

Confidentiality of trade secrets during court proceedings in Sri Lanka: A comparative analysis

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Abstract— *Trade secrets are an intellectual property strategy used by businesses to protect commercially valuable information which generates a competitive advantage. In Sri Lankan context, majority of small and medium-scale enterprises and traditional knowledge-based enterprises depend on trade secret protection to protect their intellectual creations. Secrecy, inter alia, is an integral element of trade secret protection. Protection is available until the confidential information is kept as a secret. Advancement of technology created novel avenues to commit trade secret misappropriation requiring trade secret holders to institute litigation. However, court proceedings being public proceedings and lack of legal provisions to preserve confidentiality of trade secrets during court proceedings makes trade secret holders reluctant to disclose confidential information as such disclosure amounts to the expiry of trade secret protection. Said practical difficulties adversely affect the enforcement of the rights of trade secret holders. The paper firstly analyses legal provisions under Sri Lankan Law on preservation of confidentiality of information during court proceedings. Secondly, using comparative method, legal frameworks of the United States and the United Kingdom, and Sri Lanka are analysed. Doctrinal method is used to analyse the law at present and identify the lacunas in the law. Comparative method assisted in comparing best practices adopted by selected jurisdictions. Findings revealed that countries with legal provisions to preserve the confidentiality of trade secrets during court proceedings assist in better enforcement of the rights of trade secret holders. The paper recommends introducing procedural laws to facilitate the confidentiality of trade secrets in Sri Lankan court proceedings.*

Keywords— *Trade Secrets, Court proceedings, confidentiality, trade secret holder, misappropriation*

I. INTRODUCTION

Coca-Cola recipe and Google's search algorithm are two best examples of intellectual assets protected as trade secrets to preserve their competitive advantage. In the Sri

Lankan context, traditional knowledge-based products, ayurvedic recipes, and most inventions by small and medium-size enterprises (SMEs) heavily depend on trade secret protection (De Silva, 449). These inventions fail to qualify for protection under the traditional intellectual property rights which are specifically identified under the intellectual property regime of Sri Lanka. Hence, the protection of trade secrets has a great impact on the innovation climate of Sri Lanka (Punchihewa 2015, 156).

Intellectual property is appraised as the invisible gold of businesses in the 21st century (Llwelyn 2010, 2). However, trade secrets are often neglected in the intellectual property law regime, they are referred to by scholars as odd member of the intellectual property family (Bone 2014, 1803), Cinderella of intellectual property law (Sandeen 2007, 399), curious anomalies in intellectual property law (Risch 2007, 3). Trade secrets are treated as a relatively latecomer to the intellectual property law (Lemley 2008, 315). Although modern laws on trade secret protection originate from the Anglo-American jurisprudence, their genesis can be traced back to English Common Law and Roman Law (Lemley 2008, 315). Trade secret protection is considered as an intellectual property right that permits businesses to protect their intellectual creations for an unlimited time by keeping them a secret.

Intellectual property law was introduced to Sri Lanka during the British Colonial period (D M Karunaratna 2010, 17). The Intellectual property law in Sri Lanka is influenced by English law principles (Talagala 2012, 1). Intellectual Property Act No. 36 of 2003 of Sri Lanka (IP Act) mentions trade secrets as undisclosed information. Moreover, undisclosed information is considered to fall under the umbrella concept of unfair competition as per the IP Act. The IP Act does not provide a definition for the term undisclosed information. However, it sets out the requirements that information needs to fulfill to be protected as undisclosed information. Hence, as per section 160(6)(c) of the IP Act, information is considered undisclosed information if, it is not generally known among, or readily accessible to, persons within the circles

that normally deal with the kind of information in question, it has actual or potential commercial value as it is secret and reasonable steps have been taken by the right holder to keep it as a secret. The requirements stipulated in the provision are a direct representation of Article 39(2) of the Trade-Related Aspects of Intellectual Property Rights Agreement (TRIPS Agreement). It is evident that secrecy is an integral element of trade secret protection.

Trade secret holders are required to take steps to preserve the secrecy of trade secrets. Court proceedings are an instance where the trade secret holder is required to disclose his secret to the court to enable the court to conclude the existence of a trade secret and a misappropriation of that trade secret by the other party had caused great prejudice to the trade secret holder. Hence it is essential to preserve secrecy of trade secrets in court proceedings as most of the court proceedings are open to the public. Thus, it is mandatory to have procedural laws in the Sri Lankan legal framework to preserve the confidentiality of trade secrets during court proceedings.

In the aforementioned backdrop, the research was conducted with three research objectives. Firstly, identify and analyse Sri Lankan Law on the preservation of confidentiality during court proceedings. Secondly, analyse best practices adopted in the United States (US) and the United Kingdom (UK) to safeguard trade secrets during court proceedings. Thirdly, suggest recommendations are based on the findings of the comparative analysis, to ensure trade secret protection during court proceedings under Sri Lankan Law.

II. METHODOLOGY

The research was carried out using the doctrinal method as the first objective of the research was to identify and analyse the present law applicable in the Sri Lankan legal framework to the preservation of confidentiality of trade secrets during court proceedings and to explore how the law ought to be to assure confidentiality during court proceedings. The doctrinal method enabled the writer to analyse a body of law, referring to primary and secondary sources, and their applicability (Dobinson 2017, 17). Additionally, a comparative analysis was carried out to identify best practices that can be utilised to ensure the protection of trade secrets during court proceedings. The US and the UK were selected for the comparative analysis.

The US possesses an enhanced legal framework to protect trade secrets. The UK was selected as the Sri Lankan legal provision expressly makes applicable English law in this area and additionally, Sri Lankan case laws in this area of research incorporate English judgments in legal analysis. Primary sources such as statutes and cases are used to analyse the legal provisions and their applicability. Secondary sources such as books, journal articles, and conference papers were instrumental in the analysis and synthesis of the approaches to laws.

III. DISCUSSION

Preservation of confidentiality of trade secrets during court proceedings is an essential component of trade secret protection. The reason for such a requirement is that secrecy is a key element of information to be protected as a trade secret. Protection extended to trade secrets expires once the secret is disclosed. Thus, trade secret law is considered to be the most expansive and most short-lived method of protecting business information (Sandeem 2007, 399). It is expansive as it covers a wide spectrum of information starting from recipes to multimillion-dollar worth inventions that took years of hard work to invent (Sandeem 2007, 399). It is a short-lived protection mechanism as the protection exists only until the secret is intact.

Disclosure of trade secrets can take place during and after court proceedings in instances such as, in pleadings, court hearings, and the final order of the court. Trade secret holders are required to disclose the allegedly infringed trade secret during litigation to show the court that undisclosed information that falls under the criteria adopted in the IP Act is misappropriated by the defendant. Hence there is an elevated risk of losing secrecy in the trade secret preserved by businesses for decades by a simple disclosure of it in court proceedings.

Trade secrets are considered a set of intellectual rights in the US (United States Patent and Trademark Office, Performance and Accountability Report, 2021, 7) In Sri Lanka and UK trade secrets are not explicitly referred to as a separate intellectual right but a subset of unfair competition.

A. Sri Lankan Approach

In the Sri Lankan legal framework, no legal provision is evident to preserve secrecy of trade secrets during and after court proceedings. Hence it remains a concern to be

addressed by the legislature. Section 160 of the IP Act does not contain provisions to protect the disclosure of trade secrets during and after court proceedings. Case laws also do not provide any rules to protect trade secrets during litigation. Although Sri Lankan courts have adopted a practice where documents can be submitted to the court under confidential cover, the procedure is not clearly laid down as a procedural law. Hence such practice does not assure preservation of confidentiality of trade secrets.

Thus, the disclosure requirement acts as an obstacle to the implementation of the law (Sumanadasa 2017, 123). Trade secret holders are reluctant to disclose trade secrets in court in the absence of legal provisions that attempt to preserve the secrecy of trade secrets during court proceedings. In such a context, litigation is not a preferred means of enforcement of the rights of the trade secret holders and it makes the enforcement mechanism fragile.

Court proceedings in Sri Lanka are held open to the public. Article 106(1) of the Constitution of the Democratic Socialist Republic of Sri Lanka 1978 (as amended) (Constitution of Sri Lanka) stipulates that all proceedings of courts, institutions, or tribunals to be held in public sittings where all persons are free to attend the sittings. Moreover, an exception to public sittings expressed in Article 106(2) of the Constitution of Sri Lanka empowers the judge of the court, at his discretion, to exclude persons who are not interested in the proceedings when such proceedings relate to the matters specified in the Article. It refers to exceptions such as proceedings relating to family relations, sexual matters, national security, or public safety as the instances where a judge can exercise discretion to exclude the public from court proceedings. The exhaustive list does not include litigation on misappropriation of trade secrets as an exceptional circumstance empowering a judge to order private proceedings. Provisions should be present for parties to litigation to make an application to court to limit the public from attending court proceedings relating to trade secrets.

Moreover, Sri Lankan case laws reveal that disclosure of trade secrets in court proceedings adversely affects the protection of trade secrets. The plaintiff is required to describe the trade secret in pleadings filed before the court. In public proceedings, the plaintiff is required to submit to court that the alleged misappropriation relates to the misappropriation of a trade secret. Case of *Link Natural Products Ltd v Tropical Herbs Ltd Case No. CHC 25/2001/03 decided on 01 February 2013* is a clear example in this regard. The plaintiff in the aforementioned

case, a manufacturer of medicinal products, alleged that two of his former employees had misappropriated his trade secret by producing a medicinal product similar to his product after joining a competitor. The plaintiff opted not to disclose the trade secret during the court proceedings as there is a danger of losing trade secret protection. Thus, the court was unable to hold in favour of the plaintiff, as information tendered to the court by the plaintiff was insufficient to decide that a trade secret possessed by the plaintiff was misappropriated by the defendants. Hence it is apparent that the absence of specific provisions on trade secret protection adversely affects the enforcement of the rights of trade secret holders.

Court proceedings under civil litigation are governed by the procedural laws incorporated into the Civil Procedure Code Ordinance No. 02 of 1889 (as amended) (Civil Procedure Code). The Civil Procedure Code does not provide for the procedures to be followed in court proceedings to preserve the confidentiality of trade secrets during court proceedings. In the absence of specific provisions, the trade secret holders can resort to the inherent powers of the court under section 839 of the Civil Procedure Code. It empowers the court to make orders for ends of justice, to order court proceedings in camera or to exclude persons not a party to the case (Sapuvinda 2019). Use of inherent powers of the court is exercised solely under the discretion of the court. Hence, it is unlikely that it will be used in all cases involving trade secrets. Lawyers are required to invite the attention of the court to exercise such powers to protect trade secrets. The provision is rarely used in court proceedings. Therefore, it is apparent that the preservation of confidentiality of trade secrets during court proceedings in a dispute relating to trade secrets is not comprehensively dealt with under Sri Lankan law.

B. UK and US approach

Recent developments in the UK and the US provide enhanced statutory protection to trade secrets. In the US, a set of legislations govern trade secret protection, in specific the Defend Trade Secret Act 2016 (DTSA) provides enhanced protection to trade secrets. In the UK, protection for trade secrets is provided by two parallel regimes; common law (the law of confidence) and by statute (the Trade Secret Regulation). The Trade Secrets (Enforcement, etc) Regulation (UK Regulation) is the regulation enacted in 2018 to address issues relating to trade secrets. The UK Regulation is based on the European Union Directive, issued in 2016, on the protection of undisclosed know-how and business information against unlawful acquisition, use, and disclosure.

Preservation of trade secrets during litigation is well recognised in both UK and US legislation. Extensive procedural steps are adopted in the US in this regard. In the US, a party to litigation can make a request to the court to limit the disclosure and discovery of trade secrets, evidence, and testimony to be heard in private hearings (Schultz and Lippoldt 2014, 326). In response to such request, the US courts grant protective orders under Rule 26(C) of the Federal Rule of Civil Procedure. Such an order limits the disclosure of trade secrets in public records and the cases are not taken up in open court. Moreover, sanctions can be imposed on any party or attorney who discloses or use trade secrets for purposes falling outside the scope of the protective order.

In the US, the rights of trade secret holders during court proceedings are explicitly provided under Section 1835(b) of the DTSA. The provision facilitates trade secret holders to tender submissions to court under seal describing the interest of trade secret holders to keep the information confidential. Furthermore, the section provides that the provision of confidential information to the court does not amount to a waiver of trade secret protection. Hence, disclosure of a trade secret does not amount to a waiver of trade secret protection unless the trade secret holder expressly consents to waive his/her rights to the trade secret. It is seen that the aforementioned section precisely lays down the rights of trade secret owners thereby ensuring the protection of trade secrets during court proceedings. The presence of legal provisions to preserve the confidentiality of the disclosed trade secrets encourages trade secret holders to enforce their rights without the fear of the expiry of their right to the trade secret in dispute.

Under US law, litigation of trade secrets should be placed before the Federal court with reasonable particularity as highlighted in the US case of *Communications Corp v Jackson Engineering & Maintenance Inc, 2007*. In this case, the court denied an application to grant discovery of information as the pleadings filed by the plaintiff failed to sufficiently describe the trade secret in issue. At the commencement of court proceedings, a plaintiff is required to tender to the court a list of trade secrets relating to the dispute. The court preserves the secrecy of trade secrets by allowing the secret information to be submitted under seal and with a protective order. In criminal proceedings, the indictment and the case brief are sealed and are not disclosed to the public.

On the other hand, it is a well-recognised principle of procedural law in all the jurisdictions under consideration,

that plaintiffs are required to mention in pleadings the cause of action precisely and clearly. It is inevitable for a plaintiff to disclose information about a trade secret to comply with the said requirement. For instance, in the US case of *Dura Global Techs Inc v Magna Donnelly Corp No., 2007* court held that there is no absolute privilege in restricting the discovery of trade secrets, however, courts should exercise their discretion to avoid unnecessary disclosure of trade secrets. Thus it is clear that the discretion is vested in court to take required procedural steps to preserve confidentiality of trade secret analysing the facts of the case.

In the UK Regulation, regulation 10 contains strict measures to restrict the disclosure of trade secrets during and after the conclusion of legal proceedings. The court is empowered to restrict access to documents and court hearings under regulation 10(5). As per regulation 10(7), court can make available a non-confidential version of the judicial proceedings to other persons. In granting the said measures, the court needs to take into consideration the need to ensure the right to an effective remedy and fair trial where the legitimate interests of parties and potential harm for parties are assessed. It can be said that the regulation is a balanced legislation where the interests of trade secret holders and the principles of natural justice, which is a key component of judicial proceedings, are given due consideration.

Confidentiality clubs or confidentiality rings are used in the UK to preserve trade secrets and confidential information during court proceedings. Confidential information is accessible only to selected persons who have signed an undertaking to access and use such confidential information. Roth J in the recent UK case of *Infederation Limited v Google LLC & Ors [2020] EWHC 657 (Ch)* held that confidentiality rings are exceptional arrangements to open justice. Therefore, it should be used in limited circumstances and to the narrowest extent possible. It should be allowed after scrutiny by the court that it will not amount to unfairness. In this case, Infederation filed an action against Google, alleging that Google's algorithm placed them in a lower rank and thereby violated competition law. Three confidential rings were used in this case.

Ex parte seizure provision under section 1836(b)(2)(A)(i) introduced under DTSA of the US, empowers courts, upon an *ex parte* application, to issue an order to seize property if necessary to prevent propagation or dissemination of trade secrets. Such an order can be issued only in extraordinary circumstances. Hence, the plaintiff is

required to follow procedural protections, and present to court verified facts and clear-cut evidence of actual or alleged misappropriation of trade secrets on an emergency basis. It is seen that a higher threshold is required from the plaintiff to be successful in obtaining an *ex parte* seizure order. Hence it is observed that the *ex parte* seizure procedure is well defined in the DTSA, and it attempts to balance the interests of the trade secret holder as well as the party who is alleged to have misappropriated the trade secret in a way not to cause irreparable damage to any party by an *ex parte* order.

Including a section on *ex parte* seizure will assist in taking immediate action to prevent the dissemination of information by unlawful means of use, acquisition, and disclosure of trade secrets. Moreover, it is essential to include precise criteria on which *ex parte* orders will be issued. It prevents misappropriation of the remedy and also assists in balancing the rights of trade secret holders and the parties to the litigation. It is also observed that the lack of procedural laws to back up substantive law enshrined in the IP Act will adversely affect the enforcement of rights pertaining to trade secrets. It is crucial in the case of trade secrets as the protection mechanism itself is weak.

IV. CONCLUSION AND RECOMMENDATIONS

In light of the aforementioned discussion, it is evident that the Sri Lankan legal framework does not have legal provisions to preserve confidentiality during and after court proceedings. It is a major lacuna in Sri Lankan law as it affects the enforcement of the substantive rights vested under the IP Act on the trade secret holders to initiate legal proceedings against parties for misappropriation of trade secrets. Given the hardships faced by trade secret holders to preserve secrecy in court proceedings, the paper suggests the inclusion of a comprehensive provision on the preservation of confidentiality during and after court proceedings to the IP Act. The writer recommends the structure of the UK regulation to be followed as it gives due consideration to the common law aspects of breach of confidence and principles of natural justice, thereby balancing the interests of all parties to litigation. The approach, on the one hand guarantees the trade secret holders the preservation of confidentiality of trade secrets and on the other hand, it ensures the other parties to the litigation for a fair trial. Hence the adoption of comprehensive legal provisions including the best practices followed in the selected jurisdictions would assist in

ensuring confidentiality during and after legal proceedings involving trade secrets.

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