



Protecting Confidential Information with Commercial Value

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The information is one of the most valuable assets of any enterprise in today's knowledge driven business and industrial environment. They invest in creating and acquiring valuable information and use and manage such information for enhancing their competitive advantage. Thus, it is centrally important for the legal practitioners to be familiar with how to protect their clients' information against unlawful acquisition, disclosure and use.

Information

Only the confidential information receives legal protection and not all the information available with an enterprise. The protected information is also called 'undisclosed information' or 'trader secrets.'

Common law approach

The Courts of Sri Lanka have followed the English common law principles of confidential information¹¹ in dealing with

¹¹ At present the confidential information (trade secrets) is defined in the UK as defined in the EU Directive 2016/943 on the protection of undisclosed know-how and business information (trade secrets) against their unlawful acquisition. This Directive was implemented in the UK by the Trade Secrets (Enforcement, etc.) Regulations of 2018. According to Art. 2 (1) of the Directive 'trade secret' means information which meets all of the following requirements: (a) it is secret in the sense that it is not, as a body or in the precise configuration and assembly of its components, generally

similar matters.²² The English common law recognizes ‘an equitable obligation of confidence’ in connection with confidential information. For example, Nicholls LJ in *Campbell v MGN Ltd*³³ has stated: “... the law imposes a ‘duty of confidence’ whenever a person receives information he knows or ought to know is fairly and reasonably to be regarded as confidential.” In *Vestergaard Frandsen A/S v Bestnet Europe Ltd* Neuberger LJ stated: “An action in breach of confidence is based ultimately on conscience. As Megarry J said in *Coco v A N Clark (Engineers) Ltd* [1969] RPC 41, 46, ‘the equitable jurisdiction in cases of breach of confidence is ancient; confidence is the cousin of trust.’”⁴⁴ He further stated: “The classic case of breach of confidence involves the claimant’s confidential information, such as a trade secret, being used inconsistently with its confidential nature by a defendant, who received it in circumstances where she had agreed, or ought to have appreciated, that it was confidential: see eg per Lord Goff of Chieveley in *Attorney General v Guardian Newspapers Ltd (No 2)* [1990] 1 AC 109, 281. Thus, in order for the conscience of the recipient to be affected, she must have agreed, or must know, that the information is confidential.”⁵⁵ “Liability for breach of confidence is not, of course, limited to such classic cases. Thus, depending on the other facts of the case, a defendant who learns of a trade secret in circumstances where she reasonably does not appreciate that it is confidential, may none the less be liable to respect its confidentiality from the moment she is told, or otherwise appreciates, that it is in fact confidential. From that moment, it can be said

known among or readily accessible to persons within the circles that normally deal with the kind of information in question.; (b) it has commercial value because it is secret; (c) it has been subject to reasonable steps under the circumstances, by the person lawfully in control of the information, to keep it secret

2 ² See for ex. *Hently Garments Ltd. v. J.S.A. Fernando* (1980) 2 Sri LR 145, *H.V.R. Caldera v. John Keels Holdings Ltd.* (1986) 1 CALR 575 and *Finlay Rentokil Ltd v. Vivekananda* (1995) 2 Sri LR 346

3 ³ (2004) UKHL 22. Para 14

4 ⁴ (2013) UKSC 31. Para 22

5 ⁵ Para 23

that her conscience is affected in a way which should be recognized by equity.”⁶⁶

In a recent case of *Trailfinders Ltd v. Travel Counsellors Ltd*⁷⁷ Hacon J. stated with regard to the applicable test: “the test regarding the defendant’s appreciation of whether the information was confidential, is objective in the sense that it requires the claimant to show that the defendant *ought* to have appreciated that it was confidential, irrespective of her actual state of mind.”⁸⁸

The English common law also recognizes an ‘implied contractual obligation of an employee’ to use the confidential information of the employer only ‘for the purpose of the employment relationship.’ In *Trailfinders Ltd v. Travel Counsellors Ltd*⁹⁹ Hacon J. stated: “It is well settled that an employee owes a duty of fidelity and good faith to his employer. The duty has been characterised as contractual, being an implied term of the contract of employment.”

6 ⁶ Para 25

7 ⁷ (2020) EWHC 591 (Intellectual Property Enterprise Court- IPEC)

8 ⁸ Para 42. He also stated: “This corresponds to the test as formulated by Megarry J in *Coco v A.N. Clark (Engineers) Ltd* [1969] RPC 41, at 48 :“It seems to me that if the circumstances are such that any reasonable man standing in the shoes of the recipient of the information would have realised that upon reasonable grounds the information was being given to him in confidence, then this should suffice to impose upon him the equitable duty of confidence”

9 ⁹ (*Supra*). Para 11. He further stated: “Included within that duty is an obligation not to misuse the employer’s confidential information, see for example *Marathon Asset Management LLP v Seddon* [2017] EWHC 300 (Comm); [2017] FSR 36, per Leggatt J: “[111] The law implies into a contract of employment an undertaking by the employee to carry out the employment with fidelity and good faith. It is long established that this duty of fidelity includes an obligation on the employee to use information which is confidential to the employer solely for the purposes of the employment relationship and not for any other purpose: see *Merryweather v Moore* [1892] 2 Ch 518, 524 and *Robb v Green* [1895] 2 QB 315, 317, 318-319, 320.” Para 12



International environment

The Paris Convention for the Protection of Industrial Property¹⁰¹⁰ requires under its Article 10*bis* the member states to assure the effective protection against unfair competition. Article 39 of the Agreement on Trade Related Aspects of Intellectual Property Rights (TRIPS Agreement)¹¹¹¹ provides that the member states shall protect undisclosed information to ensure the effective protection against unfair competition as recognized under Article 10*bis* of the Paris Convention for the Protection of Industrial Property.¹²¹²

Protection against unfair competition in Sri Lanka

The protection against the acts of unfair competition was first introduced to Sri Lanka under section 142 of the Code of Intellectual Property Act No. 52 of 1979. In terms of section 142(1), any act of competition contrary to honest practices in industrial or commercial matters constituted an act of unfair competition.¹³¹³ Moreover, section 142(2) recognized a non-exhaustive list of acts of unfair competition including all the acts of such a nature as to create confusion by any means whatsoever with the establishment, goods, services or the industrial or commercial activities of a competitor. Those who aggrieved by the acts of unfair competition could institute proceedings in court to prohibit the continuance of such acts.

Section 160 of the Intellectual Property Act No. 36 of 2003 (hereinafter referred to as

10 ¹⁰ As last amended in 1979. Administered by the World Intellectual Property Organization (WIPO). Sri Lanka is a member state

11 ¹¹ 1994-Administered by the World Trade Organization (WTO). Sri Lanka is a member state

12 ¹² As provided under Art. 39(2) and 39(3)

13 ¹³ See for example-Sumeet Research & Holdings Ltd v. Elite Radio & Engineering Co. Ltd (1997) 2 Sri LR 393, Malhotra Int. (Pvt) Ltd v. Anglo-Asian Distributors Ltd (2000) 3 SriLR 116, Societe Des Produits Nestle SA v. Multitech Lanka (Pvt) Ltd (1999) 2 SriLR 298 and Viacom International Inc. v. The Maharaja Organization Ltd (2006) 1 SriLR 140

'the Act') makes at present a comprehensive set of provisions relating to this area of the law¹⁴¹⁴ covering the general principle of unfair competition, a list of examples of the acts of unfair competition and the remedies available to the aggrieved parties. They are much broader than those of the 1979 Act in their scope and application.

Making provisions for the general principle of unfair competition, section 160(1)(a) declares that "any act or practice carried out or engaged in, in the course of industrial or commercial activities, that is contrary to honest practices shall constitute an act of unfair competition." These provisions are broad enough to cover any act or practice, that is contrary to honest practices in industrial or commercial activities. They are not concerned with any competition between the parties as such, but cover any act of practice that is contrary honest practices in industrial or commercial activities. They emphasize on 'any act or practice carried out or engaged in, in the course of industrial or commercial activities, that is contrary to honest practices' demonstrating that intention, knowledge or any other mental element on the part of the defendant is not required for liability. A mental element of any kind as a requirement for the constitution of an act of unfair competition is not, directly or indirectly, recognized. The liability generally arises therefore strictly from the prohibited act or practice in civil litigation. A 'guilty mind' may be useful in establishing the act of unfair competition, but not in imposing the liability, unless expressly provided for.

In addition, there is a set of examples identified under sections 160 (2)-160 (6) one of them being any act or practice that results in unauthorized disclosure, acquisition or use of undisclosed information.

14 ¹⁴ These provisions are based on the WIPO Model Provisions on Protection against Unfair Competition. WIPO Publication No. 832(E) 1996

Protecting undisclosed information

Section 160 (6) of the Act accords statutory protection to ‘undisclosed information’ within the framework of the law of unfair competition. It covers a broad range of instances of disclosure, acquisition and use of undisclosed information by unauthorized persons. This is the first ever attempt made in Sri Lanka to extend statutory protection to undisclosed information.¹⁵¹⁵

Undisclosed information

‘For the purpose of the Intellectual Property Act, information is considered ‘undisclosed information’ if –

(i) it is not, as a body or in the precise configuration and assembly of its components, generally known among, or readily accessible to, persons within the circles that normally deal with the kind of information in question;

(ii) it has actual or potential commercial value because it is secret; and

(iii) it has been subject to reasonable steps under the circumstances by the rightful holder to keep it secret.¹⁶¹⁶

¹⁵ ¹⁵ As stated above, the courts of Sri Lanka have followed the English common law principles of confidential information in dealing with similar matters

¹⁶ ¹⁶ S. 160 (6) (c) – This definition corresponds to that given under Art. 39(2) of the TRIPS Agreement and to Art. 2 (1) of EU Directive 2016/943. See for example the Supreme Court of Victoria decision in *Ansell Rubber v Allied Rubber Industries* [1972] R.P.C. 811-826-27/(1967) VR 7) which outlined the following 6 factors that help determine whether the information is confidential: The extent to which the information is known outside the business; the extent to which the information was known by employees and others involved in the plaintiff’s business; the extent of measures taken by the plaintiff to guard the secrecy of the information; the value of the information to the plaintiff and to its competitors; the amount of effort or money expended by the plaintiff in developing the information; and the ease or difficulty with which the

The ‘undisclosed information’ in this context includes:

(i) technical information related to the manufacture of goods or the provision of services; or

(ii) business information which includes the internal information which an enterprise has developed so as to be used within the enterprise.¹⁷¹⁷

Disclosure, acquisition and use

Section 160 (6) (a) declares: “Any act or practice, in the course of industrial or commercial activities, that results in the disclosure, acquisition or use by others of undisclosed information without the consent of the person lawfully in control of that information (in this section referred to as “the rightful holder”) and in a manner contrary to honest commercial practices shall constitute an act of unfair competition.”

It is self-explanatory that the disclosure, acquisition or use by others of undisclosed information can lawfully occur only with the consent of the ‘rightful holder.’ The

information could be properly acquired or duplicated by others [As given in the US Restatement of the Law of Torts (1st ed.) Art. 757]

¹⁷ ¹⁷ S. 160 (6) (e). The technical information can also be protected under the law of patents. A patent granted by the State, describes an invention and creates certain legally enforceable rights in relation to the described invention that can be exercised only by the owner of the patent or with the authorization of the owner, for a limited period of time. An invention is an idea of the inventor which practically solves a specific problem in technology. An invention is patentable if it is new, involves an inventive step and is industrially applicable. It should be noted that, due to certain inherent issues involving patents such as limited period of protection, difficulties in enforcement of rights and higher cost, many companies particularly in the industrialized countries are tending to choose the protection for their confidential technical information under the undisclosed information law rather than under the patent law



prohibition of the acts or practices that result in disclosure, acquisition or use of undisclosed information without the consent of the 'rightful holder' is operative against all the persons including those who have special relationship with the 'rightful holder' such as employees, partners, independent contractors, suppliers of goods or services, lawyers and customers. It is expressly provided in this instance that the unauthorized disclosure, acquisition or use must occur in a manner contrary to honest commercial practices.

The provisions of section 160 (6)(a) also demonstrate that the liability generally arises simply from the prohibited act or practice. Any mental element is not required. However, the disclosure, acquisition or use of undisclosed information without the consent of the 'rightful holder' practically takes place in many instances with the full knowledge or intention of those who disclose, acquire or use such information.

It should be noted that the former employees may use their knowledge, experience and skill acquired in the course of the previous employment for earning the living. It may be hard to draw a line between the legitimate use of such knowledge, experience and skill and the disclosure and use of undisclosed information of the previous employer acquired during the employment. It is also not easy to strike a balance between the right of the employees to use their so acquired knowledge, experience and skill for earning the living and their obligation to maintain the confidentiality of the information of the previous employer. The decision on such an issue is largely a matter of facts.¹⁸¹⁸ The agreements of employment or

¹⁸ ¹⁸ See the recent decision of EWHC in *Trailfinders Ltd v. Travel Counsellors Ltd* (*Supra*) for an analysis of the confidential information and former employees. The court confirmed that the common law recognizes three distinct classes of information obtained by employees during the course of employment, namely: (1) 'information which is not confidential.', (2) 'confidential information acquired during the normal course of employment which remains

the non-disclosure agreements may provide for possible avenues to address such issues. The right holders must also be exercise due care and vigilance in disclosing and sharing information with the employees.¹⁹¹⁹

The unauthorized 'disclosure, acquisition

in the employee's head and becomes part of his own experience and skills' and (3) 'confidential information in the form of specific trade secrets.' While re-stating the existence of the common law 'implied contractual duty' of the employees (an implied contractual duty of good faith and fidelity and an implied obligation not to misuse the employer's confidential information), the court clarified its application to these classes of confidential information. This Implied duty restrains the misuse of class 2 information during the period of employment, but ends with the end of employment. It restrains the use or disclosure of class 3 information both during and after the employment. Moreover, this distinction does not mean that class 2 information is freely available for use and disclosure after the end of the employment. The court held that copying a list of the employer's customers for use after the end of employment, or deliberately memorizing the list for such use can constitute an act of breach of confidence because such copying or memorizing would have occurred during the employment. The court also confirmed that the implied contractual duty co-exists with an equitable obligation of confidence 'whenever an employee receives information he knows or ought to know is fairly and reasonably to be regarded as confidential.' This obligation continuously operates even after the end of employment-'except where that information forms part of the experience and skills acquired by the former employee during the normal course of doing his or her job, held in mind at the time of leaving the employment. The exception will not apply to any information deliberately memorized for use or disclosure after the conclusion of the employment or to any class 3 information (to use the classification taken from the law on implied terms).'

¹⁹ ¹⁹ There can be various strategic measures one can take to safeguard confidential information in an organization. For example – identifying clearly and precisely the concern information, having strong policy on safeguarding information, making it watertight removing or minimizing all the possibilities of leaking the information, disclosing on compartment and need to know basis-sharing the information with those who should essentially know the respective element/part for performance of the assigned functions, having non-disclosure agreements, in addition to the contract of employment which provides for the protection of confidential information and having restraint clauses in such agreements against competition (though such clauses are likely to be held unlawful)

and use' of undisclosed information may take different and varying forms. Section 160 (6) (b) recognizes the following examples²⁰²⁰ of such forms. It should be noted that most of them require a mental element such as intention or knowledge for imposing liability.

(i) Industrial or commercial espionage

The industrial or commercial espionage, which is a deliberate attempt

to appropriate undisclosed information belonging to another person or

enterprise, may occur under different circumstances and in diverse forms.

The formation of a relationship with the rightful holder of the information such as securing employment in order to fraudulently obtain the information or getting access to computer files and databases are examples of the means of carrying out the industrial or commercial espionage.²¹²¹

(ii) Breach of contract

A contractual obligation to protect undisclosed information may be made under the agreements of employment, partnership agreements, non-disclosure agreements, agreements between the employers and independent contractors and the like. The breach of contract may result in the liability under the law of unfair competition as well as under the law of contacts.

(iii) Breach of confidence

²⁰ ²⁰ These examples correspond to footnote 10 to Article 39(2) of the TRIPS Agreement

²¹ ²¹ See WIPO Model Provisions (*Supra*)

The breach of confidence may result from the confidential relationship between the parties²²²² independently of the contractual obligations.

(iv) Inducement to commit any of the acts referred to in the above mentioned

paragraphs (i)-(iii).

(v) The acquisition of undisclosed information by a third party who knew, or

was grossly negligent in failing to know, that an act referred to in the above four paragraphs was involved in the acquisition of such information.

Use of secret test or other data

Section 160(6)(d) provides that "any act or practice, in the course of industrial or commercial activities, shall be considered an act of unfair competition if it consists or results in –

(i) an unfair commercial use of secret test or other data, the origination of which involves considerable effort and which have been submitted to appropriate authority for the purpose of obtaining approval of the marketing of pharmaceutical or agricultural or chemical products which utilize new chemical entities; or

(ii) the disclosure of such data, except where necessary to protect the public, or unless steps have been taken to ensure that the data is protected against unfair commercial use."²³²³

²² ²² Such as employers and employees and partners in a partnership. Breach of contract and breach of confidence may occur in many instances intentionally or negligently, but the liability may arise irrespective of such mental elements

²³ ²³ See explanatory notes in WIPO Model Provisions



Common law rights

Section 160(9) expressly provides that the rights conferred by the provisions of section 160(6) relating to undisclosed information exist in addition to, and not in derogation of, any common law rights.

Enforcement

The protection against the acts of unfair competition can be primarily enforced by means of civil remedies. The criminal sanctions may also be used against the unauthorized disclosure of undisclosed information. The respective provisions are made under sections 160(7) and 160 (8) of the Act.

Civil Remedies

Any person or enterprise or association of producers, manufacturers or traders aggrieved by any act of unfair competition may institute proceedings in court to

- (i) prohibit the continuance of such act and
- (ii) obtain damages for losses suffered as a result of such act.

These provisions allow not only those such as the owners of intellectual property rights or enterprises but also the others such as consumers aggrieved by acts of unfair competition to seek the judicial intervention for relief.

The provisions of Chapter XXXV of the Act relating to infringement apply, *mutatis mutandis*, to the proceedings involving the acts of unfair competition. These provisions deal with infringement of rights, civil remedies and related matters in general. The 'Commercial High Court' in Colombo has the first instance jurisdiction to hear and determine the matters relating to unfair competition including those involving undisclosed information.²⁴²⁴

²⁴ ²⁴ See High Court of the Provinces (Special Provisions)

Criminal Sanctions

Any person, who willfully and without lawful authority, discloses any undisclosed information is guilty of an offence under the Act. Such person is, on conviction after trial before a Magistrate, liable to a fine not exceeding five hundred thousand rupees or to imprisonment for a term not exceeding six months or to both such fine and imprisonment.

The provisions of Chapter XXXVIII of the Act are applicable, *mutatis mutandis*, to this offence. They deal with criminal sanctions relating to the infringement of rights in general.

Concluding remarks

The above stated elements are merely an outline that may be useful for the readers to understand the principles governing the law relating to the protection of undisclosed information and their scope and application in Sri Lanka. The readers are encouraged to read more and to better understand the newly emerged laws like the protection of undisclosed information so that the business organizations in Sri Lanka receive appropriate advices.

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Act No.10 of 1996 (as amended)