



Featured Article

Determination of Confidentiality Measures in Trade Secret Cases

Key Points: In determining whether a piece of business information conforms to the trade secret protected by law, "taking corresponding confidentiality measures" is one of the very important components. This article starts with case studies to analyze the requirements for confidentiality measures in judicial protection practices.

I. Legal requirements for confidentiality measures

Differing from other types of intellectual property such as trademarks and patents, the establishment of trade secrets does not require review and approval by national administrative authorities, instead of the actions of the rights holder. Therefore, for the purpose of obtaining legal protection as the trade secret under the law, commercial information must meet the constituent elements stipulated in Article 9, Paragraph 3 of the *Anti-Unfair Competition Law*. Specifically, it must satisfy the following

conditions: not be known to the public, have commercial value, and be subject to corresponding confidentiality measures taken by the rights holder. One of these constituent elements, the confidentiality measures, which are taken by the rights holder, should reflect the rights holder's subjective intention to protect the information they claim as a trade secret. Adopting appropriate confidentiality measures to keep the commercial information in a state of secrecy is a prerequisite for the legal protection of the commercial information claimed by the rights holder.

Specifically, according to *the Provisions of the Supreme People's Court on Several Issues Concerning the Application of Law in the Trial of Civil Cases Involving Infringement of Trade Secrets*, "the People's Court shall determine whether the right holder has taken corresponding confidentiality measures based on factors such as the nature of the trade secret and its carrier, the commercial value, the identifiability of the confidentiality measures, the correspondence between the confidentiality measures and the trade secret, and the right holder's intention to keep the information confidential. "

II. Representative case on the determination of confidentiality measures

The following case studies further illustrate the understanding of confidentiality measures in laws and judicial interpretations.

(I) Can the confidentiality regulations and confidentiality agreement be identified as "confidentiality measures"?

In most cases, rights holders protect their business information through confidentiality regulations and confidentiality agreements with counterparties, generally referred to as "soft protection." We can further understand the requirements of the confidentiality measures recognized by the

Court through the following cases.

In the case of (2023) Zui Gao Fa Zhi Min Zhong No.2587, the Court held that determining whether the rights holder had taken corresponding confidentiality measures should be judged comprehensively from both subjective and objective aspects. Subjectively, whether the rights holder had the intention to keep the information claimed as a trade secret confidential; objectively, whether the confidentiality measures taken are identifiable and proportional to the value of the related information. In judging whether the confidentiality measures are proportional to the value of the related information, not only the level of commercial value of the information should be considered, but also the obviousness of the commercial value. If the commercial value of the information is obvious, and the general public should know that the information may be someone else's trade secret upon seeing it, the requirements for confidentiality measures should not be too high. If the rights holder has taken confidentiality measures through confidentiality agreements or explicitly stipulated confidentiality obligations in contracts, and these measures are sufficient to prevent the leakage of trade secrets under normal circumstances, it can generally be recognized that the rights holder has taken corresponding confidentiality measures.

Considering the circumstances of this case, the existing evidence showed that the

plaintiff had taken corresponding confidentiality measures for the claimed technical secrets. Regarding the rights holder's intention to keep secrets, the rights holder signed an "Employee Confidentiality Agreement" with the defendant (former employee), which showed the subjective intention to keep the technical secrets confidential; regarding the objective effect, the aforementioned "Employee Confidentiality Agreement" clearly stipulates that the scope of trade secrets included "formulas", and the content of the claimed technical secrets was the formula of automobile initial loading oil. The general public should know that such information may be someone else's trade secret upon seeing it. The defendant, being a staff member in the relevant industry, should be aware of the importance of the claimed technical secrets and should strictly fulfill the confidentiality obligations stipulated in the "Employee Confidentiality Agreement."

In the case of (2017) Zui Gao Fa Min Shen No.2964, the plaintiff claimed that it had taken confidentiality measures for trade secrets through confidentiality regulations such as "Several Provisions on Confidentiality Work" and a "Labor Contract Agreement" signed with the defendant (former employee). The Court held that, firstly, "Several Provisions on Confidentiality Work" only generally required all employees to keep the company's production technology secrets and not to use the technology they have mastered to produce or provide technical

services for others to produce products that compete with the company within a specified time. This content was mainly about non-competition restrictions and did not allow all employees to know the scope of the information that the plaintiff claimed as trade secrets, i.e., the object of confidentiality. Therefore, it did not constitute a feasible measure to prevent the leakage of technical secrets and could not achieve the effect of confidentiality in reality. Secondly, the "Labor Contract Agreement" was a standard contract, which stipulated that Party B (former employee) must keep the technical and business secrets of Party A (company), and if Party B leaked the secrets of Party A, Party A would reserve the right to pursue economic losses. This provision also could not be recognized as a confidentiality measure that meets the regulations.

In the case of (2013) Min San Zhong Zi No.6, the plaintiff signed a "Labor Contract" with its employee, which included content such as "Party B must keep Party A's trade secrets, technical information, business information, and not disclose, use, or allow others to use...". At the same time, the plaintiff sent materials to the defendant with the specific location of the involved real estate project concealed and explicitly required the recipient to keep the information confidential and not to disclose it to third parties. The Court held that the plaintiff signed labor contracts containing confidentiality clauses with its staff internally and concealed the specific location information of the involved real

estate project externally while explicitly proposing confidentiality requirements. Therefore, it can be recognized that the plaintiff has taken confidentiality measures for the claimed business information.

From the above case studies, it can be seen that the relevant content of the documents agreed upon for confidentiality (such as confidentiality regulations, confidentiality agreements, labor contracts, etc.) must be clear and specify the secret content or scope that needs to be kept confidential. It cannot just be a general "business secrets" or "technical secrets." Employees must be clear that the relevant information needs to be kept confidential. If the content of the confidentiality documents is too broad and insufficient to make the counterparty aware that the information is confidential, then other measures, such as hardware measures, are still needed to clarify the confidential information.

(II) The confidentiality measures should be active and proactive measures

1. Can the confidentiality obligation in contractual ancillary duties be recognized as "taking corresponding confidentiality measures"?

In the case of (2012) Min Jian Zi No. 253, the plaintiff claimed that the defendant had a confidentiality obligation ancillary to the contract for the claimed information. The Court held that, although according to the Contract Law, parties have a

confidentiality obligation not to disclose or misuse the trade information during the conclusion, performance, and termination of the contract, the contractual ancillary obligation and the rights holder's confidentiality measures for secret information are two different concepts. The defendant's confidentiality obligation under the Contract Law cannot be used to determine that the plaintiff has taken confidentiality measures for the claimed information. Trade secrets are intangible assets that exist through the rights holder's confidentiality measures, with characteristics such as easily diffused, easily transferred and permanently lost once disclosed. Confidentiality measures are the means to maintain and protect the secrecy of trade secrets. As information protected by trade secrets, the rights holder must have the subjective intention to protect the information as a secret and must also implement objective confidentiality measures. This is because trade secrets are rights generated through self-confidentiality. If the rights holder themselves do not take confidentiality measures, there is no need to protect the information, which is also the value and role of confidentiality measures in the composition of trade secrets.

2. Can statutory confidentiality obligations be recognized as "taking corresponding confidentiality measures"?

The *Company Law* stipulates that directors, supervisors, and senior management

personnel of a company (collectively referred to as "top executives") have a statutory confidentiality obligation for the company's business information. The top executives in company, due to their special status, are more likely to obtain the company's business information, and most trade secret cases in practice are triggered by the fact that top executives take their former employers' trade secrets to their new employer when they leave the former job. Can the statutory confidentiality obligation under the **Company Law** replace the confidentiality measures taken by the company?

In the case of (2017) Zui Gao Fa Min Shen No.1602, the plaintiff claimed that the defendant had worked for the plaintiff for a long time and held an important position, violating the confidentiality obligation stipulated by the Company Law, and thus claimed to have taken reasonable confidentiality measures. The Court held that disputes over the infringement of trade secrets and disputes over the damage to the company's interests by top executives are different in legal relations, constituent elements, and objects of review. The confidentiality obligation based on the fiduciary duty of directors, supervisors, and senior management personnel stipulated by the Company Law does not fully reflect the rights holder's subjective intention and proactive attitude to take confidentiality measures for the information protected by trade secrets. It cannot constitute a proactive confidentiality measure and obviously

cannot exempt the rights holder from the proof burden for taking reasonable confidentiality measures in litigation.

Basing on the above two cases, it can be concluded that the confidentiality measures in the constituent elements of trade secrets are proactive actions. Whether confidentiality obligation in contractual ancillary duties or statutory confidentiality obligations, they are not recognized as confidentiality measures because they are not proactive actions taken by the rights holder. From the perspective of the rights basis of trade secrets, if the rights holders want to claim that their business information constitutes a trade secret protected by law, they must not only have the subjective intention to keep secrets but also take proactive confidentiality measures objectively.

3. Must confidentiality measures be taken by written agreements?

In the case of (2021) Zui Gao Fa Zhi Min Zhong No.312, the plaintiff's evidence for confidentiality measures mainly included the "confidentiality fee" included in the salary received by the defendant (one of the plaintiff's shareholders and directors) from the plaintiff's affiliated company (where the defendant also served as the deputy general manager), the confidentiality agreements signed by the defendant on behalf of the plaintiff's affiliated company with its employees, and the confidentiality agreements and confidentiality commitment letters signed

with the plaintiff's customers. That is, there was no written confidentiality agreement between the plaintiff and the defendant, nor were there any confidentiality regulations or documents. The defendant argued that the above evidence was irrelevant to the plaintiff and belonged to the confidentiality measures taken by the plaintiff's affiliated company. The plaintiff had not taken any confidentiality measures, and as a company executive, the defendant was not bound by the confidentiality agreement because he had not signed one with the plaintiff's affiliated company.

The Court held that, firstly, in principle, confidentiality measures are usually taken by the rights holder of the trade secret. Although the plaintiff did not sign any form of confidentiality agreement with the defendant, in actual operations, the defendant had been conducting electronic and computer hardware product testing systems, equipment, and instrument-related businesses through both the plaintiff and the plaintiff's affiliated company (the plaintiff was responsible for developing foreign customers, and the affiliated company was responsible for the production and manufacturing of all customer orders from the plaintiff), and was in charge of the specific operations and daily management of the employees of both companies. Based on this special business cooperation relationship between the two companies, the confidentiality measures taken by the plaintiff's affiliated company, as shown in the evidence, also

indicated the plaintiff's subjective intention to keep secrets, and the confidentiality measures taken by the affiliated company could be regarded as the confidentiality measures taken by the plaintiff. Secondly, trade secrets are rights that exist through the rights holder's own protection. The characteristic of the information not being known to the public is maintained through the rights holder's confidentiality measures. The legal requirement of "confidentiality measures" is mainly to emphasize that the rights holder needs to objectify their subjective intention to keep secrets, but it does not mean that the confidentiality measures must be foolproof and strictly correspond to the content they claim to keep confidential.

The trade secrets claimed by the plaintiff are the core resources of the company in market competition. Personnel who come into contact with this information at work, especially senior management, should know that the relevant customer information is confidential. As a senior manager of both the plaintiff and the plaintiff's affiliated company, the defendant should have a confidentiality obligation for the trade secrets of both companies based on the principle of good faith. In particular, the defendant had signed confidentiality agreements on behalf of the plaintiff's affiliated company with its employees and had received confidentiality fees from the affiliated company. Therefore, the defendant's claim that no confidentiality measures were

taken on the grounds that no separate confidentiality agreement was signed with the plaintiff cannot be upheld.

In this case, although there was no written confidentiality agreement between the plaintiff and the defendant, the defendant had been involved in the business activities of the plaintiff and the plaintiff's affiliated company and held a special position as a senior manager of both companies. So the confidentiality measures taken by the affiliated company were also regarded as the confidentiality measures taken by the

plaintiff.

In summary, based on the aforementioned cases and other trade secret cases, the Court adopts a relatively lenient standard for determining whether "appropriate confidentiality measures". As long as the rights holder has the subjective intention to keep secrets and has taken proactive action objectively that match the confidential content claimed, these confidentiality measures do not necessarily need to be foolproof or correspond one-to-one with the confidential content.

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Ms. Zang Yunxiao has expertise in intellectual property litigation and arbitration (including trademark infringement, patent infringement, copyright infringement and unfair competition); patent invalidation, trademark application/objection/invalidation; intellectual property legal counsel, company perennial legal counsel, economic contract disputes, etc. Since July 2004, she has represented a lot of intellectual property litigation cases, as well as patent and trademark invalidation cases, and has deep research and rich experience in intellectual property protection and risk prevention. She is particularly good at patent invalidation, patent litigation, patent infringement analysis and other types of cases in the electrical and mechanical fields; she also has extensive experience in trademark application, invalidation and rights protection. Her trademark infringement and unfair competition cases have been selected in the typical case of the Beijing Intellectual Property Court and the typical case recommended by "China Intellectual Property". In addition, she is also good at designing intellectual property strategic protection programs for companies.