A GUIDE TO PROTECTING TRADE SECRETS

How to protect the confidential business information that provides businesses a competitive edge
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In Association With

CPAM
Creative India
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This tool-kit aims to guide Indian businesses especially Micro, Small & Medium Enterprises (MSMEs) and Start-ups regarding protection of trade secrets. It explains what trade secrets are, why they are important to your business, and the practical and legal steps you can take to protect them.

For thousands of years, businesses and craftspeople have guarded valuable secrets. Such secrets could be anything from a secret formula for a dye, to a better way of making a product, to the names of businesses’ best customers and the prices they pay.

Trade secrets are a type of intellectual property (IP) that companies view as strategically important to provide them with a competitive advantage. Thus, it is imperative for businesses to understand the concept of trade secrets and further safeguard their trade secrets from theft.

We therefore offer this guide to help businesses better understand how to protect their trade secrets in both practical and legal ways.

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What is a Trade Secret?

A trade secret is any confidential information that is valuable to your business.

The name “trade secret” itself indicates what it means:

Trade – The information has commercial value to your business. You get an advantage by keeping it a secret.

Secret – The information must be secret. It should not be known outside your business and should not be easy for others to know about it.

You must take reasonable measures to protect your information from being stolen or leaked. The law won’t help you protect secrets unless you make some effort to do so yourself.

What protection does trade secret law give you?

If somebody wrongly takes your secret, you will be able to stop them from using it. Also, they will have to pay you for damages caused due to trade secret theft.

Many types of information can be a trade secret. It can be classified in two broad categories:

Technical Information
- Product formulas and recipes
- Product designs
- Manufacturing processes
- Computer code

Business and Financial Information
- Customer lists
- Consumer preferences
- Pricing information
- Marketing and business plans

Why Protect Trade Secrets?

- Keep Competitive Advantage
- Avoid Damage to Reputation

When is it a Trade Secret?

- Undisclosed
- Commercially Valuable
- Steps To keep it secret
Famous Trade Secrets
Various companies across the world have quickly recognised the immense value of maintaining the secrecy of certain intellectual assets. Companies protect such assets as Trade Secrets so as to have a competitive advantage over their competitors. Search algorithm like Google, the Coca-Cola recipe, McDonald's Big Mac Special Sauce Recipe and KFC's Recipe are just some of the famous trade secrets that are protected zealously.

What’s Not a Trade Secret?
These things are not a trade secret:

Information competitors can discover by looking at or studying the product. Those things might stay a secret until they are released to the market, but not after.

Information independently developed. You can stop others from using your secrets, but if they do their own research to discover the same thing, you cannot stop them.

Employees’ general skills and knowledge. Departing employees cannot take your secrets, but they can use the general skills and knowledge they learn from you. So, a salesperson can’t take your customer list and a production manager can’t take your product recipes. But they can go to a competitor and use the skills they learned working for you.

Information that has actually become public for any reason. If your information is exposed to the public – for example, published on the internet – then it is no longer a trade secret. If somebody wrongly exposed it, then they might have to pay you damages. But it is no longer a trade secret.
Why Protecting Trade Secrets Matters to You?

It’s almost certain that all businesses have trade secrets. That’s because any confidential information that is valuable to the business and gives it some edge can be protected as a trade secret.

Almost everything a company values — its inventions, its new product designs, its brands, and its business plans — may be a trade secret.

Trade secrets are particularly important to smaller businesses (Micro, Small, and Medium Enterprises — MSMEs). They rely on them more than any other kinds of IP because the upfront costs are cheaper. You don’t need to file a registration or pay fees. Instead, trade secret law demands that you do what smart businesses should do anyway — such as having good security and making important employees sign contracts.

In India and around the world, savvy businesses view trade secret protection as a competitive business strategy.

The European Union surveyed business about the value of trade secrets. The survey found that companies of all sizes relied on trade secrets, including SMES. 75% of businesses ranked trade secrets as “strategically important to their company’s growth, competitiveness and innovative performance.” 51% of them said they were important or vitally important to maintaining a competitive advantage, ahead of all other forms of IP.

According to The European Union Survey:

- 51% of businesses rank trade secrets among their most important competitive advantages
- 75% of companies view their trade secrets as strategically important
Choosing Between a Patent and Trade Secret

Sometimes, a business may face a choice between keeping information secret or filing for a patent. The first question is if such a choice is available.

**Subject Matter** - Trade secrets apply to more types of information than patents. Trade secrets cover customer lists, price lists, and other commercial information as well as products and processes.

On the other hand, you can get patents for only “new products or processes.” Information such as a customer list would not qualify.

However, trade secret law protects only secrets. Many inventions can’t be kept secret. For example, the design of a mobile phone case is known as soon as it is seen. Or, a competing engineer may learn the secret of a new engine design by studying it once it is on the market.

Inventions that can’t be kept secret can’t be protected by trade secrets, but patents might be available.

**Capable of Industrial Application** Under Indian law, an invention must be “capable of being made or used in an industry” to receive a patent. On the other hand, trade secret law can protect an invention still under development.

The research that a business does to create a new product or process may be very valuable, even if not yet finished. Trade secret law can probably protect that research so long as it is kept secret.

In cases of patentable information, an inventor or company can choose to publicly disclose an invention in order to secure a patent for it and so that the world can benefit from it along with the knowledge that went into its creation. Alternatively, he may choose not to apply for a patent and to keep the information as secret, thereby preventing the knowledge to be shared with the public.
decide which trade secrets deserve greater protections?

With only limited resources, how should a business decide which trade secrets deserve greater protections? You could also accidentally lose secrets if your poorly

some businesses may even find themselves the target of hackers are another threat to businesses of all sizes. And Unscrupulous competitors are also a threat. Computer

inside – an employee, contractor, or business partner For most businesses, the biggest threat is a malicious trade secrets.

Step 2: Determine Threats

- Sensitive Business Information
- Critical & Unique Business Processes
- Research & Development
- Product Information

as: of the company's trade secrets split into categories such business's trade secrets. To help, they may make a list Owners and managers should make an inventory of the first know what they are.

To protect your most valuable trade secrets, you must single right answer for everybody. It depends on your business's needs and resources.

Step 1: Identify Trade Secrets

Choosing The Right Approach

The Box below provides a comparison of the two types of protection:

<table>
<thead>
<tr>
<th></th>
<th>PATENTS</th>
<th>TRADE SECRETS</th>
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</thead>
<tbody>
<tr>
<td><strong>Scope Of Protection</strong></td>
<td>Limited subject matter</td>
<td>Broad subject matter</td>
</tr>
<tr>
<td><strong>Term Of Protection</strong></td>
<td>20 Years</td>
<td>Indefinite (as long as the secrecy is maintained)</td>
</tr>
<tr>
<td><strong>Procedural Formalities</strong></td>
<td>Registration required</td>
<td>No Registration required</td>
</tr>
<tr>
<td><strong>Type Of Protection</strong></td>
<td>Exclusive rights are granted and protection against infringement</td>
<td>No exclusive rights are granted &amp; protection is only against misappropriation</td>
</tr>
<tr>
<td><strong>Disclosure</strong></td>
<td>Required</td>
<td>Not Required</td>
</tr>
<tr>
<td><strong>Cost</strong></td>
<td>Expensive to file and process</td>
<td>Comparatively Low</td>
</tr>
<tr>
<td><strong>Time</strong></td>
<td>Complete protection may take years</td>
<td>Immediately effective</td>
</tr>
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</table>

If you have an invention that you could protect as either a trade secret or patent, you face a choice. There is no single right answer for everybody. It depends on your business's needs and resources.

Choosing The Right Approach

When deciding whether to protect or exploit an invention as a trade secret, innovators may consider the following key points:

  - Trade secret is non-patentable
  - Trade Secret utility is likely to outlast the 20 years patent protection.
  - Secrecy of information can be reasonably maintained for over 20 years.
  - Fewer possibilities for other businesses to reverse engineer it.
  - Trade Secret is not easily detectable and embedded in the product itself.
  - Trade Secret is part of an internal manufacturing process.

In some cases, trade secret and patent protection can co-exist, for e.g. a drug may be protected under patent law but the extraction process used in its creation may be protected as a trade secret for infinity provided that the secrecy is maintained.
Understanding the Threat of Trade Secret Loss

Most businesses are not doing everything they can to protect their trade secrets.

Every business with trade secrets needs a strategy to protect them. They are all too easily lost – like any secret, they can be exposed by a single mistake.

The biggest threat to trade secrets has always been employees. Employees know a business’s most valuable information. If they have bad intentions, they can do great harm. Customers and business partners can lose faith in your business and turn away investors. Even well-meaning employees can cause the loss of trade secrets. For example, a poorly trained employee trying to make a sale might share valuable secrets with customers. A misdirected text message or email might expose valuable secrets.

Despite these threats, businesses are not as careful as they should be. The Ponemon Institute reports that **71% of employees say they have access to company information they should not be able to see, and 54% of them said that the access was frequent or very frequent.**

Losing trade secrets can be a disaster. Competitors can use stolen secrets to copy your products and sell them for cheaper prices. Some companies are destroyed.
Protecting Trade Secrets in India

In India, you must show that the person who took your secret had a duty to you to keep it secret. Usually, they have a duty if they work for your business, are a business partner, or have signed a contract promising to keep the secret. To make sure that there is a duty, businesses in India find it wise to have their employees and anyone else who sees their secrets sign a contract to keep them secret.

Supplier and Customer Lists:

A sales manager of an Indian company, ABC International that made evaporative cooling equipment, left to go to a competitor who had a same business as that of ABC International. Before he left, he allegedly made a backup of all the confidential data that was available on his company laptop, including supplier and customer lists, business plans, and strategies of trade and marketing that was company's trade secret. While the Delhi High Court allowed him to work for the competitor, he was prohibited from approaching his old employer’s suppliers and customers to solicit business that was in direct competition.

Manufacturing Know-How and Customer Specifications:

XYZ Enterprise had a business of making a complex, customised, and valuable piece of equipment for steel manufacturers. A senior employee of XYZ Enterprise retired and set up a competitive business. In months, the newly-formed business was selling the same equipment to a former XYZ customer at a lower price. Making of the equipment required non-public knowledge of the materials used and each customer’s unique needs. The unlikely speed with which the new competitor developed and delivered this product led the court to believe that it had used XYZ’s trade secret. The Karnataka High Court prohibited the former employees and their company from using XYZ's confidential information.

Technical Designs and Blueprints:

There were two Indian competitors who made mobile hydraulic cranes. The defendant hired a former employee of the plaintiff and soon began to market a crane that was allegedly an exact copy of one of the plaintiff’s best-selling models. The former employee was a long-time production manager for the plaintiff with access to blueprints of the crane and intimate knowledge of its manufacturing process. The Delhi High Court found reason to believe that the former employee provided confidential information and prohibited the defendant from producing any crane using plaintiff’s trade secret.

All of the above mentioned case laws are reported High Court Judgements
How to Protect Trade Secrets?

Businesses need to take “reasonable steps” to protect their confidential information for two good reasons:

Firstly, a court won’t protect what you do not try to protect yourself. Secondly, you need these protections as a practical matter.

The first question you may ask is what steps are reasonable answer is different for every business.

It depends on:

- The value of the secret
- The risk of theft, and
- What the cost of protection is.

For some secrets, ordinary locked doors may be enough. For the most valuable secrets in the world, even armed guards and fingerprint scanners might not be quite enough.

One of the authors of this Guide, the Center for Responsible Enterprise and Trade (CREATe.org) has a five-step framework to protect trade secrets. Here’s a summary.
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**Step 1: Identify Trade Secrets**

To protect your most valuable trade secrets, you must first know what they are.

Owners and managers should make an inventory of the business’s trade secrets. To help, they may make a list of the company’s trade secrets split into categories such as:

- Product Information
- Research & Development
- Critical & Unique Business Processes
- Sensitive Business Information
- IT Systems & Applications

**Step 2: Determine Threats**

Next, determine who and what might cause you to lose trade secrets.

For most businesses, the biggest threat is a malicious insider – an employee, contractor, or business partner with bad intent.

Unscrupulous competitors are also a threat. Computer hackers are another threat to businesses of all sizes. And some businesses may even find themselves the target of organized crime or foreign governments.

You could also accidentally lose secrets if your poorly manage your computer system or business procedures.

**Step 3: Assess and Rank Value of Trade Secrets**

With only limited resources, how should a business decide which trade secrets deserve greater protections?

You cannot protect every item of confidential information with the same care. It will be too expensive and distracting. CREATe recommends ranking the value of the trade secrets as ‘low’, ‘medium’ or ‘high’ based on criteria including:

- How much losing it will hurt your business’s reputation.
- Importance to core business.
- The competitive advantage you get from the secret.
- How much present and future revenues depend on it. The business can use this ranking to select the trade secrets that have the greatest impact on the operations and performance of the business.

**Step 4: Analyse Potential Harm from Loss of Trade Secrets**

How much will theft or exposure of your most valuable trade secrets harm your business?

In this step, a business should decide how much losing a trade secret will cost them.

The answers to these questions tell you how much to spend on security – the bigger the cost of loss, the more it worth spending on security.

This step helps businesses to see that security for trade secrets is an investment with a quantifiable return on investment (ROI).

**Step 5: Secure Trade Secrets**

Once a company has identified its most important trade secrets, its vulnerabilities, and the potential cost of loss, it then needs to make sound decisions about how to reduce its risks.
How to Protect Trade Secrets?

Here are a few basic rules that every manager should know and that should be told to every employee.

- Don’t give access to trade secrets or confidential information until it has been approved and a Non-Disclosure Agreement (NDA) is in place.
- Keep trade secrets out of sight and away from others.
- Never use personal email accounts to transfer confidential information.
- Use password protection for confidential documents, folders, and screen savers.
- Guard access to any computers and physical areas with confidential information.
- Mark hard copies of information “confidential” or “proprietary.”

Also, be very cautious when it comes to your computer. Be careful when receiving unfamiliar emails, because many have links that when clicked will download malicious software onto your computer to steal information.
Enforcing Your Rights

Helpful Tools To Keep Information Safe

Non-Disclosure Agreement (NDA)  Employee Training  Documentation Marking and Identification of trade secrets to employees  Employee Activity Monitoring  Exit Interviews for employees leaving the business

Unfortunately, trade secrets are stolen despite all precautions. Should the worst happen, you will need to see a lawyer. Before that day comes, there are things you can do to prepare.

1. Get Non-Disclosure Agreements from all who have access to your valuable trade secrets.

A non-disclosure agreement (NDA) is a written promise not to reveal or use a business’s confidential information, both before and after employment. We have included links to examples in the “Additional Resources” portion of this guide.

People who should sign NDAs include:

- New employees and current employees who have not signed one yet
- Independent contractors, such as consultants or software developers, who have access to your confidential information
- Business partners, service providers, suppliers, customers, and others who have access to your confidential information
- Subcontractors and other third parties who do work for a business partner.

NDAs are particularly important in India because Indian law requires that the party have some sort of duty to the trade secret owner. An NDA clearly establishes such a duty in all instances for all types of parties.

If you cannot get somebody to sign an NDA, you should share as little confidential information as possible.

Not getting an NDA may destroy a trade secret. Even if the business partner does nothing wrong, sharing a secret outside the company without protection probably ends secrecy. A wrongdoer can use your failure to obtain NDAs from others as a defense to a trade secret case.
2. Don’t treat non-disclosure obligations as mere formalities.

Protecting a trade secret is not a matter of merely signing a form agreement.

Instead, employees and others who sign NDAs must know and carry out their duties.

A non-disclosure obligation is more likely to work if you:

- Explain the duties to the party signing the NDA in plain terms
- Tell them what things are trade secrets and remind them when they see new things
- Label trade secrets as confidential
- Create policies for handling trade secrets.
- Train employees how to do so.

3. Treat employee departure as a crucial moment in protecting trade secrets.

Many trade secret disputes start with an employee taking secrets with them to their new job. You should remind employees in detail of their duties when they leave.

- Hold an exit interview to remind them of their duties to keep secrets.
- Clearly explain that all records, papers, electronic files, emails, and other such material must remain behind, as the employer’s property.
- Watch employees to make sure they don’t download files or carry out documents that don’t belong to them.
Takeaway

• Trade secrets are sometimes under-appreciated but may be among the most important assets of any business, large or small.

• Trade secrets are your business’s confidential, proprietary information that helps it maintain a competitive edge.

• The law, and practical needs, require you to take reasonable steps to protect your trade secrets. We suggest several in this Guide.

• In India, it is important to execute non-disclosure agreements (NDAs) with employees, business partners, contractors, and others who have access to your confidential information. We explain why in this Guide.

• An NDA alone is not enough. You must put in place policies to protect your trade secrets and teach them to your employees. We describe such policies in this Guide and the Additional Resources section.
Additional Resources

The Global Trade Secret Council
The Global Trade Secret Council offers many resources about trade secret laws worldwide, including India’s laws at [www.tradesecretcouncil.org](http://www.tradesecretcouncil.org).

CREATe.org
Create.org offers many resources on trade secret protection on its website at [www.create.org](http://www.create.org). These resources include:

1. **Model Trade Secret Policies for Businesses**
   [https://create.org/resource/trade-secret-model-policies-english/](https://create.org/resource/trade-secret-model-policies-english/)

2. **Economic Impact of Trade Secret Theft**

This report, co-developed by CREATe and PwC, describes the five-step framework for protecting trade secrets discussed in this Guide.

3. **Safeguarding Trade Secrets and Mitigating Threats**

This e-book helps companies understand how to protect trade secrets and critical business information from cyberattacks, insiders and other threats.

NDA Templates
You can find many NDA templates online, although you should consult with an Indian attorney regarding your specific needs and whether the template is suited for use in India.

1. The EU has published several NDA templates for the use of small and medium enterprises:
   - Mutual Non-Disclosure Agreement
   - One-Way Non-Disclosure Agreement

The United Kingdom has published NDA models for use by small businesses.

The Global Trade Secret Council
The Global Trade Secret Council is a non-governmental organisation working for more effective legal systems for protecting confidential business information throughout the world. The Council leads a multilateral public-private diplomatic dialogue to raise global standards for legal protection of confidential business information and serves as a key resource of expert knowledge about trade secret protection for policymakers and businesses. For more information visit www.tradesecretcouncil.org.

Center for Responsible Enterprise And Trade (CREATe.org)
CREATe.org is a non-governmental organization (NGO) with a mission to promote leading practices to managing risk and improving governance and compliance, particularly around key issues including intellectual property and trade secret protection, cybersecurity and anti-corruption. To achieve our mission, CREATe.org conducts a range of activities and develops practical resources to educate organizations – from publishing reports and white-papers, working with leading practitioners and experts through Advisory Councils, and contributing insights to a range of publications and events. Learn more at www.CREATe.org.

Cell for IPR Promotion and Management
The Cell for IPR Promotion and Management (CIPAM) is a professional body under the aegis of the Department for Promotion of Industry and Internal Trade (DPIIT) of India’s Ministry of Commerce and Industry to ensure focused action on issues related to IPRs. It was created with the aim to address the 7 identified objectives of the National IPR Policy, 2016. CIPAM assists in simplifying and streamlining of IP processes, apart from undertaking steps for furthering IPR awareness, commercialization and enforcement. http://cipam.gov.in/