

The Intersection of Contract Law with IP Law in the Protection of Undisclosed Information: A Sri Lankan Perspective

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Introduction

Knowledge assets have a profound impact on the successes of business in the 21st century. From an economic point of view, the rights associated with any undisclosed information or trade secrets provide its owner an important advantage over other competitors. The term ‘trade secret’ refers to information that is maintained in secrecy and has a commercial value.¹ Trade secrets may include formulas, business methods, recipes, designs, processes and customer lists. It is undeniable that trade secret rights are easier to acquire and lose than any other form of intellectual property (IP) rights.² Interestingly, in many cases, business firms rely on contractual obligation to protect their trade secrets and treat such agreements as an effective instrument to prevent their employees walking away with trade secret and joining other competitors. These covenants generally take the form as either non-disclosure agreements or not to compete agreements.

The issue which then arises is whether such restraint of trade agreement is enforceable or not. According to case law jurisprudence of Sri Lanka, the legal position of such agreements is neither very clear nor well settled. This has, of course, triggered certain misconceptions creating clouds of uncertainty in the business environment. In Sri Lanka, Contract Law is a fine blend of the Common Law and the Roman Dutch Law legal principles. English Law recognizes this category of agreements as illegal and void, whereas under the Roman Dutch Law there is no principle that invalidates such contracts. As a result, contracts of restraining trade would be valid as the Common Law of the country is the Roman Dutch Law. Nevertheless, due to the English influence, there is a tendency in Sri Lankan judiciary to recognize these contracts as being unenforceable. In reality though, most employers who own confidential information tend to protect such information through contractual obligations despite the fact that present Intellectual Property Law provides a sound protection for confidential information. In this context, this research aims to investigate whether and to what extent the Contract Law helps businesses to protect their valuable trade secrets.

Objective of the Research and Methodology

The purpose of this research is to analyse the applicability of the restraint of trade agreements for the protection of confidential information in Sri Lanka. This is a qualitative research based on primary and secondary sources. Although the research is

¹ Sangar D.S., ‘*Protection of Trade secrets and Undisclosed Information: Law and Litigation*’, (2011) JILI p. 254 - 255.

² Sharan K. Sandeen (ed), *Intellectual Property Deskbook for the Lawyers*, (2007) American Bar Association p.18.

mainly conducted through a literature review, the interview technique is also adopted to ascertain information from companies.

Discussion/ Outcome

The Protection of undisclosed information has deep roots in the Law of Equity. According to the equitable doctrine, *he who has received information in confidence shall not take unfair advantage of it.*³ Arguably, on the one hand, this principle is reinforced by Contract Law via restrictive covenants and labour law through fiduciary obligation/duty of confidentiality. And on the other hand, IP law provisions provide a sound basis for the trade secret protection. Thus, different legal norms intersect in creating a fascinating interface in this area of law. This research addresses this issue, having noticed that the protection of trade secrets and the law relating to restraint of trade are not mutually exclusive, but overlapping. In this context, this is an attempt to address the issue with special reference to protection of trade secrets through employment contracts.

In a typical scenario, an employee undertakes that he or she would not engage in business activities on his own or to enter into an employment contract with his employer's competitor. This is a common practice of firms where there is a risk of confidential information being divulged by an employee. Generally, an employer cannot prevent an ex-employee from competing with him as it goes against the underlying rationale of Contract Law of promoting the public policy on the one hand and the free trade and competition on the other.

Sri Lankan courts, over the years, have heavily restricted the application of restrictive covenants emphasizing that such agreements must be reasonable and should not unreasonably restrict an employee's right to continue employment and the ability to make a living. Furthermore, an ex-employee has the right to use his or her general stock of knowledge in exercising his or her profession. However, such a restriction may be justified if it is designed to protect a legitimate business interest such as confidential information, if it is reasonable between parties as well as in the public interest. It is arguable, therefore, that the mere fact that an employer has legitimate interests to protect does not allow the employer to have restraint of trade clause in the contract of employment. It may be reasonable, if the employer can show that it goes no further than it is reasonably necessary for the protection of the trade secret. Hence, each aspect of the clause must be justified in relation to the legitimate business interests. As a rule of thumb, the courts have to consider the scope of the activity, duration, territorial limitation and whether the covenant is fairly design to protect employer's trade secret. In doing so, courts have to adopt a subjective test. In *Coats Thread Lanka (Pvt) Ltd v. Samarasundara*, J.A.N. de Silva C.J. has lucidly stated the Sri Lankan legal position on restrictive covenants. In that case, the restraint of trade clause in question was declared void as the employee was employed as a mere work study assistant as opposed to a manager or a similar high position making it is unfair to implement the covenant among the contractual parties.⁴

³ Lord Denning M.R. in *Seager v Copydex* (1967) 2 All E. R. 417 (CA)

⁴ 2011 BLR 37

Although, confidential information is protected under the intellectual property regime, the corporate world has shown an increasing interest in contractual defense to protect its information through confidentiality clauses. One possible explanation for this would be that such clauses provide additional arguments to make a strong case for the employer. Similarly, in order to invoke IP protection, the employer has to prove the criteria set out in Section 160 of the IP Act, No. 36 of 2003.

Conclusion

In analyzing the protection of trade secret through the lens of Contract and IP Law, one would reasonably argue that both regimes are not exclusive but overlapping. Obviously, they are complementary to each other and can stand side by side. From an industrial point of view, confidentiality agreements are the most used instrument in the protection of undisclosed information. The lack of awareness on the use of IP protection for businesses may be responsible for this scenario. All in all, however, neither Contract Law nor trade secret law should exceed its parameters set by sound public policy reasons.

References

Sangar D.S., 'Protection of Trade secrets and Undisclosed Information: Law and Litigation', (2011)JILI p. 254 - 255.

Sharan K. Sandeen (ed), Intellectual Property Deskbook for the Lawyers, (2007) American Bar Association p. 18.

Coats Thread Lanka (Pvt) Ltd v. Samarasundara 2011 BLR 37

Finlay Rentokil (Ceylon) Ltd v. Vivekananthan (1995) 2 Sri L R 346

Herbert Morris Ltd v. Saxelby [1917] AC 688

Seager v Copydex [1967] 2 All E. R. 417 (CA)