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PROTECTION OF CONFIDENTIAL INFORMATION WITHOUT A CONTRACT

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Introduction

Signing of confidentiality agreements to protect confidential information is common practice. However, what happens when there is no such confidentiality agreement? Is confidentiality of confidential information required to be maintained even if there is no express contract, or is a written contract necessary to protect confidentiality? This is the question that is explored in this paper.

Protection of Confidential Information under Common Law – Rule of Equity

To trace the jurisprudence on this subject, the 1948 decision of the English Court of Appeal in *Saltman Engineering Company Limited v. Campbell Engineering Company Limited*¹ (“**Saltman Engineering Case**”) would be a good starting point. In the said case, Saltman Engineering Company Limited (“**Saltman**”) who was the owner of certain drawings, had proposed to enter into a contract with Campbell Engineering Company Limited (“**Campbell**”) for the manufacture of certain leather products, and had shared the relevant drawings with Campbell for the said purpose. Subsequently, Campbell started using the drawings for its own purpose.

When Saltman challenged Campbell’s use of the drawings before the High Court of Justice (Chancery Division), Campbell argued that in the absence of a contract, Campbell did not have the obligation to treat the drawings as confidential matter. While deciding the matter, Lord Greene observed that “*it would not matter the least bit whether there was a contract or whether there was not a contract*”. What mattered was that the defendants got those drawings into their hands knowing, or knowing shortly afterwards, that they belonged to Saltman, that they were obviously confidential matter and they knew that they had got them into their hands for a strictly limited purpose. Hence, it was held that there was a breach of confidence on the part of Campbell.

Following the Saltman Engineering Case, Garry J. in the case of *Coco v. AN Clark*² (“**Coco Case**”) before the High Court of Justice, Chancery Division, set out three elements to establish a breach of confidence in the absence of a contract. Firstly, the information itself must “*be of a confidential nature*”. Secondly, that information must have been communicated in circumstances importing an obligation of confidence. Thirdly, there must be an unauthorised use of that information to the detriment of the party communicating it. In particular, where information of commercial or industrial value is given on a business-like basis and with some avowed common object in mind, such as a joint venture or the manufacture of articles by one party for the other, then the recipient would carry a heavy burden if it seeks to repel a contention that he was bound by an obligation of confidence.

It must be emphasised that the question of a breach of confidence will arise only in respect of information that is indeed confidential and not otherwise. As observed by Lord Greene, it is perfectly possible to have a confidential document be it a formula, a plan, a sketch, or something of that kind, which is the result of work done by the maker basis materials which may be available for the use of anybody; but what makes it confidential is the fact that the maker of the document has used his brain and thus produced a result which can only be produced by somebody who goes through the same process.

The rule of equity in a suit for breach of confidence is rooted in the principle that when a party in confidence discloses information that it has produced with its valuable resources, to another party, such other party should not be allowed to take undue advantage of it. Allowing the same, would result in someone else being given a free pass to misuse and take advantage of someone else’s hard work and labour. It may also be noted that the common law duty of confidence is a right *in personam* against an individual who has come across such information under confidence, and is distinct from a proprietary right in such information itself, opposable *in rem*.

¹ *Saltman Engineering Co. v. Campbell Engineering Co. Limited*, (1948) 65 RPC 203.

² *Coco v. AN Clark*, (1968) F.S.R. 415.

Degree of Protection

Having established that a person is bound to maintain confidentiality of confidential information even if there is no express contract in this regard, the question that arises is the degree of protection that can be granted to the owner of the confidential information against the person found to be misusing confidential information. While an injunction can be granted to restrain the defendant from continuing to misuse the confidential information, however, such an injunction may not be in perpetuity if the information possesses a limited degree of confidentiality and can be ascertained by reverse engineering or by a process of compilation from public domain sources. As held by the England and Wales High Court (Chancery Division)³, the duration of the injunction should be limited to the time it would take someone starting from public domain sources to reverse engineer or compile the information. It was held that even technical trade secrets can have a limited shelf-life, such that the information may be expected to come into the public domain “*after (say) 5 or 10 years*”. Though the duration of injunction granted may be limited, Courts are still mindful not to allow a person to gain a head start based on confidential information. Ultimately, confidential information cannot be used as a springboard or a starting point for a new design.

Position of law in India

Indian courts have largely followed the rule of equity that a person receiving confidential information in confidence cannot take unfair advantage, even in the absence of a contract.

The decision of the Delhi High Court in the case of *John Richard Brady v. Chemical Process Equipments Private Limited*⁴ (“**Brady Case**”) is perhaps one of the first cases that discusses the principles of confidentiality obligations in the absence of a contract. The Delhi High Court followed the *Saltman Engineering Case* and held that “*the law on this subject does not depend on any implied contract. It depends on the broad principles of equity that who has received information in confidence shall not take unfair advantage of it*”. The Delhi High Court found it to be in the interest of justice to restrain the defendants from abusing the know-how, specifications, drawings and other technical information regarding the plaintiff’s machine “*which was entrusted to them under express condition of strict confidentiality, which they have apparently used as a 'spring-board' to jump into the business field to the detriment of the plaintiffs.*”

Similar observations were made by the Karnataka High Court in the case of *Inphase Power Technologies v. ABB India Limited*⁵, wherein the following observations of Lord Greene were quoted:

“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 rights.”

Protection of a concept or an idea: A person cannot normally claim a copyright over ideas. This is where the principle of breach of confidence can come to the rescue. Indian courts have recognised that the law of breach of confidence is a broader right than the right of copyright and have extended the protection of confidentiality to a concept or an idea. For instance, in the case of *Urmi Juvekar Chiang v. Global Broadcast News Limited*⁶, the plaintiff contended that her concept note and the production plan of a reality show ‘Work in Progress’ was disclosed in confidence to the defendants orally, and was later used by the defendants in breach of confidence to create a television series for their own commercial exploitation. The Bombay High Court upheld the plaintiff’s claim to confidentiality for the concept. Similarly, in the case of *Zee Telefilms Limited v. Sundial Communications Private Limited*,⁷ the Bombay High Court held that if ideas or information have been acquired by a person under such

³ *Vestergaard Frandsen A/S, Vestergaard Frandsen Sa And Disease Control Textiles Sa v. Bestnet Europe Limited*, (2009) EWHC 1456 (Ch).

⁴ *John Richard Brady v. Chemical Process Equipments Private Limited*, AIR 1987 Delhi 372 (Delhi High Court).

⁵ *Inphase Power Technologies v. ABB India Limited*, Miscellaneous First Appeal No.3009/2016 in M.F.A No.3009/2016 (Karnataka High Court).

⁶ *Urmi Juvekar Chiang v. Global Broadcast News Limited*, 2008 (2) Bom CR 400 (Bombay High Court).

⁷ *Zee Telefilms Limited v. Sundial Communications Private Limited*, 2003 (5) Bom CR 404 (Bombay High Court).

circumstances that it would be a breach of good faith to publish them and he has no just case or excuses for doing so, the court may grant injunction against him.

What if there are differences: The justification of a defendant that there are some differences between the product manufactured by it by using confidential information and the original product, has normally not found favour with the courts. In a case before the Karnataka High Court, it was held that unessential features in an infringing article or process are of no account⁸. Further, reliance was placed on a decision of the Delhi High Court where it was held that a person will be guilty of infringement if he makes what is in substance the equivalent of a patented article, and he cannot get out of it by some trifling or unessential variation⁹.

Imposition of additional conditions: Though Indian courts have largely followed the rule of equity while protecting confidential information, the development of jurisprudence in this regard have not been entirely uniform. For instance, in the case of *Emergent Genetics India Private Limited v. Shailendra Shiv*¹⁰, the Delhi High Court had to consider whether, in the absence of copyright protection, the plaintiff could claim an injunction on the ground that a trade secret and confidential information has been unauthorisedly misappropriated by the defendants. Though the Delhi High Court referred to the 3 (three) requisites for a cause of action for breach of confidence as set out in the Coco Case, however, while discussing 'quality of confidence' of the information sought to be protected, it sought to cast an obligation on the owner of the confidential information to prove that reasonable efforts were made to keep the information confidential¹¹:

"The "quality of confidence" highlights that trade secrets are a legal concept. With sufficient effort or through illegal acts rivals may access trade secrets (confidential information). However, if the trade secret or information owner proves that reasonable efforts were made to keep the information confidential, it (the information) remains a trade secret and is legally protected. If, on the other hand, trade secret owners cannot establish reasonable efforts to protect confidential information, they risk losing the quality of confidentiality of the information even if its information is obtained by rivals without permission." (emphasis supplied)

Restricting the scope: There are recent judicial decisions which have held that when an application for a patent or a plant variety is pending, then a claim for confidentiality will not lie. Though the main issue in these cases was not whether confidential information can be protected in the absence of a contract, nevertheless these cases are important because if the right to protect confidential information itself is not available if an application for registration under a statute is pending, then the principle discussed above gets diluted. The following observations of the Delhi High Court in a recent case in this regard is particularly noteworthy¹²:

"The position with respect to plant variety and the rights as a breeder is the same as with respect to copyright, designs and patents i.e. the said rights are statutory rights pure and simple, created for the first time vide and under the legislation with respect to each, and which did not exist under the common law.

...
If as per the legislations with respect to intellectual property of patent and design, there is no right till the grant of registration, the question of the plaintiff herein, till the grant of registration under the PPVFR Act having any right, upon violation whereof any cause of action would accrue to the plaintiff, does not arise. Seen in this light, this suit filed prior to registration under the PPVFR Act is without any cause of action.

...

⁸ *Inphase Power Technologies v. ABB India Limited*, Miscellaneous First Appeal No.3009/2016 in M.F.A No.3009/2016 (Karnataka High Court).

⁹ *Inphase Power Technologies v. ABB India Limited*, Miscellaneous First Appeal No.3009/2016 in M.F.A No.3009/2016 (Karnataka High Court).

¹⁰ *Emergent Genetics India Private Limited v. Shailendra Shiv*, 2011 (125) DRJ 173 (Delhi High Court).

¹¹ *Emergent Genetics India Private Limited v. Shailendra Shiv*, 2011 (125) DRJ 173 (Delhi High Court). On the facts of the case, the High Court held that the plaintiff was not able to establish that the information it sought to protect was confidential.

¹² *Sungro Seeds Ltd. v. S.K. Tripathi*, MANU/DE/1055/2020 (Delhi High Court).

In my view, confidentiality and secrecy obligations can only be with respect to a right which the person is entitled to protect. What the plaintiff did not have any right in, the plaintiff could not have protected by entering into agreements with the defendants no. 1 and 2 with respect thereto.” (emphasis supplied)

In Conclusion

The principal focus of this paper is to discuss protection of confidential information in the absence of a contract, and whether it is at all possible. It is evident that courts in India have largely followed the approach adopted by the English courts and have sought to protect confidential information even in the absence of a contract. In some cases, however, Indian courts have looked for additional requirements for enforcing the right and there have been nuanced differences in the approaches of the various High Courts. It is clear that we have certainly not heard the last word on this yet.

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