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# The Domain of Knowledge Vis-à-Vis Secret in Preserving Vital Commercial Information

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## ABSTRACT

*Every job and work require certain skills and know-how, which is essential to carry on the work in that particular field. There is some knowledge that an employee, agent or worker gain while working on a particular company or industry. That knowledge may be general knowledge or might be some confidential information that can be and is important to be protected through trade secrets. We should know the laws governing trade secrets. It is also important to differentiate between the two types of knowledge. Distinguishing the two types of knowledge can be confusing at times, but there is a thin line between the two. This paper will specifically deal with the differences between the two types of knowledge. They are analyzing what type of information can be protected as trade secrets and what type of information cannot, which is important in understanding the difference.*

*It is also hard work for the Courts to distinguish between the two from case to case. What are the factors relied upon by the courts in explaining the difference between the two? This paper endeavours to put forward how the court separates the two types of knowledge while deciding a case. The detailed case study will give us a clearer view.*

**Keywords:** *knowledge, skills, trade secret, know-how difference*

## I. INTRODUCTION

In today's world, the protection of important and valuable information is key to the success of a company. Now, while we speak of protecting information to gain an advantage economically in the market, we have several choices from which we can choose. A company may choose to go for Patenting the valuable information, or it may choose not to register it for patenting and protect it by keeping it a trade secret instead. Both of the ways have their advantages and disadvantages, which a company needs to analyze based on the situation they are in and depending on their strategy to move forward. We should be well acquainted with the protection 'trade-secret' can provide and the laws relating to it.

On the other hand, while we consider keeping a particular information a trade secret, we often blur the line between a trade secret and the domain of knowledge or technical know-how of an

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employee. It is important that we clearly distinguish between the two.

## **II. TRADE KNOWLEDGE OR TECHNICAL KNOW-HOW**

In jurisprudence, there are two schools of thought dealing with the definition of technical know-how. They are the narrow trend and broad technical knowledge trend.

### **The long narrow or technical concept:**

This suggests the idea of being confined within the limits of knowledge, technical know-how and techniques in an industry and manufacturing process and does not extend to other areas. One definition of it provides that it is the set of elements that gives technical and administrative expertise, artistic skill and specific industry-oriented styles and art industry. Another definition says it is applied knowledge for using industrial techniques and putting them into practice (International Chamber of Commerce).

The American court said – Know-how is a new secret in the industry, stretching back to the stage of manufacturing and also information and associated tests.<sup>2</sup>

### **Legal Concept or Broad Technical Knowledge:**

According to legal terms, technical know-how means all technical information representing the technical enrichment of the knowledge of a narrow circle of people.

The definition reflects the characteristics of this kind of knowledge. Technically, it represents beneficiation, which means it is new and is confined to a specific category of people, creating confidentiality. In another definition, “technical information is shown to have two advantages. First, it is confidential, and second, it gives preference to rivals.”<sup>3</sup>

As defined, it is a set of technological knowledge, practical management, and new industrial transmission which keep, secret, projects not covered by patents”<sup>4</sup>.

In another definition, it is any information or experience relating or not relating to information within a patent.

Thus, industrial exploitation is not a synonym for invention. Rather, it is independent, and yet, at the same time, it is coupled with it, and there is no contradiction between them. Therefore, this limits the patent to the description of the invention and the statement of specifications. The patent does not show labour exploitation regarding the prevailing technical situation, nor does it give an idea of implementing competence. Consequently, it achieves technological

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<sup>2</sup> Nasir, op.cit, p. 279.

<sup>3</sup> Almawla N, op.cit, p. 38.

<sup>4</sup> Eisa H, 1982, p. 130

application for invention of any practical application in industry, which in and of itself is technical know-how or knowledge of manufacturing.

Some international conventions and national legislation have taken this meaning for technical knowledge. The protection of industrial property has been identified by the committee using the 1972 definition of technical know-how: “the term ‘skill know-how’ extends to the body of knowledge and experience not only for the practical application of certain techniques but also for industrial and commercial exploitation by management and financial institutions”.<sup>5</sup>

Now, the concept of the trade secret was introduced within the scope of know-how or knowledge in a 1956 federal court case in the United States known as the Colgate Case. It added, “may be in the form of composition, machine, or a set of information that is used by someone in his work, giving him a certain advantage in the face of rivals who may not know or, at least, use it.” We can say that Trade Secret may be in the form of chemical composition or specific manufacturing methods. It will become clear when we discuss Trade Secret in detail next.

### **III. TRADE SECRET**

The provision related to trade secrets was first ratified at the international level in the North American Free Trade Agreement (NAFTA) and the Agreement on Trade-Related Aspects of Intellectual Property (TRIPS) during the Uruguay Round of the General Agreement on Tariffs and Trade (GATT). After that, there has been an increasing trend of adopting domestic statutes relating to trade secrets.

For information to qualify as a trade secret, it needs to satisfy three factors:

- i) It must be information not generally known to the public,
- ii) It provides economic benefit by maintaining confidentiality and secrecy and,
- iii) It is the subject of reasonable efforts to maintain its secrecy.

Trade secret acts as an incentive for innovation in technology which is not meet the non-obviousness standard of patent law and copyrights. Inventions that are protected as trademarks, utility model, industrial designs, artistic or literary works are often maintained as trade secrets until it is used or published during registration. When dealing with technology, a substantial part of it is prone to be reverse-engineered, and hence they are preserved as trade secrets.<sup>6</sup>

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<sup>5</sup> Alowfi S, 1998, p. 42

<sup>6</sup> Verma S K, Legal protection of trade secrets and confidential information, *Journal of the Indian Law Institutes*, 44 (3) (2002) 336-353.

These include biotechnology, computer program microchips, computer-aided designs etc. This protects the information from reaching parties who might use it to their own advantage.

Moreover, it provides an advantage over the patent. In the case of a patent, it will provide protection to the information for a fixed period of time, after which the information will be released in the public domain, and anyone will be able to use it. On the other hand, trade secret protects particular information for so long as one is able to keep it a secret.

#### **IV. THE DIFFERENCE BETWEEN TRADE KNOWLEDGE AND TRADE SECRET**

Now, from the above reading, although it may seem that trade knowledge and technical know-how are falling within the ambit of a trade secret, or it might seem that all trading knowledge is trade secret, there is a fine line differentiating the two, which often gets blurred. If we consider the general knowledge or skills of an employee who is required to carry on the work, he is free to utilize the general skill and knowledge acquired during his or her employment according to the common law unless there is a non-compete agreement between the employer and employee.<sup>7</sup> In the USA, the Economic Espionage Act, 1996 (EE Act) does not apply to an individual who wants to earn using his lawfully developed knowledge, skills or abilities. It is to be noted that the act criminalizes theft or misappropriation of a trade secret but excludes the exploitation of the information for the employee's own benefit and the employee's use of it for other employers.<sup>8</sup>

#### **V. THE DOCTRINE OF RESTRAINT IN TRADE KNOWLEDGE AND TRADE SECRET**

Unless there is some restraint agreement between the parties, an individual can use his trade knowledge freely. The restraint agreements include Non-Disclosure Agreement, Non-Compete etc. Now when we talk about restraint of trade agreement, it should apply to the individual during the course of his employment and should not extend beyond that. Section-27 of the Indian Contract Act, 1872, gives legal recognition to the common law doctrine of restraint of trade. It provides that any agreement by which an individual is restrained from carrying on any trade, business or profession is invalid. In the case of **Wipro Limited v Beckman Coulter International SA**,<sup>9</sup> the Delhi High Court, referring to the case of **Star India Pvt Ltd**<sup>10</sup>, quoted the observation of the court therein that 'if the plaintiff had the right to terminate the contract on the ground of misconduct it could not be said that the defendant had absolutely no right to

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<sup>7</sup> *Mason v Provident Clothing and Supply Co Ltd* (1913) AC 724, 740-41; *Herbert Morris Ltd v Saxelby* (1916) 1 AC 688

<sup>8</sup> *Faccenda Chicken Ltd v Fowler* (1985) 1 All ER 724.

<sup>9</sup> 2006(2) CTLJ 57 (Del)

<sup>10</sup> *Star India Private Limited v Laxmiraj Seetharam Nayak and Anr*, 2003(3) BomCR 563 at para 14.

resign from the employment on account of better prospects or other personal reasons.’

After this, the court made observations in the **Taprogge Gesellschaft case**<sup>11</sup>. The court observed, ‘The distinction between the restraints imposed by a contract, operative during the subsistence of the contract is of a fundamental character... Again, the purpose for which restraint is expected to serve determines the character of the restraint. For instance, the restraints which operate during the term of the contract have to fulfil one kind of purpose, viz., furthering the contract. On the other hand, the restraints operative after the termination of the contract strive to secure freedom from competition from a person who no longer works within the contract.’ The court further quoted the observation made by the judges from para 15 of the judgement, ‘Generally speaking, the negative covenants operative during the term of the contract are not hit by Section 27 of the Contract Act because they are designed to fulfil the contract and not to restrict them. On the other hand, when a restriction applies after the contract is terminated, the restriction on freedom of trade, business or profession takes the form of restraint on trade, business or profession. This distinction which is of fundamental nature has to be borne in mind’.

The court, after examining the above case, observed, ‘any agreement restraining an employee post-termination from seeking employment elsewhere, as held in **Superintendent Co Ltd case**<sup>12</sup> would be in restraint of trade and would be hit by Section 27 of the Indian Contract Act, 1872.’ The court even quoted the observation of the single learned judge in **Raj Chopra and Anr v. Shri Narendra Anand and Ors**<sup>13</sup>, that the contract ‘...The act dealt with a particular subject, it was exhaustive on the same, and it was not permissible to import the principles of the English law dehors the statutory provision unless the statute was such that it could not be understood without the aid of the English law.’ And the court relied on the verdict of Supreme Court in **Gujarat Bottling Company Ltd, and Ors v Coca Cola Co and Ors**<sup>14</sup> quoting from the judgement, ‘Since the doctrine of restraint of trade is based on public policy, its application has been influenced by changing views of what is desirable in the public interest. The decisions on public policy are subject to change and development of trade and the means of communication and the evolution of economic thought.’

Analyzing the case laws, we can observe that Indian courts have always adopted a strict method while judging. They first analyze whether the alleged information qualifies to be marked as

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<sup>11</sup> Taprogge Gesellschaft MBH v IAEC India Ltd, AIR 1988 Bombay 157.

<sup>12</sup> Superintendence Co of India v Krishan Murgai, (1981) 2 SCC 246

<sup>13</sup> 1991 (21) DRJ 53

<sup>14</sup> 1995 (5) SCC 545

‘trade secret’ and have time and again held that ‘routine day to day affairs of an employer which are in the knowledge of many and are commonly known to others cannot be called ‘trade secrets.’

## VI. JUDICIAL PROTECTION OF THE TRADE SECRETS

The court, while protecting the trade secrets, distinguished between general knowledge/technical know-how and trade secrets. The Delhi High Court decision in the **American Express Bank Ltd v. Priya Puri** should be mentioned here. The court defined trade secret as ‘... formulae, technical know-how or a peculiar mode or method of business adopted by an employer which is unknown to others.’ In another case of **Anil Gupta v Kunal Dasgupta**<sup>15</sup>, The Delhi High Court held that the concept of formulae developed by a plaintiff is the result of the work done by him upon the material which may be available for the use of anybody. But what makes it confidential is the fact that the plaintiff has used his brain and thinking and produced a result in the shape of a concept.

Further, in the case of **Burlington Home Shopping Pvt Ltd v Rajnish Chibber**<sup>16</sup>, it was held by the Delhi High Court that the compiled database by the organization could be a subject matter of copyright, and its unpermitted use by another party will amount to copyright infringement. Thus, from the court’s interpretation of NDAs, NCC and restraint of trade under Contract Law, the judicial policies of Trade Secret can be deduced.

An agreement made to restraint a servant from competing with his employer even after the termination of the employment may not be allowed by the courts.<sup>17</sup> In the case of **Brahmaputra Tea Co v E Scarth**<sup>18</sup>, an attempt was made to restrain a servant from competing with the employer for five years after the termination of the period of service. The Calcutta High Court, in this case, observed - Contracts by which persons are restrained from competing, after the term of their agreement is over, with their former employers within reasonable limits, are well known in English law, and the omission to make any such contract an exception to the general prohibition contained in Section 27 indicates that it was not intended to give them legal effect in this country.

These principles have been further approved in the **Niranjan Shanker Golikari v Century Spinning & Manufacturing Co Ltd**<sup>19</sup> by the Supreme Court. In this case, a company

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<sup>15</sup> Anil Gupta v Kunal Dasgupta, 97 (2002) DLT 257.

<sup>16</sup> Burlington Home Shopping Pvt Ltd v Rajnish Chibber, 61 (1995) DLT 6.

<sup>17</sup> Singh Avtar, Law of Contract and Specific Relief, 9th edn (Eastern Book Company, Lucknow), 2005, pp. 260-261.

<sup>18</sup> Brahmaputra Tea Co v E Scarth (1885) 11 Cal 545.

<sup>19</sup> Niranjan Shanker Golikari v Century Spinning & Manufacturing Co Ltd (1967) 2 SCR 378: AIR 1967 SC 1098.

manufacturing cord yarn was offered collaboration by a foreign producer on the condition that the company shall maintain the secrecy of all the technical information and that it should obtain corresponding secrecy arrangements from its employees. The defendant was entered into a condition that in his five years of service for them, he shall not serve anywhere else even if he left the service earlier than the fixed time period. The agreement was held to be valid by Justice Shelat, and the defendant was barred and restrained from serving anywhere else during the active period of the agreement. The Supreme court observed:

...The injunction issued against him is restricted as to time, the nature of employment, and as to area and cannot, therefore, be said to be too wide or unreasonable or unnecessary for the protection of the interest of the respondent company.

Analyzing the above two landmark cases and the decisions given by the Supreme Court, it is clear that although an employer is not entitled to restrain his employee/servant after the termination of employment from offering competition, he is entitled to reasonable protection against exploitation of trade secrets.<sup>20</sup> In this similar context, the Delhi High Court, in the case of **Ambience India Pvt Ltd v Naveen Jain**,<sup>21</sup> held that agreements between the parties prohibiting the employee for two years from taking the employment with any present, past, or future customer of the employer is void and will attract Section 27 of the Indian Contract Act, 1872. It was held to be directed against the public policy and an arm-twisting strategy adopted by the employers.

Lastly, in the case of in **Sandhya Organic Chemicals Pvt Ltd v United Phosphorous Ltd**,<sup>22</sup> Supreme Court was of the view that an employee cannot be restrained at all times from using his knowledge and experience gained by him during his service, especially at the time when he was not working for the employer, i.e., after the termination of his contract. And in the matter of **Gopal Paper Mills Ltd v Surendra L Ganeshdas Malhotra**<sup>23</sup>, The Calcutta High court upheld the restrictive clause in an employment contract, imposing constraints on the employee, preventing him from misusing or revealing the confidential information and trade secrets acquired during the tenure of his employment. The legislation thus provided a remedy to organizations from third party disclosure of confidential information and trade secrets in the form of injunction against the employee.

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<sup>20</sup> Attwood v Lamont, (1920) 3 KB 571; (1920) All ER Rep 55.

<sup>21</sup> Ambience India Pvt Ltd v Naveen Jain, 122 (2005) DLT 421.

<sup>22</sup> Sandhya Organic Chemicals Pvt Ltd v United Phosphorous Ltd, AIR 1997 Guj 177.

<sup>23</sup> Gopal Paper Mills Ltd v Surendra K Ganeshdas Malhotra, AIR 1962 Cal 61.



## **VII. CONCLUSION**

From a simple reading of the cases mentioned, it can be very well understood that Trade Secret protection in India is still in a very unstable condition. We find no such codified legislation related to Trade secrets that the court may use in deciding the cases. Still, now the court hugely depends on the common law principles to decide the cases based on the facts and circumstances of the cases. This is totally contrary to the global trend of codification of common law principles in order to protect trade secrets.

It is time and need of the hour that the Indian legislature codifies and adopts legislation dedicated to the protection of trade secrets. Concrete definitions and guidelines are needed to be laid down, which will separate the domain of general knowledge of a worker and trade secret strictly. It is high time that the Parliament introduces supplementary provisions in the Competition Act incorporating a separate chapter on use, misappropriation and regulation of confidential information. Without a strict guideline, it is difficult and confusing for the general public at large to be aware of their rights to protect trade secrets and, on the other hand, use their skills or technical know-how freely. India needs a statutory law on confidential information on only to protect it from misuse but also in order to regulate its transfer and use.

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