Intellectual Property
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Lecture - 55
Confidential Information

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Confidential information: Confidential information refers to any information that can be protected by a promise or a covenant. A person promises not to disclose information or not to use the information and that can be protected as a by way of a covenant. By covenant, we refer to a contract, but it need not be a contract, it could also be a situation, which creates a obligation not to disclose or use. So, confidential information the long and short of it is that it protects certain types of information, which are passed on from one party to another in certain circumstances.

So, when we look at the origin of this branch of intellectual property law, we find that you could trace the origin back to promises themselves, because promises were protected by contract and contract is nothing but a promise to do something or not to do something in the future. And it could also you could also trace the origin of confidential information to the law of confidence itself, where the law would protect certain types of secrets there was secrets at all times were protected even with, if not by law, it was protected as a part of a moral obligation between two human beings.

So, what we see in the case of confidential information is a moral preset becoming a legal liability. Now, this is in short the evolution of confidential information. The moral precept of keeping a secret, when somebody discloses an information to you and tells you to keep it a secret and the fact that you have to keep it a secret was only nothing but a moral precept. Now, the moral precept has taken shape of a legal liability and that legal liability can manifest itself by way of a contractual obligation, where say for instance, a person has signed a non-disclosure agreement an NDA and has agreed not to disclose or not to use the information that is identified there.

The legal liability could manifest as a tort, where a person who is unconnected with the information the third party, who is not bound by a contractual relationship is nevertheless stopped from using or disclosing the information. So, there is a regime call the law of tort, which allows a person to stop using that information or it could also be criminal, the liability could be criminal. In the sense that, there was theft of information, information was stolen.

And if the information is stolen, then they could be liability in criminal law as well. Say a set of files, which contain confidential information, was stolen from a safe or a locker. These set of files though they manifest and in the paper from, the information in it can be protected by various means and one such mean is to take an action against theft of the files. So, now we see that what began as a moral obligation to keep secrets has now in law become a legal liability and it now also has the status has intellectual property.

Now, the law of confidential information does not distinguish the different types of information, there is no such thing as particular information will be more valuable, though there are been attempts to make a separate case for commercial information. Right now, whether it is technological secrets, whether it pertains to mechanical techniques, whether it uses or covers business processes, it could be consumer records, marketing procedures.

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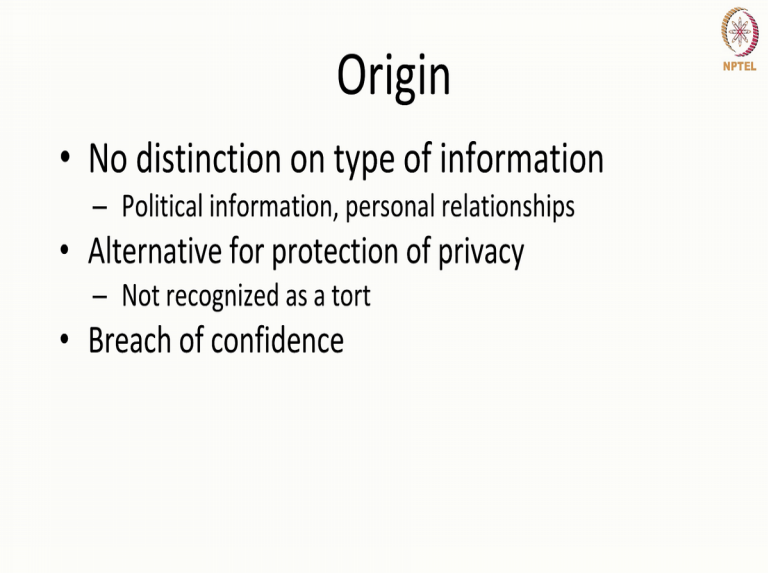

It could be political information or even information pertaining to personal relationships. The law covers all these things and more. So, if there is an information and there is an obligation not to disclose it, contractual or otherwise between two parties, then the law of confidential information would step in to protect that information from being disclosed. So, this is a great way to keep secrets secret.

The law of confidential information as it developed in the United Kingdom also emerged as an alternative for protection of privacy unlike the United States. The United Kingdom does not have a recognized separate branch of law to protect privacy of an individual, but this law has emerged to discharge that function. Confidential information, when it is used for production of privacy is still not considered as a tort.

A tort is a legal action, where an action can be taken against a civil wrong a civil wrong is referred to as something that causes harm to a third party. So, the difference between a tort and contract is that in a contract the parties have engaged in a relationship, they are tied by the contract, they say if it is a rental contract, there is a landlord and the tenant; if it is a contract for lease, there is a lessor and lessee. So, in some form, there is a relationship between the two parties, who are bound by a contract.

In a tort case, they need not be any relationship between the two parties and still law considers claim by one party against the other; for instance, a motor accident claim case is a tort case. In a motor accident, most likely the person who meets with an accident would beat with an accident with a third party, who is unknown to him, so this creates

the event creates a relationship between the two parties, though it is not contractual. And because there is damage suffered by one party and there is a civil wrong, the civil wrong being the accident itself, the fact that the motor vehicle cost an accident. They can be a remedy, which can be in damages that is in compensation and that compensation need not be fixed.

In a contract normally, when two parties engaged there is a tendency to fix the compensation, the parties may agree, if there is a breach of this condition, then the person is entitled to x amount as damages. Whereas, in a tort case, they need not be a computation or an agreement of what will be the amount that will be paid, in case a party suffers some kind of damage. So, this is the broad distinction between a contract and a tort.

A contract has a relationship between two parties; a tort case need not have relationship between the two parties need not be in relationship. In a contract, they can be a stipulated damage; the damage can be codified or agreed upon between the parties. In a tortious case, they need not be any agreed damages and yet it will be paid and that has to be some kind of a civil wrong in a tort tortious case, which results in harm, which can be compensated by money that is through damages.

So, confidential information has been protected by a branch of law; what we call, the breach of confidence. So, any information that is held in confidence, the law of breach of confidence sets in to correct any failure to keep the information in confidence. So, the breach of confidence refers to any breach of the confidence, which comes out of an obligation to hold the information in confidence.

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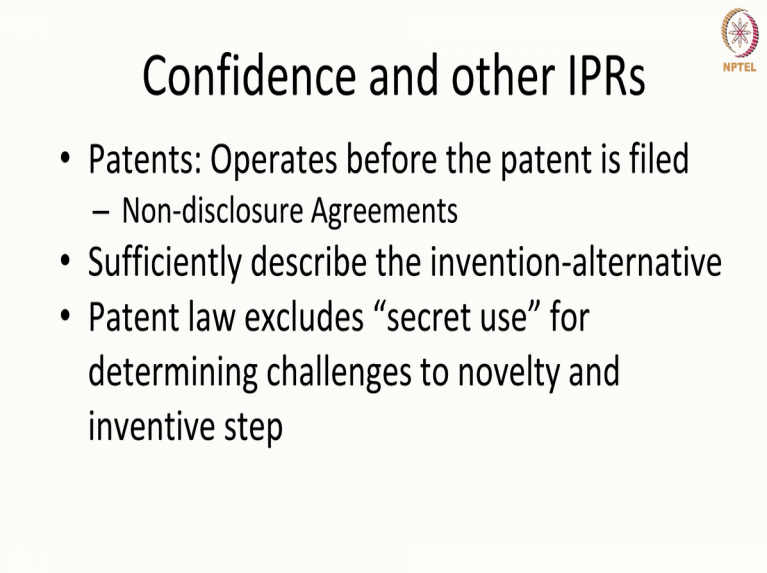

Now, that we have seen patents trademarks and copyright. Now, let us just compare how confidence for short. Confidential information can also be referred to as confidence, how confidence can be compared with other intellectual property rights other IPRs. Patents are normally filed, first before the information pertaining to the patent is disclosed anywhere.

Now, we refer to this as the novelty requirement, the fact that a patent contains information that is not anticipated or known anywhere is one of the reasons of patent will be granted. The first criteria for granting a patent is the fact that the information of about the invention was not disclosed anywhere before filing the patent. So, the patent law creates a secrecy or a secret regime until the filing of the patent. So, after the patent is filed, the patentee is free to after the patent application is filed, the applicant is free to disseminate information about us patent once, because the priority is already preserved.

So, in patent law, the patent applicant has to keep the information with regard to an invention as a secret up until the time, he or she files the patent. So, what is that regime that protects a person till a patent is filed? It is the regime of confidential information. A person say an inventor can disclose information about the invention to any other person and if the disclosure is covered by a non-disclosure agreement, then that will be protected. And if there is any breach of the disclosure, they can be action taken against the person to stop him from discussing it and also they can be a claim for compensation.

So, now you understand that confidential information interacts with the law of patents in such a way that it is capable of protecting information relating to an invention up until the time a patent application is filed. Once the patent application is filed, then the priority of that patent is preserved. And if the patent applicant needs a quick expeditious examination to be done, you can immediately take an application for publication. So, say a patent application to be filed and a few weeks time the patent application could also be published. When it is published, the information will anyway be in the public domain, it will come out to the public at large.

So, this arrangement works very well with patent law. So, you could have non-disclosure agreement. So, ideally you take a case where an inventor is still trying to correct certain aspects of his inventions. And he is working with a large number of people, who may otherwise get to know about his invention and there is a possibility that in the absence of protection, they could disclose this to third parties.

So, in such cases, it is advisable for the inventor to enter into a non-disclosure agreement and disclose the invention, so that the law protects any disclosure that would happen after a non-disclosure agreement is signed. In fact, patent law has a provision, where a disclosure that is made without the consent of the patent applicant till cannot be used, when it comes to determining anticipation.

Anticipation refers to the fact that the invention has already been disclosed and can be a reason for killing the novelty of an invention. So, patent law recognises non-disclosure agreements and if there is a disclosure despite a non-disclosure agreement, meaning a non- disclosure agreement was signed and nevertheless the person who received the information about the invention disclose it to the world at large. Such a disclosure cannot kill the novelty of the applicant's invention, because the applicant had not consented for the disclosure. So, there is the protection in the patent law.

So, now you will be able to see how these two regimes work. Confidential information can protect the information before a patent is filed and after a patent is filed, the information can be protected by the patent itself. Now, if an inventor wants to discuss about his invention to a prospective buyer, say a researcher in the university gets in touch with a big corporation, which wants to invest or which wants to fund the invention and wants to also become a joint applicant. Now, there is a danger for the professor to

disclose the invention to the large corporation, because a large corporation could look at the invention and then either work around it or even take the invention and file its own patent.

Ideally, there has to be a non-disclosure agreement and the industry recognises this. In fact, many universities enter into non-disclosure agreements with their technology partners even before disclosing the technology on which they will be working. So, non-disclosure agreements become an integral part of managing secrets or managing information, which could be potentially valuable either by keeping them as a secret or by filing a patent. There could be instances, where some entities may want to keep certain aspects of their intellectual property a secret; they may not be interested in filing a patent.

For instance, technology is that can be technologies that can be immune to reverse engineering. For instance, you cannot look at the technology, do experiments, reverse engineer it and find what was the logic behind it. In such cases, confidential information will be a better protection than patents, because patents come with an obligation to disclose the information, whereas confidential information allows you to keep something a secret indefinitely.

As we mentioned patent law requires you to sufficiently describe the inventions, so that is regarded as an alternative. So, if you plan to keep the information with regard to an invention as a secret and if the technology allows you to keep it a secret in the sense that, if you release the product in the market, competitor should not be able to find out what you did. Then confidential information can be regarded as an alternative to patent protection.

So, it is not just that it can work in sync with patent law in the sense that you the information pertaining to a prospective patent application can be protected by NDA agreements, but it is an end in itself. In case the applicant wants to keep the invention a secret and does not prefer to file a patent, because a patent filing will eventually lead to a disclosure by publication and it will have a limited life of 20 years.

If the technology is capable of being kept that way, then confidential information will be the way to keep it, because there is no limit has to the life of a confidential information, since there is no registration tried to confidential information and since there is no

granting authority like the patent office or the trademark office which grants a right. Confidential information is an unlimited life IP intellectual property, which can be kept alive forever.

Patent law also exclude secret use from determining challenges to novelty and inventive step. So, one of the things that patent law will not consider, while questioning a patent for lack of novelty or lack of inventive step, is the fact that there was a secret use of that invention. So, secret use again even if you do not have a confidential information regime still patent law inherently allows the recognition of secret use, but secret use it is easier to prove secret use by the fact that there was an agreement to keep something as a secret.

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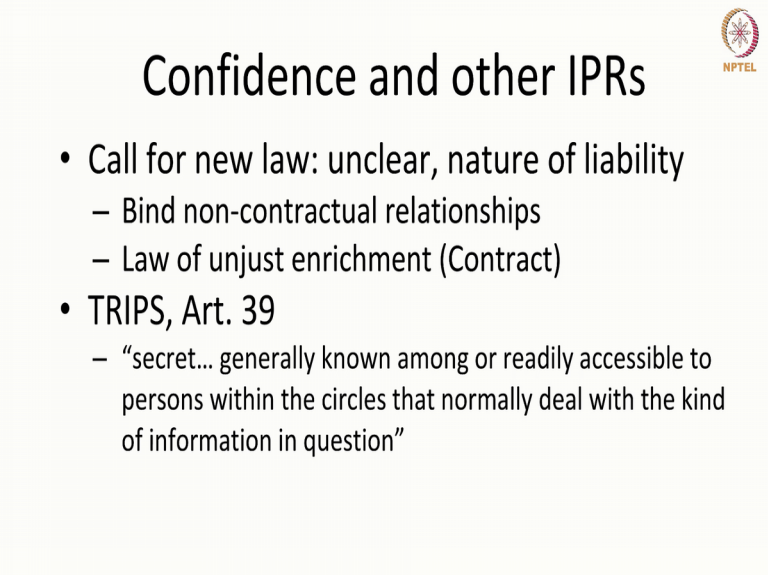

There has been a call for a new law stating that the existing law with regard to confidence or confidential information is unclear and the nature of liability needs to be determined. Now, the existing law of confidential information is nothing but the law of contracts. A non-disclosure agreement is an agreement, which can be enforced as a contract. So, the contract law covers the contract by which a legal obligation of not to disclose and not to use can be protected, but confidential information also goes beyond contractual relationships.

Even, if you do not have a contractual relationship, there are non-contractual situations or relationships, which will still come under the purview of the confidential information law, so that is one of the reasons. The some critics have said that there is a need for a new

law. There could also be instances, where the information is protected by another law say the law of unjust enrichment, which is a part of contract law.

Then the law says that if a person a third party, who is not bound by a contractual regime. Unjustly enriches himself through a particular transaction say something comes within his position and he gets himself enriched unjustly. Then the person who suffers the loss will have a claim against, the person who got unjustly enriched. The person who gets enriched unjustly will have to restore the person, the benefit that he got.

Now, the restoration can be to the state in which the person was before he lost his goods for instance. So, the law of unjust enrichment can also take care of information that benefits other people, but the only deficiency here is that near use of information will not be covered under the law of unjust enrichment. The person who takes an action has to show that the information was used and the person benefited from that information unjustly. So, this law may not be effective in stopping information from moving from one party to another rather it will be effective only in claiming say some kind of compensation, because the person is unjustly benefited from the information.

Now, they need to have confidential information is also mandated under the trips agreement. Article 39 deals with secrets generally known among or readily access[ible] readily accessible to persons within the circles that normally deal with the kind of information in question. So, there is reference to protection of secrets under the trips agreement.

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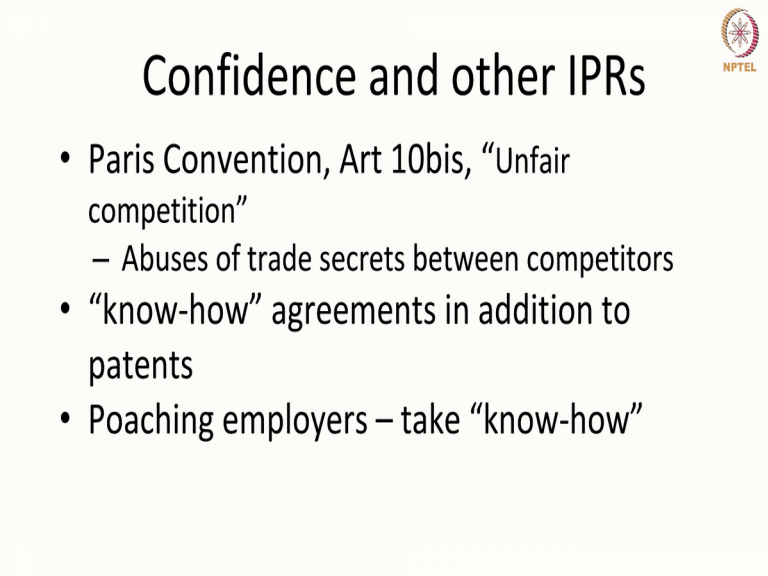

The Paris convention in article 10bis deals with unfair competition, where in it refers to abuses of trade secrets between competitors. So, you could also have confidential information in addition to patents, where some aspects of the technology are protected by know how agreements. So, in earlier case we saw how an NDA can be used as a precursor to filing of a patent.

Now, you can look at, how know-how agreements can be used in addition to patents. So, one of the ways to license a technology is to licence the patents and also to licence the know-how by way of a know-how agreement. The know-how agreement will allow information that is not disclosed in the patent to also be a part of the agreement and for which royalty can be claimed. So, know-how agreements usually pertain to trade secrets or commercially valuable information that can be kept as a secret.

And poaching employees is one way to take know-how from one company to another. Normally, when a employee leaves an organisation, the employee will carry with them some tacit knowledge and some know-how from his earlier employer. And this would inevitably be used in his next employment. So, you will see a host of measures that have been practice today. Like a non-compete clause in the employment that a person cannot take up employment with the competitor for few years after, he is relieved from his present employment or you will find an non-disclosure clause in the employment, which

says that trade secrets disclosed in the course of employment cannot be disclosed to anybody else.

So, you will find different ways by which employers have employed, these measures to cover know-how and other aspects to ensure that employees do not take away confidential information once they seas to work in the organisation. Again these are all protected by confidential information. Largely through agreements, but the nature of end relationship between an employer and an employee itself gives rise to certain protections to ensure that there is a relationship in which confidentiality has to be maintained.

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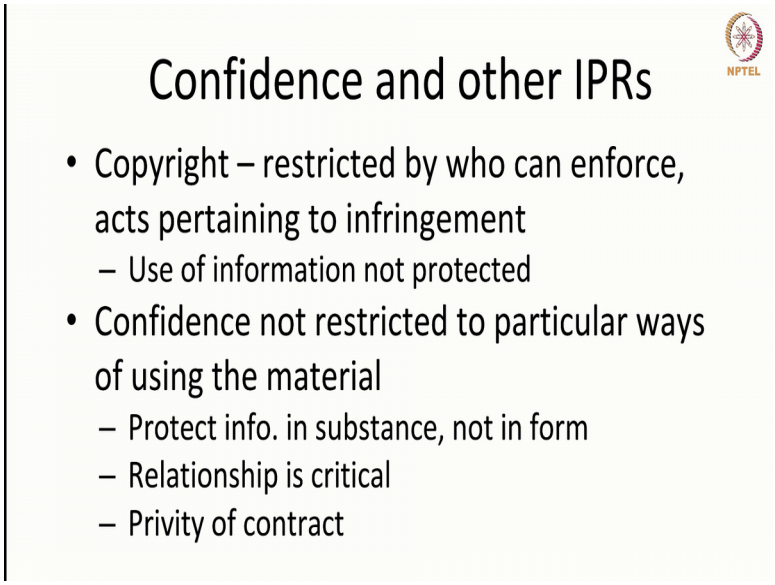

Confidential information also has some relationship with copyright law. Now, in copyright law the enforcement can only be done by the person, who owns the copyright. So, the restriction there is a restriction on who can en force and again the acts with regard to enforcement of a copyright are the acts that amount to infringement. For instance, use of information itself is not protected by copyright law. If there is a cookery book and there are recipes in the cookery book and a cookery book is protected by copyright.

The use of that information to make the dish by using the recipe itself is not protected. Whereas, if the recipe is disclosed to a party not by way of a copyright protection, but by a by way of a confidential information protection. Say there is a clause in an agreement between the two parties, where in one party agrees that he will not disclose or use the

information that has been supplied, then that will restrict the person from putting that information to use in any form.

So, you will find that copyright has certain restrictions on it is protection, as to who can enforce and also with regard to what kind of act can be stop. Only making copies copyright act as we have already, covered largely restricts making of other copies, it does not protect use of the information itself whereas, if there is a relationship of confidence between two parties, even use of the information can be protected.

So, the law of confidence is not restricted to particular ways of using the material; so, protection of information in substance and not in form. So, the information itself is protected not the form in which it is disclosed. And relationship is critical for showing that something was held in confidence. And normally it is proved by contracts, privity of contract refers to the fact that parties have entered into a contract and they are bound by a contractual relationship.

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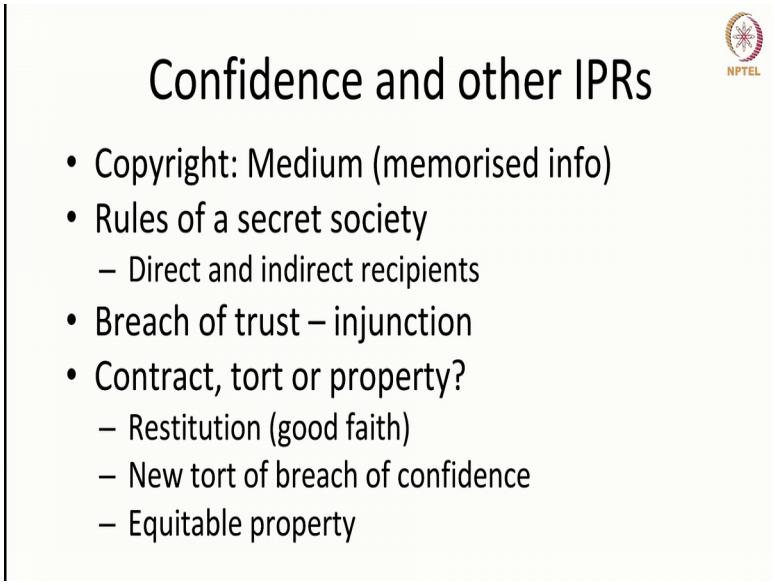

Copyright law as we have mentioned requires a medium. For instance, something we regard something as a copy, when it is manifest in a medium or when it can be transmitted through a medium. A case where an employee memorizes information about that is given by the employer. And uses that information will not come under the purview of copyright law, because memorization is something that can be done without a medium.

In these cases, a confidential information arrangement; in these cases, confidential information can protect even information that an employee has memorized. And after the course of his employment uses that information with a new employer, provided that information is identified as something that is a trade secret and something that is tied to the goodwill of the employer former employer. So, there are some conditions, but the point is what copyright cannot protect.

In some cases, can be protected using confidential information. An example that is commonly used is the rules of a secret society. If the rules of a secret society, if the rules of a secret society a protected by copyright and if it is circulated outside the only way a person can stop is the secret society to take action against people, who are making copies of the rule using the copyright regime. Now, this may not be an effective way to stop the person, because the rules of a secret society are normally not published, whereas, an action under confidential information saying that every member of that society had an obligation to keep it a secret can be enforceable, because it covers the direct recipients of the information.

Indirect recipients, may not come directly under the purview of a confidential information, but the law is not clear on that point. There are cases where even indirect recipients have been bound to hold something in confidence. The remedy for breach of trust is injunction. Breach of trust happens, when somebody was obliged to keep something in confidence and that trust was breached. And it could be in action for injunction, injunction is a remedy taken before the court to stop a person from doing an action.

Now, the evolution of confidential information has different elements of contract law, tort law and property law influence its growth. For instance, we are already seen that unjust enrichment, which comes from contract law is used as a way to stop, confidential information from being disclosed or used. So, the restitution which is a branch of law there is there are scholars, who have argued that confidential information should ideally come under the law of restitution, because restitution allows you to restored back something that has been taken away unjustly. And the reason they give for this is that. There is a good faith obligation to return something that has been acquired or that has ended up in a person unjustly.

So, good faith argument is used to say that restitution can be a way in which confidential information can be protected. There are scholars who have advocated for a new tort. Tort law has fixed torts like negligence, nuisance. Now, scholars have argued that we should have a new tort call the tort of the breach of confidence. Now, this comes from the fact that if it is regarded as a tort, then you could also bind third parties, who cannot be bound by normally in the absence of a contract.

And then you have another group of scholars, who want confidential information to be treated as property. More specifically, they wanted to be treated as equitable property which is property in the law of equity, because information by itself, it is difficult to be treated as real property or physical property. So, the third set of scholars want confidential information to be treated as equitable property. So, you will find that though the law with regard to confidential information has evolved over a period of time.

Now, it is in a state where there is pressure to make it fit into one of these moulds either to say that it is should come under the contractual regime or it should come under the tortious law regime or it should come under property law regime. There are attempts being made to codify a law of trade secrets. And it is still not materialized, but as you will see in the course in England. The attempts have manifested into a separate trade secrets law.

So, England from where India got its law from has now moved away from the confidential information reaching, which was largely a regime of law of contracts and common law. And it is now moved towards a codified law, they now have a trade secrets act. In India, we still go by the common law and the law of contracts. And we still do not have a separate enactment like the United States, we do not have a trade secrets act, though there have been request that India should also codify its trade secrets law.