misappropriation so as to encourage innovation and fair competition.

BE it enacted by Parliament in the Seventy-Fifth Year of the Republic of India as follows:—

CHAPTER I PRELIMINARY

1. Short title and commencement.—(1) This Act may be called the Protection of Trade Secrets Act, 2024.

(2) It shall come into force on such date as the Central Government may, by notification in the Official Gazette, appoint; and different dates may be appointed for different provisions of this Act, and any reference in any such provision to the commencement of this Act shall be construed as a reference to the coming into force of that provision.

2. Definitions.—In this Act, unless the context otherwise requires,—

- (a) “Court” shall mean a Commercial Court constituted under section 3, or the Commercial Division of a High Court constituted under section 4, of the Commercial Courts Act, 2015 (4 of 2016);
- (b) “control” means ability to use the trade secret and to disclose it to any third party;
- (c) “holder of trade secret” means any person, natural or legal, having lawful control over the trade secret;
- (d) “misappropriation” means—
 - (i) acquisition of a trade secret by a person without the consent, express or implied, of the holder of trade secret by:
 - (I) unauthorised access to, appropriation of, or copying of any documents, objects, materials, substances or

- electronic files, lawfully under the control of the holder of trade secret, containing the trade secret or from which the trade secret can be deduced; or
- (II) any other conduct which, under the circumstances, is considered contrary to honest commercial practices; or
- (ii) use or disclosure of trade secret without the consent of the holder of trade secret, whether expressed or implied, by a person who,-
- (I) has acquired the trade secret unlawfully under sub-clause (i); or
- (II) in breach of a confidentiality agreement or any other duty not to disclose the trade secret; or
- (III) is in breach of a contractual or any other duty to limit the use of the trade secret; or
- (iii) acquisition, use or disclosure of a trade secret by a person, who at the time of such acquisition, use or disclosure, knew or ought, under the circumstances, to have known that the trade secret had been obtained directly or indirectly from another person who was using or disclosing the trade secret unlawfully within the meaning of sub-clause (ii);
- (e) “prescribed” means,—
- (i) in relation to proceedings before a High Court, prescribed by rules made by the High Court;
- (ii) in other cases, prescribed by rules made under this Act;
- (f) “trade secret” means any information—
- (i) that is secret in the sense that it is not, as a body or in the precise configuration and assembly of its components, generally known among or readily accessible to persons within the circles that normally deal with the kind of information in question;
- (ii) that derives commercial value on account of being secret;
- (iii) that has been subject to reasonable steps under the circumstances, by the holder of such information, to keep it secret; and
- (iv) the disclosure of which is likely to cause damage to the holder of such information.

Explanation.—For the purposes of sub-clause (f),

- (II) experiences and skills acquired by an employee in the course of normal professional practice; or
- (III) any information disclosing a violation of any law shall not amount to trade secret.

CHAPTER II

ACQUISITION, USE AND DISCLOSURE OF TRADE SECRETS

3. Rights of Holder of trade secret.—(1) A holder of trade secret shall have the right to use and disclose his trade secret, which includes licensing the trade secret.

(2) Any contract or agreement that the holder of trade secret enters into to protect his trade secret, restrict access to it or prevent the disclosure of such trade secret shall be subject to the provisions of the Indian Contract Act, 1872 (9 of 1872).

(3) A holder of trade secret shall be entitled to institute proceedings under this Act in respect of misappropriation of trade secret, to prevent further misappropriation or disclosure of trade secret in the public domain.

4. Lawful acquisition, use and disclosure of trade secrets.—(1) A trade secret may be lawfully acquired by,-

- (a) independent discovery or creation;
- (b) observation, study, reverse engineering, disassembly or testing of a product or object that has been made available to the public or that is lawfully in the possession of the acquirer of the information who is not under a duty to limit the acquisition of the trade secret; or
- (c) any other practice which is in conformity with honest commercial practices.

(2) A trade secret may be lawfully acquired, used, or disclosed if permitted by any law, pursuant to a law, or by contract.

(3) Acquisition, use or disclosure of a trade secret by means other than those that fall within the purview of sub-sections (1) and (2), shall amount to unlawful acquisition, use or disclosure of a trade secret.

5. Certain acts of acquisition, use and disclosure of trade secret not to be misappropriation of trade secrets.— The acquisition, use and disclosure of a trade secret shall not constitute an act of misappropriation when done;-

- (a) to expose an unlawful act or professional or other misconduct; or
- (b) in good faith to protect public interest.

6. Compulsory license.—(1) The Central Government, if it is satisfied, that there exist circumstances of national emergency or extreme urgency involving substantial public interest, including situations of public health emergency, national security etc., may require the holder of trade secret to issue compulsory license for use of his trade secret to third parties or to the Government.

(2) Any license issued under sub-section (1) shall be subject to such license fee having regard to the nature and value of trade secret, the expenditure incurred by the holder of trade secret in developing and maintaining the trade secret, and may be subject to such other conditions and in such form as may be prescribed.

(3) Any person, legal or natural, acquiring a trade secret as a consequence of operation of sub-section (1), shall have a duty to maintain confidentiality of the information so received and shall not disclose it further whether during or after termination of such license or use.

(4) The license granted under this section may be terminated by the Government at any time after the circumstances specified in sub-section (1) cease to exist.

CHAPTER III LEGAL PROCEEDINGS

7. Relief in a suit for misappropriation of trade secret.—(1) The relief which a court may grant in any suit for misappropriation of trade secret includes –

- (a) injunction, subject to such terms, if any, as the court thinks fit;

(b) at the option of the plaintiff, either damages or an account of profits;

(c) order for surrender and/or destruction of the documents, objects, materials, substances, or electronic files in the possession or ownership of the misappropriating party that contain or embody the trade secret; and

(d) order for recall, withdrawal, permanent removal, delivery-up and/or destruction of goods or products whose conception, features, functionality, manufacturing process, or marketing is substantially based on a trade secret that has been misappropriated.

(2) The order of injunction under sub-clause (a) of sub-section (1) may include an *ex parte* injunction or any interlocutory order for any of the following matters, namely,—

(a) for discovery of documents;

(b) preserving of goods, documents or other evidence which are related to the subject-matter of the suit;

(c) restraining the defendant from disposing of or dealing with his assets in a manner which may adversely affect plaintiff's ability to recover damages, costs or other pecuniary remedies which may be finally awarded to the plaintiff.

(3) The costs of all parties in any proceedings in respect of the misappropriation of trade secret shall be in the discretion of the court.

8. Suit for misappropriation, etc., to be instituted before Commercial Court.—(1) Suit for the misappropriation of a trade secret shall be instituted in a Commercial Court having jurisdiction to try the suit.

(2) For the purpose of sub-section (1), a “Commercial Court having jurisdiction” shall, notwithstanding anything contained in the Code of Civil Procedure, 1908 (5 of 1908) or any other law for the time being in force, include a Commercial Court within the local limits of whose jurisdiction, at the time of the institution of the suit or other proceeding, the person instituting the suit or proceeding, or, where there are more than one such persons any of them, actually and voluntarily resides or carries on business or personally works for gain.

9. Confidentiality of proceedings.— In relation to any proceeding concerning actual or apprehended misappropriation of a trade secret, the

court shall preserve the secrecy of the subject matter of the dispute claimed as a trade secret by reasonable means in such manner as may be prescribed.

10. Remedy in the case of groundless threats of legal proceedings.—(1) Where any person claiming to be the holder of trade secret, by circulars, advertisements or otherwise, threatens any other person with any legal proceedings or liability in respect of an alleged misappropriation of trade secret, any person aggrieved thereby may institute a declaratory suit that the alleged misappropriation to which the threats related was not in fact misappropriation of trade secret of the person making such threats and may in any such suit—

- (a) obtain an injunction against the continuance of such threats; and
- (b) recover such damages, if any, as he has sustained by reason of such threats:

Provided that this section does not apply if the person making such threats, with due diligence, commences and prosecutes an action for misappropriation of trade secret claimed by him.

(2) A suit under sub-section (1) shall not be instituted in any court inferior to a Commercial Court having jurisdiction.

CHAPTER IV MISCELLANEOUS

11. Power of High Courts to make rules.—The High Court may make rules consistent with this Act as to the conduct and procedure in respect of all proceedings before it under this Act and in particular with regard to confidentiality of proceedings as provided under section 9.

12. Power of the Central Government to make rules.—(1) The Central Government may, by notification in the Official Gazette, make rules for carrying out the purposes of this Act.

(2) In particular, and without prejudice to the generality of the foregoing power, the Central Government may make rules for the purposes of grant of compulsory license, determination of license fee, other conditions, form and termination thereof under section 6.

(3) Every rule made under this section shall be laid, as soon as may be after it is made, before each House of Parliament, while it is in session, for a total period of thirty days which may be comprised in one session or in two or more successive sessions, and if, before the expiry of the session immediately following the session or the successive sessions aforesaid, both Houses agree in making any modification in the rule or both Houses agree that the rule should not be made, the rule shall thereafter have effect only in such modified form or be of no effect, as the case may be; so, however, that any such modification or annulment shall be without prejudice to the validity of anything previously done under that rule.

13. Act to be in addition to, and not in derogation of, other remedies.—Nothing in this Act shall be construed as abrogating any right or jurisdiction to restrain a breach of trust or confidence.

