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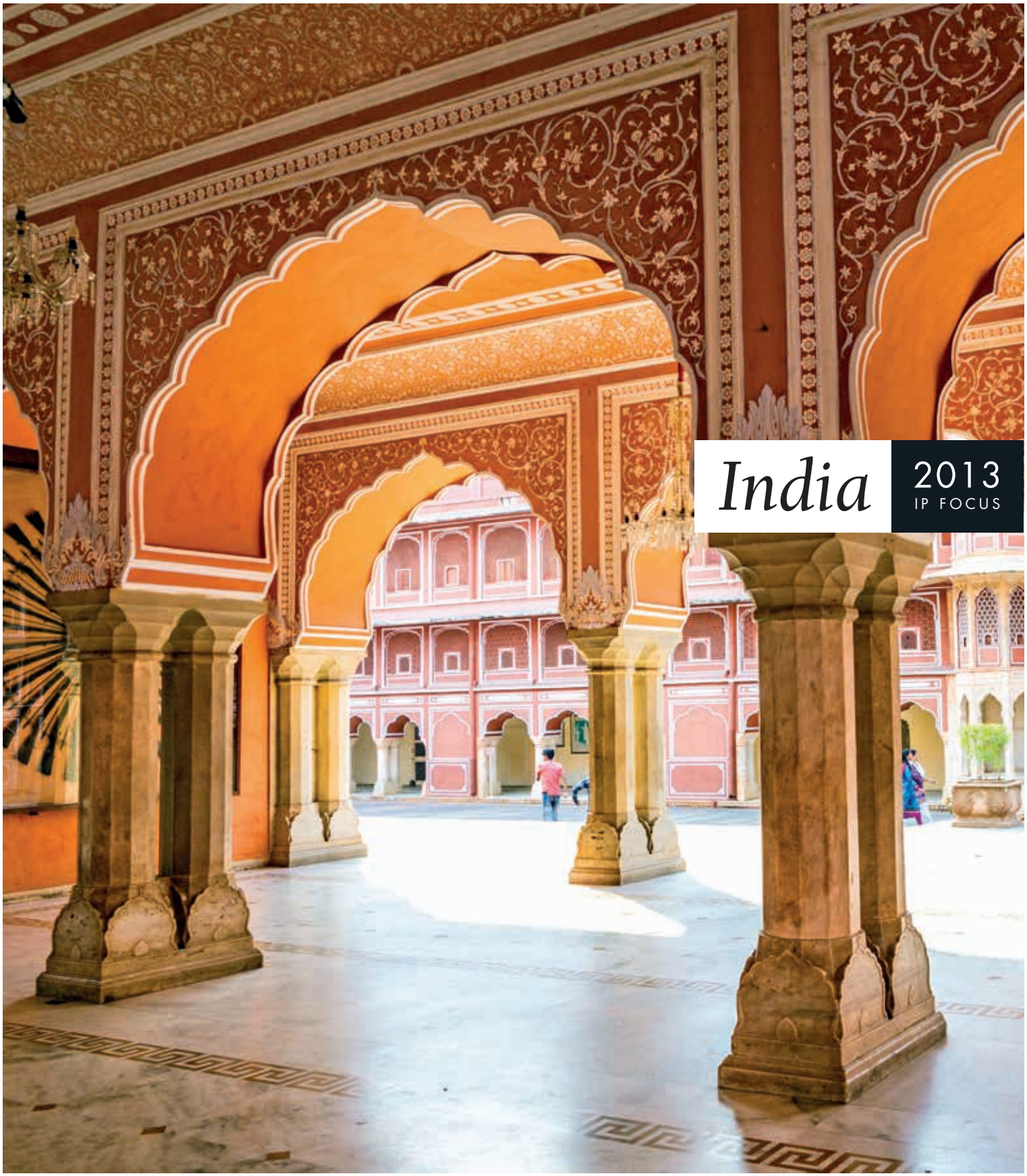

India

2013
IP FOCUS

CONFIDENTIALITY

Legislation needed on confidentiality in India

Vikram Grover and Sanyam Khetarpal of Groverlaw describe how Indian courts have dealt with the notion of confidentiality, and what needs to be done to bring the country's system up to scratch

A business enterprise can be thought of as a chariot, where the carriage is the employer, and the employees and contractors its wheels. These relationships should be effortless, if not exemplary, for a sound and cordial working environment. Amiable working conditions will improve productivity and client satisfaction, so it is important that the obligations, boundaries and responsibilities of both employers and employees are clearly defined. One aspect of these relationships where India as a jurisdiction needs a clear strategy is the obligation to maintain confidentiality. Does the existing legal framework comprising legislations and precedents suffice, or is it time for a macro law?

Both sides, irrespective of the legal nature of the relationship between employer and employee or an independent contractor, have a duty to the other (albeit different in form and substance). Many companies ensure that the terms of engagement, including confidentiality obligations, are intricately set down in writing. Some endeavour to envisage all possible eventualities. Irrespective of the agreed terms, the law is speckled with certain implied terms, that come from a particular industry or trade. When parties act upon a contract based on their trade understanding, accepted standards inevitably apply. The courts are constrained to intervene, and lay down positions when certain terms are equivocally interpreted or an oversight occurs, in order to give business efficacy to a contract.

CONFIDENTIALITY

The likelihood of misuse of critical information belonging to a business enterprise often resonates in any relationship with an employee or contractor. Contracts often limit access to such information and seek to regulate its use during the relationship and afterwards. Moreover, an important concern is to prevent any sort of competition arising, especially from contact with critical information. The Indian courts have been tested on a myriad of issues, including the nature of the information divulged, rigors in terms governing disclosure and non-compete provisions and the reliefs (if any) available to either party using principles of contract law, the country's Constitution and special legislations.

The departure of an employee or contractor may itself be in question, and can ring alarm bells for all involved, especially if issues of confidentiality are raised. Often the business enterprise claims that the information shared during the course of the relationship is proprietary or a trade secret. Not all information shared has been held to be judicially confidential. Furthermore, the threshold of inferring that certain information is tantamount to a trade secret is even higher. Eyebrows are raised if the business enterprise seeks to enjoin the departure of the employee or contractor, and such a move is often aggressively resisted by pleas of anti-competition and restraint of trade, practices frowned upon by market forces and law alike.

Vikram Grover

Vikram Grover leads the practice at Groverlaw. A dual-qualified lawyer enrolled as an advocate in India, and admitted on the roll of solicitors (England and Wales), Vikram has handled diverse contentious issues and developed anti-counterfeiting and brand protection strategies for varied clientele. He has been invited to share his vast experience of over 17 years in IP and corporate laws at various fora, and is a member of INTA, APAA, AIPPI, IPAA and LES India. He has to his credit several publications.

Bargaining power: a conundrum

The Supreme Court of India in *Superintendence Company of India v Sh Krishan Murgai* (1981) was of the opinion that employee covenants should be carefully scrutinised because of an inequality of bargaining power between the parties. In fact, bargaining may not occur, as the employee is often presented with *fait accompli* with a standard form of contract. Tempted to take the job, no one would give a thought to the restrictions being imposed and often, for short term benefits, a myopic view is adopted. This decision casts doubt on the intent and purport of the titles, definitions, scope and terms and conditions relating to the above matters of concern in any alleged one-sided arrangement.

In the clash between employers wishing to protect themselves from competition and employees seeking employment wherever they choose, employees' interests and rights must prevail

Confidentiality and anti-competition: hidden agendas?

As early as 1967, the Supreme Court of India had the occasion to assay confidentiality, non-compete and payment of liquidated damages obligations where an employee, after receiving training and serving for a year and a half, joined a competitor at a higher salary. In its judgment rendered in *Niranjan Shankar Golikari v The Century Spinning and Manufacturing Company* (1967), the Apex Court agreed that the non-compete agreement with the employee was reasonable to protect the interests of the company, as it had spent a considerable amount on training, and the foreign collaborator of the employer had indeed divulged knowhow of specialised processes. The Court observed that restraints or negative covenants during the term of employment are generally not regarded as restraint of trade under the Contract Act (section 27) unless they are unconscionable, excessively harsh, unreasonable or one-sided. After termination, negative covenants had to be viewed differently. Appreciating that the information disclosed was different from the employee's general knowledge and experience, the Court did not hesitate to confirm the limited injunction to protect the employer's interest.

The concept of trade secrets was delineated by the High Court of Delhi in *American Express Bank v Priya Puri* (2005). The issue fundamentally revolved around a breach of confidentiality by a former employee of the bank. It was laid down that where the names of customers and their phone numbers are well known and easily discernible, such information cannot be considered to be a trade secret or confidential. It was also observed that in the garb of confidentiality, competition could not be curtailed. The ad interim order of injunction was thus vacated.

In *VFS Global Services Private v Suprit Roy* (2007), the defendant was employed under a contract where his services could be brought to an end by either side with one month's notice or salary, though later additional terms were added,

including restraining the defendant from interacting with a competing company during employment and two years after. A suit was filed by the employer seeking damages and for enforcing the negative covenant. The Bombay High Court categorically observed that a clause prohibiting an employee from disclosing commercial or trade secrets is not in restraint of trade; however, the relief sought was considered to be extremely vague and not simpy non-disclosure of confidential information. It is pertinent to mention that the defendant had claimed that the information in question was not a secret, but he agreed to maintain confidentiality subject to the information not being in the public domain.

The High Court had to rule on claims of confidentiality in *Bombay Dyeing and Manufacturing v Mehar Karan Singh (2010)*, where the defendant was alleged to have divulged confidential information to a competitor whilst in the employment of the plaintiff and an apprehension was expressed that confidential information gathered was divulged. It was observed that information that is within the public domain cannot relate to confidentiality. Any person in an employment for some period would know certain facts which would come to his knowledge without any special efforts. Mere use of words such as strategy and crucial policies would not give it a character of secrecy, as these could be anticipated by any individual with foresight. The Court granted limited relief by injuncting use of tangible and identified information.

In *Desiccant Rotors International v Bappaditya Sarkar* (2009), an employee entered into an agreement, accepting that he was dealing with certain confidential material such as knowhow, technology, trade secrets, methods and processes. Upon resignation, he entered into a non-compete agreement for two years and agreed to deliver official property. Within three months, the employee joined a direct competitor of the plaintiff. In injunctive proceedings for violation of the agreements, including the terms of confidentiality and non-compete, the Delhi High Court reiterated the principles embodied in the (Indian) Contract Act, which hold any agreement in restraint of trade void, and recognises the individual's fundamental right conferred by the Constitution of India to earn a living by practicing any trade or profession of his or her choice (article 19). Without giving any consideration to the plaintiff's arguments that the restrictive covenants were principally intended to protect its confidential and proprietary information, the High Court ruled that in the clash between employers wishing to protect themselves from competition and the right of employees seeking employment wherever they choose, employees' interests and rights must prevail. Notwithstanding, to safeguard the interests of the plaintiff, the Court restrained the employee from approaching the employer's suppliers and customers for soliciting business.

On the restraint of trade provision in the Contract Act, the Madras High Court in *S Gobu v The State of Tamil Nadu* (2010), while considering the resignation of the employee (despite an agreement to serve a government institution for six years for pursuing a sponsored Master's programme), opined that the petitioner could not have the best of both worlds, and was bound by the terms of the agreement. Rejecting petitioner's contentions that the agreement had no legal value and he had no bargaining power, it was held that quantified damages were payable as per the agreed terms which had been breached by the petitioner on account of his resignation, and he could not avoid liability. In

Sanyam Khetarpal

Sanyam Khetarpal trained in criminal jurisprudence, working as an intern under eminent judges and senior advocates of the Delhi High Court. He has experience in varied laws and has worked on high profile cases such as the 2G spectrum scam. He has a keen interest in criminal remedies as envisaged in IP law, and is developing expertise in trade mark and designs law.

The United States was one of the earliest jurisdictions to enact a statute in respect of trade secrets

The draft National Innovation Act had been introduced, and is awaiting its fate

forming this conclusion, the Court relied on *Delhi Transport Corporation v DTC Mazdoor Congress* (1991), where the Supreme Court had said it must judge each such case on its own facts and circumstances.

Recently, the High Court of Delhi in *Independent News Services v Anurag Muskaan* (2013) – upon the respondent resigning after a year – evaluated stipulations of confidentiality and non-compete (both during and one year after termination) in an agreement appointing the respondent as an anchor of a news-based television channel for a term of two years. The Court prima facie found that the respondent had been negotiating with a competitor during the tenure of the agreement, and his conduct was questionnable. Therefore, to send out correct message, some interim directions were necessary and the respondent was constrained, for a period of seven days, from providing services as an anchor or in any other manner (even though he had already joined the competitor and admittedly, performing the same services).

Other avenues

Legislation in intellectual property, such as the Copyright Act and the Designs Act, have been used to prevent the use of purported confidential information. Of course, the courts have upheld such strategies only when the subject matter crosses the threshold of rights protectable under the statutes. The courts have also recognised common law relating to confidential information, and not wavered to hold certain agreements to be contracts of trust and faith. It has been suggested that the right to prevent the use of confidential information is broader than (at least) the copyright law, though the law of confidence is different (*BLB Institute of Financial Markets v Ramakar Jha* 2008). There is no whisper of confidentiality in Indian criminal jurisprudence, however, there are analogous provisions (such as offences of theft, fraud, criminal breach of trust), which have been used to fill the vacuum and attract imprisonment or fines (sections 379, 420, 406 of the Indian Penal Code). Furthermore, the Information Technology Act envisages the disclosure of any material containing personal information by a service provider without the consent of the person concerned or in breach of lawful contract punishable (section 72A).

Global v local

The United States was one of the earliest jurisdictions to enact a statute in respect of trade secrets (the Uniform Trade Secrets Act, USTA), and defined the expression as information not generally known which confers economic value and enjoys effort to maintain secrecy. Countries such as Japan, Russia, Mexico, France, Germany, Czech Republic, and Australia have either specific laws or provisions which cover trade secrets and confidentiality. The need for statutory recognition and protection of confidential information has been felt in India as well. The draft National Innovation Act, 2008 had been introduced, and is awaiting its fate. The draft dedicates an entire chapter to confidentiality, and the definition of confidential information is similar to the term undisclosed information in article 39 of the TRIPs agreement and the term trade secrets in USTA. Further, it recognises the contractual right of parties to set out terms and conditions in respect of confidentiality.

The way forward

The jurisprudence surrounding confidentiality obligations is still in its infancy in India. It appears that confidentiality obligations, whether expressed or implied, will be enforced against any disclosure or apprehension during and after the tenure of the agreement, provided information exists independently (it cannot include general knowhow and skills), is not in the public domain and reasonable precautions to preserve its secrecy and sanctity have been taken. After an employee's termination, onerous provisions camouflaged as maintaining confidentiality will be struck down and deemed unenforceable. Without doubt, courts have endeavoured to adopt a balanced outlook, and have promoted a case by case approach. This has led to slight inconsistencies, and resulted in uncertainty in the interpretation of confidentiality provisions in agreements.

With increasing globalisation, the sanctity of well-defined commercial principles cannot be undermined, especially for a burgeoning economy such as India's. Precise and effective definition of confidential information and related obligations are necessary for success in this increasingly competitive world. An enactment may not be a panacea, but will certainly add teeth to the existing laws. Ignoring this need will result in the country underperforming, by discouraging innovation and impeding progress.

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