

# Trade Secrets—China

By Qinghong Xu

This report summarizes China’s legal regime for enforcing trade secret rights and the remedies provided for trade secret right holders to combat misappropriation through, *e.g.*, judicial civil action, administrative action, and criminal prosecution, respectively before a people’s court, an office of Administration for Market Regulation, and a people’s procuratorate.

In China, the primary trade secret law is the *Anti-Unfair Competition Law of the People’s Republic of China* (the “AUCL”)—that was adopted September 2, 1993, amended for the first time in 2017, and most recently, on April 23, 2019—in order to update the relevant legal provisions and enhance the application of the AUCL. Further, when the *Criminal Law* was revised in 1997, misappropriation of trade secrets was written into the law as a crime. In terms of civil law, the protection of trade secrets and remedies for right holders can be found in the *Civil Code*, as well as in individual civil and commercial laws including the *Labor Law*, the *Labor Contract Law*, and the *Corporate Law*.

In addition to a myriad of statutes that protect trade secrets or confidential information, the Supreme People’s Court and the Supreme People’s Procuratorate of the People’s Republic of China also promulgated judicial interpretations for the application of the statutes, most recently in September 2020, relating to protection of trade secrets. Examples include the *Provisions of the Supreme People’s Court on Several Issues Concerning the Application of Law in the Trial of Civil Cases Involving Trade Secret Infringement* (the “Judicial Provisions,” effective September 12, 2020), and the *Interpretations (III) of the Supreme People’s Court and the Supreme People’s Procuratorate on Several Issues Concerning Specific Application of Law in Handling Criminal Cases of Intellectual Property Infringement* (the “Interpretation [III] on IP Criminal Cases,” effective September 14, 2020). Meanwhile, China’s State Administration for Market Regulation (“SAMR”), which supervises local offices’ administrative intellectual property enforcement, recently released the *Draft Provisions on the Protection of Trade Secrets* on September 4, 2020 for public comments (the “SAMR Draft Provisions”).

In sum, legal practice in China for protection of trade secrets is fast-moving, and it will be of utmost importance to follow all developments in China regarding trade secret protection to have a better understanding of the practical on-the-ground impacts of new law and rules on regulation and enforcement.

## 1. What Is Protectable?

The AUCL defines a trade secret that deserves legal protection as “technical, business, or other commercial information that is unknown to the public, that is of commercial value, and that has been subject to appropriate confidentiality measures taken by its right holder.” (Article 9, Paragraph 4). Accordingly, technical, business, or other commercial information, as long as it meets the above-defined criteria, is protectable. The protection is available by the operation of law against misappropriation or by contracts against breach of confidentiality obligations.

Technical information, according to Article 1 of the Judicial Provisions, refers to “technology-related information such as structures, raw materials, components, formulas, materials, samples, styles, propagation materials for new plant varieties, processes, methods or their steps, algorithms, data, and computer programs.” Business information, on the other hand, refers to “business-activities-related information such as creativity, management, sales, finance, plans, samples, bidding materials, customer information, and data, where the customer information includes customer’s name, address, contact information, transaction habits, deal intentions and contents” (*id.*).

## 2. What Is The Legal Nature Of The Protection?

Unlike a patent, trademark, or copyright, a trade secret is not a right granted by a government agency. The holder of trade secrets may file a civil lawsuit against an infringer asserting trade secret misappropriation, or alternatively, asserting breach of contract if the infringer violates confidentiality obligations in a relevant contract, thereby recovering damages and obtaining injunctive relief.

Alternatively, the holder of trade secrets may file a complaint with a local office of Administration for Market Regulation for administrative remedies against an infringer asserting trade secret misappropriation and demanding an investigation. The office would issue an injunction and a fine against the infringer if misappropriation is found through the investigation.

## 3. Is It Property?

A trade secret is one of the intellectual property rights that are exclusive to its right holder and that a

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civil entity enjoys. *See* the Civil Code, Article 123.

As a property, the trade secret shall derive commercial value, either real or potential, from not being generally known. (*See, e.g.*, the Judicial Provisions, Article 7).

#### 4. How Long Does Protection Last?

Without any time specified by a right holder of trade secrets, the length of the protection of a trade secret will not be extended beyond the time when the trade secret becomes known to the general public. Alternatively, the right holder may specify the length of protection by defining it in a relevant contract.

#### 5. Which Activities Can Be Prevented?

The AUCL prescribes the activities of wrongdoer liability for trade secret misappropriation, including:

- (i) Obtaining trade secrets of a right holder through theft, bribery, fraud, coercion, electronic intrusion, or other illicit means;
- (ii) Disclosing, using, or allowing others to use trade secrets of a right holder through the aforesaid means;
- (iii) Violating confidentiality obligations or violating a right holder's requirements on keeping confidentiality of trade secrets, and disclosing, using, or allowing others to use such trade secrets they obtained; and
- (iv) Soliciting, persuading, or assisting others to violate confidentiality obligations or to violate a right holder's requirements on keeping confidentiality of trade secrets, so as to disclose, use, or allow others to use such trade secrets of the right holder.

(*See* the AUCL, Article 9). This article should apply when the wrongdoer is importing trade secrets of a right holder into China as long as any of the afore-described activities take place in China. In addition, this article further defines a third-party liability where the third party obtains, discloses, uses, or allows others to use a trade secret that she or he knew or should have known that an employee or former employee of the trade secret right holder, or any other entity or individual has misappropriated it in conducting any of the afore-described activities.

#### 6. Do You Need To Do Anything To Obtain Protection?

A trade secret right holder cannot register a right through a government agency. However, she or he has to take one or more appropriate confidentiality measures in order to obtain the protection for trade secrets. (*See* the AUCL, Article 9). Examples of appropriate confidentiality measures include:

- (i) Signing a confidentiality agreement or stipulating confidentiality obligations in a contract;
- (ii) By means of company articles, training, rules and

regulations, and written notifications, imposing confidentiality requirements on employees, former employees, suppliers, customers, and visitors who have access to the trade secret;

- (iii) Restricting visitors or conducting differentiated management of production and business sites such as secret-related factories and workshops;
- (iv) Differentiating and managing the trade secret and its carriers by means of marking, classifying, isolating, encrypting, sealing, and/or limiting persons who can have access;
- (v) Taking measures such as prohibiting or restricting the use, access, storage, copying of computer equipment, electronic equipment, network equipment, storage equipment, and software that have access to the trade secret;
- (vi) Requesting resigned employees to register, return, clear, destroy the trade secret and its carriers that they have obtained and continue to assume the obligations of confidentiality; and
- (vii) Taking other reasonable confidentiality measures. (*See, e.g.*, the Judicial Provisions, Article 6).

#### 7. What Defenses Are Available?

One of the defenses is to claim the technical, business, or other commercial information that is known to the public, for example:

- (i) The information belongs to common sense or industrial knowledge in the field;
- (ii) The information only involves the size, structure, material, simple combination of components, which can be directly obtained by relevant personnel in the field through the observation of a product;
- (iii) The information has been publicly disclosed in publications or other media;
- (iv) The information has been disclosed through conferences or exhibitions; and
- (v) The information can be obtained from other public channels by relevant personnel in the field. (*See, e.g.*, the Judicial Provisions, Article 4).

Independent development and reverse engineering are also defenses, where the reverse engineering refers to “the disassembly, surveying, mapping, and analysis of products obtained from public channels to acquire relevant technical information of the products through technical means.” (*Id.* at Article 14).

As an entity can require resigned employees to register, return, clear, destroy the trade secrets and its carriers that they have obtained and continue to assume the obligations of confidentiality (*id.*), the AUCL does prohibit a third party to obtain, disclose, use, or allow

others to use the trade secrets from the former employees (Article 9). However, the prohibition does not include former employees' general knowledge and skills.

More, the SAMR Draft Provisions provide additional exemptions including the secrets obtained by shareholders through exercising their rights according to law, and the disclosure of trade secrets by employees, former employees, or partners of the right holder for the sake of public and national interests relating to environmental protection, public health, public safety, and the disclosure of illegal and criminal activities. (Article 19).

### 8. Are The Rules For Employees Different?

Rules are not different except the Chinese *Labor Law* provides that an employer and its employee can enter into a confidentiality agreement regarding the employer's trade secrets in a labor contract (Article 22), and if the employee breaches a labor contract in violating the confidentiality agreement and causes economic losses to the employer, the employee shall be liable for damages (Article 101). Similar provisions are also prescribed in the *Labor Contract Law* (Article 23) and the *Corporation Law* (Articles 149 and 150).

### 9. Are Innocent Recipients Of Information Treated Differently?

Innocent recipients of information are treated the same and are bound by implied confidentiality, as long as they know or should have known that the received information belongs to the right holder's trade secrets "based on the principle of good faith and the nature, purpose, process of contracting, and trading habits of the process." (See, e.g., the Judicial Provisions, Article 10, Paragraph 2).

### 10. Is There A Limitation Period?

For civil remedies, the statute of limitation is three years from the date the right holder is or should have been aware of trade secret misappropriation and the infringer who conducted the misappropriation.

For criminal remedies, the limitation period is 10 years from the date of a crime of trade secret misappropriation. If the criminal act is of a continuous or continuing nature, the limitation period is counted as commencing on the date when the act is completed.

For administrative remedies, the limitation period is two years since the date of an illegal act of trade secret misappropriation. If the illegal act is of a continuous or continuing nature, the limitation period is counted as commencing on the date when the act is completed.

### 11. What Does A Claimant Need To Claim And To Prove In Order To Bring A Claim?

For civil remedies, the claimant-plaintiff has to provide evidence showing that she or he is the legitimate holder of a trade secret and that the trade secret has

been misappropriated by the defendant(s), and claims damages, if any. In other words, in China, a plaintiff of a judicial civil action must collect and submit her or his own evidence to meet the burden of proof regarding, *inter alia*, trade secret misappropriation and damages.

For administration remedies, the claimant needs to provide preliminary evidence showing that she or he is the legitimate holder of a trade secret and that the trade secret has been misappropriated by the defendant(s) and demands an investigation. An office of Administration for Market Regulation would examine the preliminary evidence and decide whether to initiate the investigation.

### 12. Are Pre-trial Search Orders Available?

In practice, an often-used procedure to uncover evidence for trade secret misappropriation is evidence preservation provided by the Chinese *Civil Procedure Law*, where a right holder may seek an *ex parte* court order to preserve such evidence with a post of security bond. The evidence preservation order is typically enforced by judges, who, in the execution of the order, would question the accused infringer, order production of documents, take samples of the accused infringing product, and conduct an inspection of the accused infringer's premises. Any evidence obtained from the evidence preservation, once verified by the court, is admissible in subsequent court proceedings. However, such an order has been granted only in a few cases as the right holder has an initial burden to present preliminary evidence proving ongoing or imminent misappropriation.

### 13. Are Injunctions Available And, If So, What Sort?

Both preliminary and permanent injunctions are available to trade secret civil actions. Since a trade secret is not a right granted by a government agency, whether something constitutes a trade secret is always subject to disputes, and as such, the likelihood of success on the merits is more difficult to prove for trade secret cases. Therefore, it is rare to obtain a preliminary injunction against misappropriation, which is also contributed by the *ex parte* nature in deciding whether or not to grant a preliminary injunction. However, once the right holder prevails on a claim of trade secret misappropriation in a civil proceeding, a permanent injunction is likely to be granted by a people's court, and it continues until the information ceases to be a trade secret (*i.e.*, available to the general public) or might be for a period of time necessary to "eliminate the unfair competitive advantage" by the defendant who obtains the unfair advantage through the misappropriation of the trade secret. (See, e.g., the Judicial Provisions, Article 17).

For administration remedies, a local office of Ad-

ministration for Market Regulation would issue an injunction and a fine against the infringer if a misappropriation is found through the administration office's investigation.

#### **14. Can You Claim Damages Or An Account Of Profits And Are There Any Other Remedies?**

For civil remedies, once a people's court finds trade secret misappropriation, damages can be decided based on the AUCL's methodologies for damage calculations: (i) the right holder's actual loss, (ii) if (i) is not available, the infringer's profits realized from the misappropriation, and (iii) if neither is available, a statutory damage below CNY 5,000,000. A punitive damage can be awarded equal to one to five times the damages calculated from (i) or (ii) if the misappropriation is malicious and the circumstances are serious. (See Article 17). Further, the damages awarded should also cover the reasonable costs (such as attorney fees) spent by the right holder of trade secrets in stopping the misappropriation.

Where a defendant's actions have caused a trade secret to become known to the general public, a people's court can also determine the damages according to the commercial value of the trade secret, in which the commercial value shall be calculated with reference to its research and development costs, proceeds from practicing the trade secret, the tangible benefits, and the length of time during which the trade secret confers competitive advantages to the right holder. (See the Judicial Provisions, Article 19).

#### **15. Can You Apply For Delivery Up?**

In a judicial civil action, the Judicial Provisions specify that "a people's court shall support the right holder's demands for returning or destroying a carrier containing secret information and removing the secret information under the infringer's control." (Article 18). The "carrier" often refers to a storage medium, such as an electronic device, that contains confidential information.

In an administrative action, a local office of Administration for Market Regulation can order the return of drawings, blueprints, software containing trade secrets, and/or order the destruction of the goods manufactured using the trade secrets if such goods would disclose the secrets to the public when made available. (The SAMR Draft Provisions, Article 32).

#### **16. Will The Information Be Safeguarded In The Judicial Process?**

The Judicial Provisions require a trial court to "take necessary confidentiality measures in litigation activities such as preservation, evidence exchange, cross-examination, entrusted appraisal, inquiry and court hearings," which shall be on a written request from the litigants. (See Article 21). However, no specifics have

been provided on what kind of protective orders are recommended or even allowed.

#### **17. Is Misuse A Crime And, If So, What Is The Punishment?**

The *Criminal Law* Article 219 stipulates that for trade secret misappropriation (i) which causes significant losses to the right holder, one shall be sentenced to an imprisonment of less than three years of criminal detention with, concurrently or solely, a fine; or (ii) which causes exceptionally serious consequences, one shall be sentenced to an imprisonment of more than three years but less than seven years together with a fine. Specifically, the Interpretation (III) on IP Criminal Cases specifies that "causing significant losses to the right holder" refers to any of the following circumstances:

- (i) The amount of losses to the right holder or the amount of illegal gain is more than CNY 300,000;
- (ii) The misappropriation directly causes the right holder to go bankrupt or to encounter major business difficulties; and
- (iii) The misappropriation causes the right holder major losses.

"Causing exceptionally serious consequences," on the other hand, refers to when the amount of losses to the right holder or the amount of illegal gain is more than CNY 2,500,000. (See the Interpretation (III) on IP Criminal Cases, Article 4).

In many situations, a criminal prosecution is concurrent with a judicial civil action.

#### **18. How Easy Is It To Bring A Claim?**

For an administrative action, a local office of Administration for Market Regulation has the power to investigate trade secret misappropriation acts based on a complaint and preliminary evidence submitted by a trade secret right holder. According to Article 22 of the AUCL, after an investigation and determination of wrongdoing, the office can order the wrongdoer to cease the misappropriating acts and impose a civil fine, but cannot award damages to the right holder.

For a judicial civil action, a plaintiff must collect and submit its own evidence to meet the burden of proof regarding trade secret misappropriation and damages where Chinese people's courts rarely accept evidence unless it is in its original form. It usually takes 12 to 36 months for concluding a technical trade secret misappropriation civil lawsuit and nine to 15 months for a commercial trade secret misappropriation civil lawsuit. It is essential and time-consuming to have a proper and thorough evidence collection process to overcome the challenging evidentiary hurdles for a potential plaintiff in a trade secret misappropriation case.

Criminal prosecution should always be considered as

an enforcement option when the trade secret holder has suffered “significant losses” or “exceptionally serious consequences” and is very effective in trade secret misappropriation cases.

Enforcement of trade secret rights after misappropriation has occurred is difficult and expensive, especially with the heavy evidentiary burden to prove trade secret misappropriation. The AUCL, when enacted in April 2019, added a provision to shift the burden of proof, which substantially favors trade secret right holders. The burden-of-proof shifting provision, Article 32, requires a trade secret right holder to provide *prima facie* evidence on the existence of a trade secret (by reasonably demonstrating that confidentiality measures have been taken with respect to the trade secret that was nonetheless misappropriated) and the existence of misappropriation (by reasonably showing that the defendant had an opportunity to access the trade secret and the information defendant used is substantially similar to the trade secret or the trade secret has been disclosed or used or there is a risk of being disclosed or used by the defendant), after which the burden shifts to the defendant to disprove the existence of a trade secret or misappropriation.

#### **19. Will Disclosures To Administrative Bodies Be Protected?**

The Judicial Provisions failed to include a provision that exempts the liability of trade secret misappropriation if a trade secret was disclosed to relevant authorities for public interests or prevention of crimes, where such a provision, however, had been included in the original draft but was deleted in the final version. The SAMR Draft Provisions, on the other hand, provide the

exemptions to the disclosure for the public or national interests in relation to environmental protection, public health, public safety, or crime disclosure. (Article 19).

#### **20. Are There Commercialization Laws That Could Affect Commercialization Of The Property?**

For cross-border transfer of ownership or right to use of technologies including trade secrets between Chinese domestic and foreign companies, the import and export of civilian technologies is regulated by the *Technology Import and Export Management Regulations* (“Regulations”), while the *Draft Export Control Law* is currently under review. The Regulations take a catalogue management approach on technologies, that is, they are categorized into prohibited technology, restricted technology, and free technology based on the sensitivity of concerned technologies, and a list for each category is formulated by the Chinese government accordingly. Technologies in the prohibited list are forbidden from import or export. Technologies in the restricted list may be imported or exported provided a corresponding license from the Chinese government is obtained beforehand. Technologies not included in either the prohibited or restricted list are free to import or export, however the technology import/export contract is advised to be recorded with the Chinese government in order to facilitate monetary payment relating to the contract. The Regulations would affect the commercialization of the trade secrets between Chinese domestic and foreign companies. ■

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