



# INTERNATIONAL FRAMEWORK FOR THE PROTECTION OF TRADE SECRETS

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## ABSTRACT

This chapter deals with the study of trade secrets that is under the common law giving a historical background and various definitions given under the common law and study of trade secrets in the major economies of the world. The springboard doctrine, liability of the third parties in the misappropriation matter, exception to the liabilities and remedies that's available for the breach of confidence are also discussed. This chapter will further deal with global legal perspectives of Trade Secret protection. A detailed study of international conventions along with the trade secret Protection laws of various countries will be analysed. In brief we can say that in this Chapter, focus is laid upon the international legal framework such as Paris Convention and TRIPS Agreement and will elaborate the WIPO National and Regional Trade Secret Rules and Regulations and a comparison with the Trade Secrets Directive and standards for the Trade secret protection laws will be analysed in order. The aim is to comparatively analyse the position of trade secret protection in India with that of United States Defend Trade Secrets Act and European Union Directive.

## Introduction

The approach laid out in the TRIPS Agreement is based on the notion that protection against unfair competition should include protection for undisclosed information. In presenting this approach, the TRIPS Agreement makes reference to the prior-existing protection against unfair, competition as presented in the Paris Convention for the Protection of Industrial Property a convention that is administered by the World Intellectual Property Organization. Although trade secrets are confidential, they are also commercial. For a trade secret to have any practical value, the owner usually must share it in order to collaborate with a limited group of employees and business partners. Laws thus expect and account for a certain amount of protected disclosure, within a constrained circle. Nevertheless, even if trade secrets are not "secret" in the strictest sense of the term, they must in fact remain non-public and known only to a limited number of people. The definition of trade secrets thus is broadly similar among countries, addressing their dual nature as confidential but commercial.<sup>2</sup>

The similarities among countries in defining trade secrets correspond well with the three requirements of Article 39 of TRIPS. In fact, on this matter, TRIPS reflected then-current practice in many countries and it has shaped

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<sup>2</sup> ENQUIRIES INTO INTELLECTUAL PROPERTY'S ECONOMIC IMPACT © OECD 2015

subsequent law-making. In practice, the TRIPS requirements for trade secrets are now generally applied in law as follows:

- **Secrecy.** The information protected must be secret. Secrecy need not be absolute. The trade secret owner may share the information with employees and business partners. Secrecy requires instead that the information must not be readily publicly accessible and that it is revealed to others only under conditions that maintain secrecy with respect to the broader public.
- **Commercial Value.** The information must have economic value because of its being secret. Trade secret law most typically protects commercial information; that information must derive some utility from being kept secret.
- **Reasonable Efforts to Maintain Secrecy.** The information must be the subject of reasonable efforts on the part of the rights holder to maintain its secrecy.<sup>3</sup> By its nature, a trade secret claim arises when measures to protect the secret have failed. Thus, the law does not require one who claims a trade secret to be entirely successful at protecting it.

However, the law does require the owner to make some efforts to maintain secrecy. In national laws, the necessary effort is often broadly described as “reasonable,” in keeping with Article 39 of TRIPS. However, some countries impose more specific, additional obligations, which might be characterised as a particular implementation of the broad reasonableness requirement. For example, some common law countries require that the defendant have a contractual or implied obligation to keep the information secret. Other countries require written agreements with recipients and confidentiality notices. These three conditions define trade secrets in a manner covering a potentially very large scope of economic activity<sup>4</sup>. Still, the resulting definition has potentially important practical implications as pointed out by Maskus (2000), who notes that trade secrets “are not protected against learning by fair means, such as independent creation, reverse engineering or reading public documents.” In other words, trade secrecy does not provide an exclusive right to use of the information, so long as a second party obtains the information fairly or it enters the public domain by fair means. Thus, unlike patented inventions or copyright protected content, trade secrets are not protected for a statutory time limit and they can run out in the regular course of competition. The range of subject matter covered by trade secrets may be open ended, though often trade secrets fall into one of two broad categories: technical information (e.g. technical plans and formulae) and confidential business information (e.g. customer lists and marketing strategies) (Almeling et al., 2010). The TRIPS Agreement requires that WTO members put in place national systems to protect trade secrets against acts of unfair competition (Sandeem, 2011). WTO members comply with this obligation in a variety of ways.

The fact that TRIPS Article 39 does not set forth a detailed regime for protection is associated with substantial variation between countries in the means employed to provide the TRIPS - mandated protection. In some instances, countries have implemented express legislation. In others, the obligation is met by laws that include misappropriation via such means as breach of contract, inducement of others to breach contracts and acquisition

<sup>3</sup> Aplin, T. & F. Gurry (2012), Gurry on Breach of Confidence: The Protection of Confidential Information, Section, Oxford University Press, Oxford, UK

<sup>4</sup> For descriptive convenience this chapter will employ the term “trade secrets” as encompassing “undisclosed information.”

by third parties of information known to be disclosed dishonestly (or where it was negligent not to know). This variation can affect the ways businesses and workers conduct their affairs and thus there are reasons to believe that the legal protection of trade secrets may have important economic effects.

### **International treaties for the protection of trade secret**

There is an increasing recognition of the importance of trade secrets and trade secret protection in the United States and abroad. It has been estimated that the majority of working technologies worldwide is protected as a trade secret rather than by patent. Also, the globalization of the commerce requires even small companies to protect their trade secret on international basis. If the companies fail to protect their trade secret internationally, then during business in abroad or foreign countries they have to sacrifice competitive advantage.

Various treaty and the agreements are enacted to protect the intellectual property on global basis that also protect the trade secret. Both the *North American Free Trade Agreement (NAFTA)* and the *Agreement on Trade Related Aspects of Intellectual Property (TRIPs)* ratified during the Uruguay Round of the General Agreement on Tariffs and Trade (GATT) include specific provisions directed toward increasing the protection of trade secrets. There are no comprehensive international treaties pertaining to the trade secret. NAFTA and TRIPS provide only brief attention to the topic. Furthermore, in the past ten to fifteen years, there has been a trend toward the adoption of domestic statutes specifically directed at the increased protection of trade secrets, particularly among Asian nations. There is a little difference in the protection provided by the various international treaty and agreements.

### **1. WIPO AND THE TRADE SECRETS**

WIPO, which was established on Jul 14, 1967, entered into force in 1970, is a specialised agency of the United Nations since the year 1974 and manages a large number of international unions or treaties in the area of intellectual property (IP)<sup>5</sup>. Its objectives are to promote IP protection throughout the world 99by the cooperation among the states and where it's appropriate in merging with any other international organisation. It also provides to ensure the administrative cooperation among the IP unions that are created by the Paris Convention and the Berne convention and sub treaties being concluded by the Paris union members. Besides, it plays an important role in safeguarding the interest of traders and innovators.

WIPO protects trade secrets under the Article10bis (unfair competition) of the Paris convention 1967. These same references can be found in TRIPS agreements Section 7, which protects confidential information. The convention provides in article 10bis that the countries of the union are bound to make sure the persons that are entitled to benefit from the convention by effective protection against unfair competition. But the convention doesn't specify in the manner in which how much protection should be granted, thus leaving it to the existing laws in each of the member countries. Article 10bis defines the act of unfair competition as those acts of competition that are contrary to honest practices in industrial or commercial matters.<sup>6</sup>

<sup>5</sup> WTO | intellectual property (TRIPS), frequently-asked ....

[https://www.wto.org/english/tratop\\_e/trips\\_e/tripfq\\_e.htm](https://www.wto.org/english/tratop_e/trips_e/tripfq_e.htm) (last visited on September 11,2021)

<sup>6</sup> UNDISCLOSED INFORMATION, UNFAIR COMPETITION AND ANTI COMPETITIVE PRACTICES,

[https://www.wto.org/english/tratop\\_e/trips\\_e/ta\\_docs\\_e/modules7\\_e.pdf](https://www.wto.org/english/tratop_e/trips_e/ta_docs_e/modules7_e.pdf)(last visited on 21 august 2021)

## 2. PARIS CONVENTION

The Paris convention<sup>7</sup> for the protection of industrial property (1883) was enacted, in part, to discourage the unfair competition. Article 10 bis of the Paris Convention<sup>8</sup> (covering unfair competition) provided a potential source of support for the international standards of trade secret protection, but the language of this provisions is only poorly suited for this purpose. The Paris convention prohibits unfair trade practices among its members, means “Any act of competition which is in conflict with the fair customs of the industry and trade is not acceptable”. The examples of the unfair competition provided by the Paris convention do not include trade secret infringement. Thus, it is not clear from the convention statement if economic espionage or other unfair means to appropriate a trade secret comprises unfair competition. But the article 1(2) of the Paris convention stipulates that the industrial property should be understood in its broadest sense. Therefore, legal consequences of interpreting the Paris convention in the field of trade secret is deemed to be unclear because the lack of enforcement provisions in the Paris Convention left the international community without a legal apparatus to achieve the protection level desired.

Paris Convention for the Protection of Industrial Property, Articles 1 and 10bis, in protecting Trade Secrets, the TRIPS Agreement references the protection provided in the Paris Convention against unfair competition. Article 10bis of the Paris Convention highlights the nature of protection against unfair competition. Article 1 of the Paris Convention is included here to provide context concerning what is meant by “union. Article 1 also defines the scope of industrial property originally covered, which the TRIPS Agreement extends by explicitly providing for protection of undisclosed information.

### *Article 10bis: Unfair Competition*

- (1) The countries of the Union are bound to assure to nationals of such countries effective protection against unfair competition.
- (2) Any act of competition contrary to honest practices in industrial or commercial matters constitutes an act of unfair competition.
- (3) *The following in particular shall be prohibited-*
  - (i) all acts of such a nature as to create confusion by any means whatever with the establishment, the goods, or the industrial or commercial activities, of a competitor;
  - (ii) false allegations in the course of trade of such a nature as to discredit the establishment, the goods, or the industrial or commercial activities, of a competitor;

## 3. Trade Secrets under TRIPS Agreement

Protection of the undisclosed information is mentioned under Part 2, Section 7 of the TRIPS agreement. So undisclosed information here means the Trade secrets. Article 39.1 of the trips provide that in the course of ensuring the effective protection against the unfair competition as provided in Article 10bis of the 1967 Paris

<sup>7</sup> Refer to [http://www.wipo.int/treaties/en/ip/paris/trtdocs\\_wo020.html](http://www.wipo.int/treaties/en/ip/paris/trtdocs_wo020.html)

<sup>8</sup> Refer to [http://www.uspto.gov/web/offices/pac/mpep/documents/appxp\\_10\\_bis.htm](http://www.uspto.gov/web/offices/pac/mpep/documents/appxp_10_bis.htm)

convention, members shall protect the undisclosed information of the sort which is described in the 2 and 3 paragraphs of the article 39.<sup>9</sup> Paragraph 2 contains the general category of confidential information, which has been protected under the common law system, where paragraph 3 provides for the protection of data submitted to the government against disclosure and the unfair use. Article 10bis contains no reference to the protection of confidential information as an ingredient of unfair competition. Article 10bis (2) defines an act of unfair competition as an act of competition contrary to the honest practises found in industrial and commercial practices.

Article 10bis (3) then lists three particular practises which are to be prohibited.

- (i) all acts of the nature, so as to create the confusion by any means whatever with the establishment or the goods, or industrial or commercial activities, of a competitor;
- (ii) false allegations in the course of trade, as to discredit the establishment, the goods, or the industrial or commercial activities, of a competitor;
- (iii) indications or allegations, to mislead the public as to the nature, the manufacturing process, the characteristics, the suitability purpose, or the quantity, of the goods.<sup>10</sup>

So, we can summarise that trips agreement provides for the protection of trade secrets by referring to the way of protection given under the Paris Convention or the provision of the WIPO.

The negotiators of the Trips agreement were very anxious to preserve the confidentiality of the test data submitted to the government agencies. It contains a long approval process, particularly for the pharmaceutical product, the chances for the wrongful appropriation of such data by competitors was self-evident. This is included in article 39.3.

Article 39.3 also contains three limitations:

1. It only applies to the pharmaceutical and chemical agricultural products
2. The protection is extended 'only' against the unfair competition uses
3. The government authority is exempted from the confidentiality requirement in the interest of the public.

So, it had been held that a government attributing agency might use the confidential test data of an applicant while considering the applications by another applicant in respect of similar products.

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<sup>9</sup> The TRIPS agreement 1995, Section 7: Protection of Undisclosed Information: Article 39: 1. In the course of ensuring effective protection against unfair competition as provided in Article 10bis of the Paris Convention (1967), Members shall protect undisclosed information in accordance with paragraph 2 and data submitted to governments or governmental agencies in accordance with paragraph 3. 2. Natural and legal persons shall have the possibility of preventing information lawfully within their control from being disclosed to, acquired by, or used by others without their consent in a manner contrary to honest commercial practices so long as such information: (a) is secret in the sense that it is not, as a body or in the precise configuration and assembly of its components, generally known among or readily accessible to persons within the circles that normally deal with the kind of information in question; (b) has commercial value because it is secret; and

<sup>10</sup> Article 10bis (Paris Convention) - Harvard University. [https://h2o.law.harvard.edu/text\\_blocks/6554](https://h2o.law.harvard.edu/text_blocks/6554)



## NAFTA (NORTH AMERICAN FREE TRADE AGREEMENT)<sup>11</sup>

The U.S., Mexico and Canada are the signatories to the North American Free Trade Agreement<sup>12</sup> (NAFTA) in late 1992. NAFTA carries a provision directed to provide uniform minimum standards for protecting trade secret. NAFTA largely follows the tenets of trade secrets law in the United States. A trade secret under NAFTA is defined as commercially valuable information, which is not publicly known and the owner of which takes reasonable steps to maintain the information's secrecy. The article 1711 (1) of this agreement states the protection of the trade secret. It states that each party shall provide the legal means for any person to prevent trade secret from being disclosed to, acquire by, or used by others without the consent of the person lawfully in control of the information in a manner contrary to honest commercial practices, in so far as: The information is secret, has actual or potential value and the person lawfully in control of the information has taken reasonable steps under the circumstances to keep it secret.

The NAFTA members are responsible for protecting trade secrets and to prevent the unauthorized acquisition and use of materials that classify as trade secrets. Among the available remedies in each of these countries, injunctions as well as monetary remedies are required. It seems clear from the above that NAFTA protection of trade secret is almost the same as that provided by the TRIPS to undisclosed information. However, the protection provided by NAFTA is broader, to the extent that confidential information could have present or potential value. While the TRIPS do not recognize such a dichotomy, it needs the protection must have potential value. Other contrast is that NAFTA allow its members to require some sort of the tangible evidences for the trade secret protection<sup>13</sup>, also NAFTA prohibits the parties from limiting the duration of the protection. NAFTA discourages or impedes the trade secret licensing process<sup>14</sup>.

## RELATIONSHIP BETWEEN WTO AND WIPO FOR THE IP PROTECTION

It is explicitly set out in the preamble of the TRIPS agreement that the WTO requires a mutual supportive relationship with the WIPO. This relationship provides cooperation in mainly three areas:

- notification of, access to and transition of the national laws and the regulations
- implementation of the procedures for the protection of the national emblems
- and for the technical cooperation

The cooperation between the WTO-WIPO provides a joint work on a computerised database of the intellectual property laws and the regulations and cooperation on the implementation of the TRIPS. Following are the categories that are recognised as trade secrets: If any particular information qualifies the test of confidentiality, then it can be regarded as a trade secret. Following are some of the examples where the trade secret protection is approved by the different courts throughout the world and considered as confidential information can be summed as:

<sup>11</sup> Refers to <http://www.international.gc.ca/trade-agreements-accords-commerciaux/agr-acc/nafta-alena/texte/index.aspx>

<sup>12</sup> Refers to <http://www.fas.usda.gov/itp/Policy/nafta/nafta.asp>

<sup>13</sup> Article 1711 (2) of the NAFTA agreement

<sup>14</sup> Article 1711 (3) of the NAFTA agreement

- formula
- patterns
- plans
- designs
- physical devices
- processes
- software
- know-how<sup>15</sup>

But the above-given list is not at all exhaustive; there are also other categories which can be considered as trade secrets. It is also observed that different courts might enter into different and contrary conclusions that concerns the trade secret status, but to the conclusion they reach would be the same, i.e. the information must be confidential in nature, the owner must take reasonable steps to keep the information confidential, and this information should not be available in the public domain.

- Formula

Formula means a group of symbols that makes a mathematical statement or a conventionalised statement expressing some of the fundamental principle or a representation of a substance using symbols for its constituent elements. It gives the right direction for making something worthwhile or lucrative. A formula can be a trade secret .example: the formula in the coco-cola company gives a high advantage in the soda market, as there is no other soda that tastes this same.

- Pattern

A pattern is considered as a form, template, or model (a set of rules ) that can be used to create things or parts of a thing. Or in other words, it can be said that the detection of the underlying patterns is called pattern recognition. If the pattern follows a basis of confidentiality, then it can be protected s the trade secrets. For example: the mode of pattern in the packaging of the goods and the delivery of the goods, pattern of a client counselling

- Plan

A plan is considered as a proposed or an intended method of getting one circumstance to another. They move from a current situation toward the achievement of one or more objectives or goals. Generally, plans are provided or revealed in the case of patenting a product, but if the inventor wants to keep it a secret, then it can be kept under the category of confidential under the category of trade secrets. In businesses, it uses this intellect to make business plans. Ex: plan on selling a product in a particular region by using a particular kind of marketing style.

<sup>15</sup> TRADE SECRETS PROTECTION [https://shodhganga.inflibnet.ac.in/bitstream/10603/291861/9/09\\_chapter%20vi.pdf](https://shodhganga.inflibnet.ac.in/bitstream/10603/291861/9/09_chapter%20vi.pdf) (last visited on 25 september 2021)

- Design

Design is considered as a decorative or artistic work. It can also be said as an arrangement of the scheme. some of the categories of goods or the invention that can be considered as designs are the follows: circuitry for an advanced minicomputer ; colour tv circuitry; schematics for analogous circuits

- Physical devices

A device which is having some kind of physical implementation can be termed as a physical device. If it's used in manufacturing, then it can be termed as a trade secret. E.g., a device for manufacturing the radio parts, machinery and the equipment used to manufacture the saw grade diamonds.

- Process

The process is considered as a generalised method of doing something, which generally involves certain steps or the operation that are usually ordered and or interdependent. A processing method or the technique that's used to make the final and the end product can be also be termed as the trade secrets. Some of the examples: a process to manufacture the potassium sulphate, a process to manufacture the fibreglass.

- Software

A good reminder is the Broker Genius case, that's of the steps to increase the chance of being capable to safeguard software as a trade secret

- Know-how

Its information that enables a person to accomplish a particular task or to operate a particular device or the process. Know-how can be trade secrets. Examples of the trade secrets: know-how pertaining to the plant chemical construction, methods for the test procedures, and to assure the quality of the raw material. Know-how of methods to manufacture typewriters.