

# AN ASSESSMENT OF TRADE SECRETS AND CONFIDENTIAL INFORMATION AS INTELLECTUAL PROPERTY RIGHTS

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## ABSTRACT

Intellectual property rights may be asserted in respect of products of human intellect. Trade secrets and confidential information are intertwined and are species of intellectual property rights which are not codified in many countries but are basic strength in competition in the industry. This work adopting a doctrinal approach, assess the value of Trade secrets and confidential information in the industry. It also examined the criteria for the enjoyment of the rights, incidence of infringements and as well as available remedies. It is the view of this research that, as the world becomes a global village, the advantages of keeping know-how by way of trade secrets and confidential information becomes very important in the face of commercial complexities, changing business practices and technological advancement. In addition, some know-how may not meet the requirements of patentability and where they are, they are not time limited like other intellectual property rights. There is need for legal regulations of trade secrets and confidential information through separate legislation for nations that have not done so to encourage holders of these rights in the area of enforcement in cases of infringement.

***Keywords:*** *Trade Secrets, Confidential Information, Infringements, Remedies*

## **INTRODUCTION**

Intellectual property denotes the legal rights, which emanates from the creative and innovative intellectual activities of an inventor or creator in the field of industrial, scientific, literary and artistic work. It has no common origin<sup>i</sup> and definition<sup>ii</sup>. These rights include: copyright and neighbouring rights, patent, industrial designs, trademarks, trade secrets and confidential information.

As a result of the economic, social and educational importance of intellectual property over the years, legal protection to these rights or safeguarding creators and other producers of intellectual goods became necessary not only to give expression to the moral as well as economic rights of creators but also promote creativity and the dissemination of its results. In many countries, the concepts of patents, designs, trademarks and copyrights have been codified while trade secrets and unfair competition are protected under the law of torts, equity and contracts respectively. Trade secrets and confidential information also referred to as know-how or technology are the basic competitive strength in the industrial and commercial world. Their place, nature, scope, impacts on intellectual property and economic development forms the basic discourse of this work. As a result of their importance in economic development, the various steps at acquiring these know-hows for economic development has been given consideration.

## **CONCEPT OF TRADE SECRETS AND CONFIDENTIAL INFORMATION**

The law of trade secrets and confidential information became necessary for upholding certain standards both in public and private life. Sir John Donaldson M.R. in *A.G. v. GUARDIAN NEWSPAPERS* reasoned thus:<sup>iii</sup>

There is an inherent public interest in individual citizens and the state having an enforceable right to the maintenance of confidence. Life would be intolerable in personal and commercial terms, if information could not be given or received in confidence and the right to have that information respected supported by the force of law.

In real life, the law of trade secrets and confidence has most often been used to protect commercial or trade secrets, such as customer list or industrial know-how where economic

interest will also be at stake. Any secret commercial information that provides one business with an advantage over another is termed trade secrets. It is confidential information which provides an enterprise a competitive edge. The unauthorised use of trade secrets and confidential information by persons other than the holder is regarded as an unfair competition. Trade secrets may be in the form of sales and distribution method, consumer profiles, advertising strategies, list of suppliers and clients as well as manufacturing process.

It has also been defined to mean<sup>iv</sup>:

*“any and all forms and types of financial, business, scientific, technical, economic, or engineering information, including patterns, plans, compilations, program devices, formulas, designs, prototypes, whether tangible or intangible, and whether or how stored, compiled or memorialized physically, electronically, graphically, photographically, or in writing if (A) the owner thereof has taken reasonable measures to keep such information secret; and (B) the information derives independent economic value, actual or potential, from not being generally known to, and not being readily ascertainable through proper means by the public.”*

According to the American law institute restatement of torts (1939)<sup>v</sup>:

A trade secret may consist of any formula, pattern, device or compilation of information which is used in one's business, and which gives him an opportunity to obtain an advantage over competitors who did not know or use it. It may be a formula for a chemical compound, a process of manufacturing, treating or preserving materials, a pattern for a machine and other device, or a list of customers ... It differs from other secret in a business ... In that it is not simply information as to single or ephemeral events ... A trade secret is a process or device for continuous use in the operation of the business. (Section 757(b)).

Similarly, section 1(4) of the Uniform Trade Secret Act, 1989 (of the US), provides:

A trade-secret means information, including a formula, pattern compilation, program, data, device, method, technique, or process, that:

- (i) derives independent economic value, actual or potential from not being generally known to, and not being readily ascertainable by proper means by other persons who can obtain economic value from its disclosure or use, and

- (ii) is the subject of efforts that are reasonable under the circumstance to maintain its secrecy.

## **CONFIDENTIAL INFORMATION**

The law has long recognized that an obligation of confidence can arise out of particular relationship, such as that of a doctor and patient, banker and customer, priest and penitent, solicitor and client. The obligation may be imposed by express or implied term in a contract; it may also exist independently of any contract on the basis of an independent equitable principle of confidence. From the foregoing confidential information strictly speaking derives its operation in law from a number of different sources; contract, tort, equity, however the law on confidentiality can protect the same materials as some intellectual property rights, especially patents, so it has to be understood in a constitution of intellectual property law.<sup>vi</sup>

## **RATIONALE FOR TRADE SECRET AND CONFIDENTIAL INFORMATION**

Arguments for and against trade secrets includes

1. Trade secrets may be in inventions or manufacturing processes that do not meet the patentability criteria of novelty, inventive step and industrial applicability for patents but the inventor decides to keep as trade secrets.
2. Trade secrets and confidential information is advantageous over other intellectual property rights as it is not limited to time like patents, no registration cost and has immediate effect.
3. Where a technology does not fall clearly within the traditional IPRs, viz, patent or copyright, trade secret come handy.
4. Furthermore, inventions (protected as utility model or patent), trademarks, industrial design, artistic or literary works, where they are not been yet made public, are kept as

trade secret until used or published as such, or during the process or registration or grant of the relevant intellectual property rights.

5. A substantial part of economically and meaning technologies, particularly new and high technology (cutting-edge technologies) which is prone to reverse engineering, such as biotechnology, computer program micro ship, computer-aides design, is kept as trade secret

Argument against trade secrets includes: where secrets are embodied in the products, it may be inspected, dissect and analysed such that when such is analysed it can be used. It is also argued that since it does not provide exclusive right to exclude third parties, patent have greater advantage. a trade secret may be patented by someone else who developed the relevant information by legitimate means.

## **THE DEVELOPMENT OF TRADE SECRET AND CONFIDENTIAL INFORMATION**

There are several factors, which have fostered the legal protection of trade secret under the law of intellectual property. Some of these factors include:

1. International competition is experiencing more rapid development of new technology, thus the rise in the speed of development make it less feasible to patent all new inventions.
2. Trade secrets may be a good means for protecting intellectual works by new companies as it cost less than patent protection.
3. There is much greater labour mobility in many countries; this increases the risk of unauthorized transfer of secrets of the new employer.
4. Sophisticated electronic listening devices and other apparatus facilitate intelligence gathering, the public interest in buttressing the private attempt becomes more urgent.<sup>vii</sup>

There are several lines of enquiry that serve to determine what information constitutes a trade secret. The extent to which the information is known to the public or within a particular trade or industry, the amount of effort, money expended by the trader in developing the secret of trade, the value of that information to the trader and to his competitors, the extent of measures taken by the trader to guard the secrecy of the information<sup>viii</sup> and the ease or difficulty with

which the information could be properly acquired by others.<sup>ix</sup>

## CODIFICATION OF TRADE SECRET AND CONFIDENTIAL INFORMATION

Many countries have no separate legislation on trade secret and confidential information. Enforcement mostly are tied to the provision of Article 39 of the Trips Agreement. The TRIPS Agreement is unique for bringing together under one umbrella, under most of the subject matters that fall under the scope of law of intellectual property. The agreement aims to, *inter alia*, integrate the property regime within the international trade structure, to “reduce distortion and impediment to international trade, promote effective and adequate protection of intellectual property rights and provide effective and appropriate means for the enforcement of trade related intellectual property rights.”

Article 39 of the Trips Agreement, which requires members to protect trade secret, does not give a definition, but provide a description of trade secret. Para 2 of article 39 reads:

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 information:

- (a) Is secret in the sense that it is not as body or in the precise configuration and assembly of its components, generally known among or readily accessible to persons within the circles that normally deals with the kind of information in question.
- (b) has commercial value because it is secret: and
- (c) has been subject to reasonable step under the circumstances, by the person lawfully in control of the information, to keep it secret.

A manner contrary to honest commercial practices is stated to mean “at least practices such as breach of confidence and inducement to breach, and includes the acquisition of undisclosed information by third parties who know, or were grossly negligent in failing to know, that such practices were involved in the acquisition.”<sup>x</sup>

On the other hand, article 10*bis* of the Paris convention, which the TRIPS members are obliged to implement by virtue of article 2(1) of the TRIPS Agreement, and which is referred in article 39 of the TRIPS Agreement, gives a general criterion for honest practices in clauses (2) and (3). Whereas clause (2) considers any act of competition, contrary to honest practices in



industrial and commercial matters, as act of unfair competition, clause (3) particularly prohibits:<sup>xi</sup>

1. 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;
2. false allegation 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. indications or allegations the use of which in the course of trade is liable to mislead the public as to the nature of the manufacturing process, the characteristics, the suitability for their purpose, or the quality of the goods.

The *Economic Espionage Act of 1996* criminalizes economic espionage and trade secret theft where the evidence shows any effect on interstate or foreign commerce. Parties engaged in the misappropriation of trade secrets can no longer be assured that liability will be limited to civil remedies. This Act is a benefit and a fright to businesses. While the threat of hefty fines and lengthy prison terms is a powerful weapon for trade secret owners to use to punish and deter others from stealing their secrets, it is a sword which can cut both ways. Businesses who wish to protect themselves from the risk of criminal prosecution under this Act will have to institute monitoring procedures to ensure that they are not receiving the trade secrets of others in the pursuit of daily business pursuits such as hiring employees, contractors or consultants or meeting with customers, suppliers, vendors or entering into business relationships. It is a federal criminal act in the U.S. for anyone to convert a trade secret to his own benefit or the benefit of others intending or knowing that the offence will injure any owner of the trade secret. The prohibited conduct of coveting a trade secret is defined as stealing, or without authorization appropriating, taking, carrying away, or concealing or by fraud, artifice or deception obtaining such information or without authorization copies, duplicates, sketches, draws, photographs, downloads, uploads, alters, destroys, photocopies, replicates, transmits, delivers, sends, mails communicates, or conveys such information. It is also a criminal offence to receive, buy or possess the trade secret information of another, knowing it to have been stolen or appropriated, obtained or converted without authorization. It is also an offence to attempt to convert a trade secret or to conspire with others to convert a trade secret<sup>xii</sup>. Even though, many countries have no separate legislation on trade secret and confidential information it covers a wide area in intellectual property. The scope of trade secrets was examined *Mulcaire v. Philips*:<sup>xiii</sup>

It is clearly impossible to provide a list of matters which will qualify as trade secrets or their equivalent. Secret processes of manufacture provide obvious examples, but innumerable other pieces of information are capable of being trade secrets, though the secrecy of some information may be only short-lived." Whatever the difficulties of exhaustive enumeration, it is clear that the scope of trade secrets extends not only to products and processes, but also to a wide range of financial information about the management and performance of a business, and plans for its future.

## RESTRAINT OF TRADE

The term trade secret found its relevance or bearing under the general law of contract, where "restraint of trade" as a clause is used in contract of employment. Restraint of trade has been defined as a practice whereby an employer and his employee enter into a covenant for the purpose of restricting the right of the employee to engage in particular or specific types of business activities within a given area or locality and within a stipulated period of time.<sup>xiv</sup> Restraint of trade takes two forms, first, it may take the form of a restraint placed on the worker while he is still in the employment of the master and secondly, the restraint may become operative after the departure of the worker from the employers service.

The former has been justified to protect the master's business interest. In *JOHN HOLT AND CO LTD v. CHALMERS*,<sup>xv</sup> the latter was held to be *prima facie* illegal. Even where the restraint is to operate while the worker is still in the service, of the employer it must fulfil the basic elements of the general law of contract.<sup>xvi</sup> All restraints of trade after service are *prima facie* illegal and have to be justified on reasonable grounds, either from the point of view of the parties themselves or interest of the public.

The modern law as to restraint of trade was laid down in the *locus classicus* case of *NORDENFELT v MAXIM NORDENFELT Co.*<sup>xvii</sup> Where it was held that all covenants in restraint of trade are in the absence of special circumstances justifying them void as being contrary to public policy. Lord Mal Naghten succinctly put it thus:<sup>xviii</sup>

The true view at the present time I think is this, the public have an interest in every person's carrying on his trade freely so has the individual. All interference with liberty of action in trading, and all restraint of trade are themselves, if there is nothing, more are contrary to public policy and therefore void that is the general rule. But there are exceptions: restraints of trade



and interference with individual liberty of action may be justified by special circumstances of a particular case. It is sufficient justification and indeed, it is not only justification if the restriction is reasonable, that is in 'reference to the interest of the public, so framed and guarded as to afford adequate protection to the party in whose favour it is imposed, while" at the same time it is no way injurious to the public.

## **BASIS OF CONFIDENTIAL INFORMATION**

The judicial justification for a law of confidence has been located in equity contract and in property.

### **(a) The equitable basis:**

It has been said that the equitable jurisdiction in cases of breach of confidence is ancient; this will operate regardless of any contractual relationship between the parties. In the two mid nineteenth century cases of *ALBERT (PRINCE) v STRANGE*<sup>xix</sup> and *MORISON v MOAT*<sup>xx</sup> the courts clearly identified an equitable jurisdiction for breach of confidence actions. A number of causes of action were advanced to justify the protection of confidential information including breach of contract, but in both cases the courts also identified breach of confidence as a separate cause of the court to act independently in equity in absence of express or implied contract. Obligations of confidentiality were confirmed in a number of key 20<sup>th</sup> century decisions, which again roughly coincided. According to Lord Greene M.R. in *SALTMAN v CAMPBELL*.<sup>xxi</sup>

If a defendant is proved to have used confidential information directly or indirectly obtained from a plaintiff without the consent express or implied, of the plaintiff, he will be guilty of an infringement of the plaintiff's right.

He went on to say that the obligation to respect confidence is not limited to cases where the parties are in a contractual relationship. The Court of Appeal in *SEAGER V. COPYDEX*<sup>xxii</sup> confirmed that the court will act independently of the law of contract, the plaintiff in that case, during preliminary negotiations with the defendants, revealed to them secret information about a carpet grip which he had invented. The negotiations broke down but the defendants produced

a carpet grip of their own which apparently made use of the plaintiffs' information. There was no contract between the parties. In his judgment Lord Denning M.R. stated:

The Law on this subject did not depend on any implied contract. It depends upon the broad principle of equity that he who receives information in confidence shall not take unfair advantage of it. He must not make use of to the prejudice of him who gave it without obtaining his consent.

Confidential information from the foregoing can be founded on the pure, equitable doctrine of confidence unaffected by contract.<sup>xxiii</sup>

### **(b) Contractual Obligations**

Any competent lawyer will advise a client to seek a confidentiality agreement, before he discloses commercially valuable confidential information to another party. Limitations to express contractual terms might arise if publication of the information is held to be in the public interest. An express contractual term might be held to be void or unenforceable if, for example, it is drawn too widely and therefore unreasonably restricts the actions of one party. A typical example might be a contractual term which applies to an employee once he leaves his employment. Conversely, in certain circumstances, the Courts will imply a contractual term in the absence of an express obligation to respect confidentiality<sup>xxiv</sup>. It is also possible for the court to identify both equitable and contractual obligations based on the same set of facts.<sup>xxv</sup>

### **(c) Confidential Information as Property**

Generally, confidential information is not recognized as property for the purpose of the theft Act, although of course one can steal the physical medium upon which it is record. Certainly, it may have a considerable economic value.<sup>xxvi</sup>

## **REQUIREMENT FOR LIABILITY**

There are three elements which will normally be required for a breach of confidence action to succeed. These were set out by Megary in *COCO v A.N. CLARK (Engineers)*<sup>xxvii</sup>:

1. The information must have the necessary quality of confidence about it.

2. The information must have been imparted in circumstance where the confidant ought reasonably to have known that the information had been imparted in confidence.
3. There must be unauthorized use or disclosure of that information to the detriment of the party communicating it.

## **INFRINGEMENTS**

Infringements of trade secret and confidential information takes the form of improper acquisition of trade secrets, or improper disclosure of secret information. The infringements need not be intentional as it can happen inadvertently or through negligence. Infringement of trade secrets and confidential information are common through breach of confidentiality agreements, industrial espionage, theft and fraud. Instances of such breaches can be where an employee on confidentiality agreements log in, to do work on secret information on company computers contrary to the terms of non-disclosure agreements. There is infringements where journalist through a source get encrypted files containing a secret manufacturing process, decrypted same and publish them.

## **REMEDIES**

Legal remedies relate to a judicial relief with which a court of law usually enforces a right, imposes a penalty or make another court order in other to compensate for the harm of a wrongful act inflicted upon an individual or a cooperate entity. In determining the severity of the remedy, the court may take into accounts the advantage given the defendant when they acquired and exploited the plaintiff's trade secret. Such includes:

- a. The negative or detrimental economic consequences of infringement, including lost gains and losses suffered by the trade secret holder, inclusive of loss opportunity
- b. The moral harm suffered by the trade secret holder
- c. The profits earned by the infringer, including intellectual, tangible and promotional investments saved or not incurred by the infringer.

Available remedies for infringements of trade secrets and confidential information include:

## **INJUNCTION**

Here the claimants aim at generally stopping a threatened or an ongoing infringement of his rights by obtaining the injunction against an alleged infringer's future activities. In practise after an interim injunction, he may have little incentive to contest the action further.

## **DAMAGES**

Damages are awarded to restore the claimants to the position he would have been in if no wrong had been done. It allows the claimant to recover loss which is caused by the defendant wrongful act. Here the court will look to see how the claimant would have profited without the defendant's infringing acts.

## **ACCOUNTS OF PROFIT**

A claimant is entitled to remedy of account of profit, this will be an alternative to the remedy of damages. This remedy looks to the infringer's profit. In practise it is unusual for claimant to opt for an account of profit, not least because the process of reckoning may be complex and the outcome uncertain. The purpose of this remedy is not to punish the defendant but to ensure he does not unjustly enrich himself at the plaintiff's expense. It looks at the profit made by the infringers rather than the harm suffered by the plaintiff. The defendant is here treated as if he has conducted his business and made profit on the behalf of the plaintiff.

## **ACTION FOR THE BREACH OF CONTRACT**

A party can seek breach of contract or breach of confidence. This may attract an order for delivery up of infringing goods or destruction of materials made as a result of using confidential information.

## **SEARCH AND SEIZURE**

A claimant may obtain search order to search premises and computer in order to find misappropriated data.

## **CRIMINAL REMEDIES**

Remedies available for infringement of trade secrets can include criminal remedies. Criminal sanctions may take the form of fine or imprisonment. Criminal actions can have a deterrent effect. Imprisonment will only be for natural persons. In addition to fines, artificial persons (companies) may be sanctioned by way of confiscation of goods used to commit offence, exclusion of public procurement markets and in extreme cases dissolution of company.

## **CONCLUSION**

Trade secret and confidential information principally denotes information that confers a competitive economic advantage over competitors which the owner must however take reasonable effort to keep it secret against infringement. Some countries have separate legislation regulating the nature, scope and enforcement of these rights. Many countries depend on the principle of contract, equity, tort and international instrument such as the Paris Convention and the Trips Agreement for the regulation of trade secrets and confidential information. Since trade secret and confidential information provides the lead time advantages to the holder over his rivals, nation will need to strengthen the legal protection around them. One way is through separate legislation where there are not and also enforcement mechanism to encourage holders of the rights.

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- viii In some countries like the United States of America and Japan, the efforts made by the owner of the information to keep it safe are considered by the courts to be of primary important in determining whether the information constitutes a trade secret
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- xxiv See HUBBARD v. VOSPER (1972) 2 Q.B. 84
- xxv Jennifer Davies op cit. at 269
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