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Q247

Trade secrets: Overlap with restraint of trade, aspects of enforcement

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I. Current law and practice

Aspect (i) - Overlap with restraint of trade

1) Is trade secret protection viewed as a form of restraint of trade and, if so, under what circumstances and under which legal regimes (e.g. competition law)?

no

If not please comment.:

Answer: Chinese law does not view trade secret protection as a form of restraint of trade.

a) If so, under what circumstances and under which legal regimes (e.g. competition law)?

2) How does your law distinguish between general skills or knowledge acquired during the course of employment, confidential information, and trade secrets? What protection is extended to each?

Answer: There is no definition or protection mechanism of general skill or knowledge and confidential information in Chinese law. Chinese law only provides the definition and protection mechanism of trade secret. Although Chinese law has not provided express distinction among skills acquired during the course of employment, confidential information, and trade secrets, the Supreme Court of China held in some cases that "knowledge, experience and skills acquired and accumulated during the course of employment by an employee constitute an integral part of the employee's personality that the employee may freely explore at his or her discretion after the termination of the employment, provided that such knowledge, experience and skills are not the trade secrets of the employer; in the absence of

non-compete obligation violation and trade secret infringement, the employee’s use of knowledge, experience and skills learned during the course of the employee’s prior employment to service a party that competes with the ex-employer shall not be deemed as *prima facie* unfair competition per Article 2 of the Anti-Unfair Competition Law of the People’s Republic of China.”

3) Are employees under a duty of confidence whether or not such a duty is set out in their contract of employment?
 yes
 If yes please answer the following sub-questions::

a) are express confidentiality clauses to protect classes of information broader than would anyway be protected by the employee’s duty of confidence permitted; and

Answer: According to Chinese law, an ex-employee is under a duty to the employer to keep the trade secret he accessed during his employment. This duty is statutory duty, no matter whether it is set out in a contract or not, the ex-employee should bear the duty according to the provision of law. Whether an ex-employee is subject to the duty of non-competition depends on three conditions: first, such a duty must be set out in contract; secondly, the ex-employee must have a duty to maintain the secrecy of the ex-employer’s trade secrets and confidential matters in connection with its intellectual property; and lastly, the employer must pay reasonable compensation to the ex-employee on a monthly basis. If the above conditions are not met, the ex-employee shall be free of the duty of non-competition

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With respect to express confidentiality clauses, Chinese law does not prohibit employee and employer making agreement that the employee should bear the duty of confidence for information besides the employer’s trade secret. According to the principle of freedom of contract, as long as such an agreement reflects the real and mutual intention of the parties, it should be deemed valid.

b) how long after the end of employment does an ex-employee’s duty of confidence in relation to trade secrets last in the absence of any express confidentiality clause?

Answer: The employee’s duty of confidence shall have binding force as long as the information remains as trade secret, which means the information has not become known to the public. However, the Labor Contract Law of P.R.C. provides that the maximum period of the duty of non-competition is two years since the employee leaves the job.

4) If not constrained by an enforceable non-compete agreement, may workers use knowledge acquired in the course of earlier employment in their new employment?
 yes
 If yes, is there any distinction between the types of knowledge they can use?:
Answer: For the knowledge which the employee acquired in the course of earlier employment

such knowledge cannot be regarded as trade secret defined by law, the employee can use it in new employment. And, since that such knowledge does not constitute trade secret, it is not necessary to further distinct.

5) Are certain employees subject to a higher obligation of confidentiality / non-use?
no

Aspect (ii) - Ensuring confidentiality during Court proceedings

6) What measures or provisions are available to preserve the secrecy of trade secrets during Court proceedings?
Answer: The Chinese courts have realized the importance of and have been researching on preventing divulgence of trade secret during court proceedings. In this respect, the following law provision and method are adopted by the Chinese courts in practice:

For example, do trade secret proprietors have access to the following mechanisms to preserve the secrecy of a trade secret during proceedings (subject to the Court's discretion to allow/disallow such access):

a) restricted access to the hearing and / or evidence;
Answer: According to Item 2, Article 134 of the Civil Procedure Law of the P.R.C., a case involving trade secret may not be heard publicly if a party so requests.; Item 3 of Article 103 of the Interpretation of the Supreme People's Court on the Civil Procedure Law of the P.R.C. provides that evidence concerning trade secrets shall not be examined or cross-examined publicly.

b) disclosure of evidence only to the legal representatives of the opponent, but not to the opponent themselves;
In the session of examination and cross-examination of evidence concerning trade secret information, courts may take the following measures to prevent divulgence of trade secrets during proceedings: (1) disclosing such evidence only to the defendant's attorneys, but not to the defendant or other employees; (2) disclosing such evidence by stages; (3) requesting parties in the proceedings to sign confidentiality agreements; and (4) limiting the scope of evidence exchange and examination and cross-examination to the plaintiff's claims.

c) non-confidential versions of documents being provided to all except authorised individuals;
Please refer to the answer to Question 6(b).

d) only non-confidential parts of any judgment / decision publicly available?
Answer: Court judgments including trade secret information may not be made available to the public. Contents concerning trade secrets that are not directly included in the court judgments may be delivered to parties as the attachments for the court judgments.

7) If such (or similar) measures are available, do they apply by default, or must the trade secret holder submit sufficient evidence to convince the Court that the information merits protection?

Answer: Measures listed in the answer to Question 6 shall apply when the party requests. Normally, they are not applied by default.

8) Whether or not such measures are available, does the Court restrict the defendant's or claimant's use - after the proceedings have terminated - of the information they gain during the proceedings?

Answer: As described in item b and c for Question 6, according to the request of the party, the court could require all litigious participants to submit written commitment that they shall not use the trade secret information accessed during the proceeding.

Aspect (iii) - Valuation of loss

9) Are damages available as a remedy for trade secret violation?

yes

If so please answer the following sub-questions::

a) how (if at all) is that value diluted by publication?

Answer: According to the Judicial Interpretation of the Supreme Court of China, in the circumstance where the trade secret has been known to the public due to infringement, the damages should be quantified according to the commercial value of the trade secret. The commercial value of trade secret should be decided according to the following factors: research costs, the earnings and acquirable interests from the implementation of the trade secret and the period of time which the trade secret maintains competitive advantage, etc..

b) how are those damages quantified? Specifically, is allowance made for loss of profits; unjust enrichment; and /or what the trade secret holder would or might have charged as a reasonable royalty fee or licence?

Answer: According to the Judicial Interpretation of the Supreme Court of China and the corresponding provisions of law, the amount of damages of infringement on trade secret should be quantified in the following order: first, it should be determined according to the actual loss suffered by the right holder as a result of infringement; secondly, if the actual loss is difficult to calculate, the damages should be determined by the profits gained by the infringer from the infringement; thirdly, if the loss suffered by the right holder and the profit gained by the infringer are difficult to calculate, the amount of damages may be determined reasonably by referring to the license fee of the trade secret; and lastly, if the loss suffered by the right holder, the profit gained by the infringer and the license fee are all unavailable, the court may determine at its discretion the amount of damages within the range from RMB 10,000 to RMB 1,000,000. The amount of damages shall cover the reasonable expenses incurred by the right holder for stopping the infringement acts (e.g. the expenses generated from investigating and collecting evidence for filing an action, etc.).

c) can damages be awarded for moral prejudice suffered by the trade secret holder? If so, how is moral prejudice defined, and how are such damages quantified?

no

If not please comment.:

Answer: Chinese law does not provide moral damages as remedy for trade secret infringement, because that trade secret is considered as a property right, not a personal right.

d) If so, how is moral prejudice defined and how are such damages quantified?

Aspect (iv) - Proving infringement

10) What elements must be proved to establish violation of a trade secret?

Answer: Normally, the plaintiff must prove that:

- a. The alleged trade secret should satisfy the condition of legal protection, including that the information should not be known to the public, it could bring economic benefit to right holder, and the right holder has taken reasonable security measures. and
- b. The defendant has infringed upon the alleged trade secret, which in most cases can be proved by the satisfaction of the "access + similarity" formula.

11) What additional elements must be proved (if any) for a trade secret violation in comparison to a breach of confidence, to the extent those are different types of violations?

Answer: There is not any corresponding concept of "breach of confidence" in Chinese law. Therefore, we are not certain about the legal definition of "breach of confidence" and its difference from trade secret violation.

12) Can constructive knowledge of a trade secret by an ex-employee or a new employer be imputed, e.g. if the subject-matter of that ex-employee's work was closely linked to the trade secret?

yes

If so, in what circumstances? :

Answer: According to the direction of the Supreme People's Court of P.R.C., in the circumstance where the right holder of trade secret has proved that the information used by the ex-employee or the new employer is identical or substantially identical with the alleged trade secret, and the ex-employee was able to access or illegally acquire the alleged trade secret, e.g. the subject-matter of that ex-employee's work was closely linked to the trade secret, then the court may, based on the specific circumstance, known facts and common sense, presume that the ex-employee has accessed or illegally acquired the alleged trade secret. ¹

Footnotes

1. [^] See *Item 25 of the Opinions of the Supreme People's Court on Issues concerning Maximizing the Role of Intellectual Property Right Trials in Boosting the Great Development and Great Prosperity of Socialist Culture and Promoting the Independent and Coordinated Development of Economy*, 16 December, 2011

13) Does your jurisdiction provide for discovery?

no

14) Does the burden of proof switch to the defendant if the applicant is able to demonstrate, to a certain

level of probability, that there has been a violation?
yes
If yes, what is this threshold?:
<p>Answer: The burden of proof shall switch to the defendant, when the plaintiff has successfully demonstrated that the alleged trade secret information meets the statutory definition of trade secret and established a <i>prima facie</i> infringement according to the formula of “access + similarity”. The defendant shall then need to prove that he does not constitute infringement, for example, the information possessed by the defendant that is identical or substantially identical with the alleged trade secret is acquired by self-development or reverse engineering.</p>

15) Does your law provide for any other methods for securing evidence, such as seizures or ex parte measures?
yes
If so, what requirements must be fulfilled in order for the measure to be ordered and what safeguards are in place to prevent abuse?:
<p>Answer: Item 2, Article 64 of the Civil Procedure Law of P.R.C. provides: “for the evidence that cannot be obtained by the party or its litigation representative due to objective difficulties, or for the evidence that the people’s court considers necessary for adjudicating the case, the people’s court shall investigate and collect such evidence.” Article 81 of the same law also provides: “under circumstances where there is a likelihood that the evidence may be destroyed, vanished or too difficult to obtain later on, the party may apply to the people’s court for evidence preservation. The people’s court may also decide at its discretion to take evidence preservation act.” Evidence preservation can be granted by ex-party application and may take the form of seizure.</p> <p>In case that the plaintiff abuses the right to apply for evidence preservation, the court may require the party to provide security. The forms of security usually include cash^{1/4} letter of guarantee and real estate mortgage. If the evidence preservation act causes damages to the defendant, the plaintiff should sustain the liability of compensation.</p>

16) Where seizure is available, for what purposes can it be used? To secure evidence, to prevent items entering into circulation or for other reasons?
<p>Answer: The purpose of evidence preservation is to secure evidence. Normally, court approves evidence preservation application only when the party cannot obtain the evidence by himself and there is a likelihood that the evidence may be destroyed, vanished or too difficult to obtain if not to take evidence preservation act. The Supreme Court of China is currently setting out judicial interpretations on evidence preservation in intellectual property and competition cases.</p>

II. Policy considerations and proposals for improvements of the current law

Aspect (i) - Overlaps with restraint of trade

17) Should limits be placed on the protection of trade secrets to avoid unlawful restraints on trade?
no

If not, why?:

Answer: Chinese law does not provide restriction on the protection of trade secret as a measure to promote free trade. However, the Supreme People's Court mentioned in a judicial policy document that "the relationships between trade secret protection and freedom of employment and between the non-compete obligation and the reasonable flow of talents should be properly handled so as to safeguard the legitimate rights of people to seek employment and start new business..^[1]

Footnotes

1. [^] See Item 11 of the Opinions of the Supreme People's Court on Certain Issues towards Ensuring that Trial of Intellectual Property Rights Cases Serve the Overall Interests of China in the Current Economic Situation, 21 April, 2009.

18) Should different obligations of confidence / non-use apply to different employees? Why/why not?

Answer: We are of the opinion that whoever accesses trade secret of others shall bear the duty of confidence / non-use, unless there is an agreement between him and the right holder which otherwise provides. Such a duty should apply to employees with no difference.

Aspect (ii) - Ensuring confidentiality during Court proceedings

19) Should a defendant, who is sued unsuccessfully for a trade secret violation, and who learns of the trade secret during the course of the litigation, be required to not use the trade secret after the proceedings? Why/why not?

Answer: The defendant cannot use the trade secret he learned during the court proceeding, even though that he is sued unsuccessfully for trade secret violation. The judgment, even though in favor of the defendant, does not endow the defendant with the right to use without permission the trade secret of the plaintiff.

20) Should such obligations of confidentiality attach to information that the defendant developed independently prior to the trade secret proceedings, or develops independently after the trade secret proceedings? Why/why not?

Answer: The defendant is entitled to use the trade secret information it developed independently.

Aspect (iii) - Valuation of loss

21) Should damages as a remedy be available by default, or only where injunctive relief is (a) not possible, (b) adequate, or (c) not necessary? If by default, why?

no
If not please comment.:

Answer: In China, remedies, no matter injunctive relief or damages, can be granted only if the plaintiff requests. If the plaintiff does not request, no remedy will be granted by default. Normally, when courts find infringement, injunctive relief applies if the plaintiff so requests. With the development of the judicial practice for intellectual property litigation, courts may consider multiple factors including public interest to ensure that injunctive relief is properly granted. Damages are available where the

infringement has caused losses to the plaintiff. The plaintiff can request either one or both of injunctive relief and damages. In practice, plaintiffs in most cases request both of them.

Aspect (iv) - Proving infringement

22) Should constructive knowledge of a trade secret by an ex-employee be imputed to their new employer?

no

If no, why not?:

Answer: In case that the ex-employee and his new employer have jointly intended to use the trade secret of which the ex-employee has constructive knowledge from his earlier employment, or the ex-employee is induced by his new employer to use such trade secret, then the ex-employee and his new employer may be found liable for joint infringement. The written law does not and is in fact impractical to enumerate all the circumstances where the ex-employee and his new employer shall be found liable for joint infringement. Court should reasonably determine according to evidence on a case-by-case basis.

23) Availability of pre-action evidence orders and seizure orders.

a) Should pre-action evidence preservation orders be available?

yes

If so, should the hearings to decide whether or not to grant them be able to take place ex parte?:

According to the Civil Procedure Law of P.R.C., pre-action evidence preservation is available in urgent cases where the evidence may be destroyed or vanished. But the law does not provide if the court should summon a hearing of both parties to decide whether or not pre-action evidence preservation should be granted. We are of the opinion that evidence preservation shall be decided *ex parte* by court. It is not necessary to hold hearing between the parties or inform the other party in advance, because that will enable the other party to conceal or destroy the evidence before the court takes evidence preservation measure.

b) Should pre-action evidence seizure orders be available?

yes

If so, should the hearings to decide whether or not to grant them be able to take place ex parte?:

Please refer to the answer to question 23(a).

24) What if the claimant learns of new trade secrets (of the defendant) during the course of a seizure?

Answer: As aforementioned, under such circumstance, the defendant can apply to the court to request the plaintiff to sign written commitment not to disclose or use the trade secret of the defendant. The plaintiff should bear the obligation of confidentiality for the trade secret information he learns from the defendant during the course of evidence seizure and should not use the information without permission.

III. Proposals for harmonisation

25) Is harmonisation in this area desirable?

Answer: Yes, harmonization in this area is desirable. The provisions of the Anti-Unfair Competition Law of the People's Republic of China concerning the protection of trade secrets are in line with the requirements set forth in the TRIPS Agreement.

If yes, please respond to the following questions without regard to your national or regional laws. Even if no, please address the following questions to the extent you consider your national or regional laws could be improved.

Aspect (i) - Overlaps with restraint of trade

26) Please propose principles for the circumstances in which trade secret enforcement actions should fail, because such actions would be de facto restraints of trade.

As far as we are concerned, at present, China should not unreasonably restrict protection of trade secrets on the ground of free trade. Of course, balancing between trade secret protection and freedom of employment is a common practice by many countries when addressing trade secret cases.

27) What relief should courts give when a trade secret violation has occurred or is about to occur, but an enforcement action is barred as a restraint of trade?

Please refer to the answer to question 26.

28) Should employees subject to a stricter obligation of confidentiality be released from that duty in certain circumstances? If so, in what circumstances?

Please refer to the answer to question 26.

Aspect (ii) - Ensuring confidentiality during Court proceedings

29) What protection for trade secrets should be available during Court proceedings, and what conditions should be satisfied for that protection to be given?

Answer: It is our opinion that courts should pay adequate attention to prevent divulgence during court proceedings, because that may substantially hinder the right holder's confidence and willingness of enforcing his rights. Therefore, following measures could be considered:

- a. Trade secret case should not be heard publicly, if a party so requests. People without permission by court should not be allowed to audit the hearing;
- b. The evidence including trade secret information should only be disclosed and exchanged between attorneys or independent appraisers delegated by court.
- c. The participants to court proceedings should submit written commitment warranting not to disclose or use without authorization the trade secret information they accessed during the proceedings;
- d. Only the non-confidential part of the judgment of trade secret case can be disclosed to the public.

30) If an enforcement action fails (e.g. because the defendant had independently developed the secret information and did not misappropriate it), what type(s) of confidentiality or non-use obligation, if any, should continue or cease to apply?

Answer: Aforementioned measures should be applicable no matter what result the judgment turns out to be. Even if the plaintiff finally loses the case, the defendant should still bear the obligation of confidentiality for the trade secret learned during the court proceedings. However, if the defendant has independently developed the same information before the suit, the defendant is entitled to use such information.

Aspect (iii) - Valuation of loss

31) Please propose the principles for quantifying damages for trade secret violations.

Answer:

Article 17 of the Interpretation of the Supreme People's Court on Some Issues Concerning the Application of Law in the Trial of Civil Cases Involving Unfair Competition provides that the determination of the amount of damages for trade secret infringements may follow the methods of determining the amount of damages for patent infringements, the sequence of which is as follows

(1) The amount of damages. . . shall be assessed on the basis of the actual losses suffered by the right holder because of the infringement;

(2) where it is difficult to determine the actual losses, the amount may be assessed on the basis of the profits the infringer has earned out of the infringement;

(3) Where it is difficult to determine the losses the right holder has suffered or the profits the infringer has earned, the amount may be assessed by reference to the appropriate multiple of the amount of the license fee . . .

(4) Where it is difficult to determine the losses suffered by the right holder, the profits the infringer has earned and the exploitation fee . . . , the people's court may award the damages of not less than RMB 10,000 Yuan and not more than RMB 1,000,000 Yuan . . .

The aforementioned amount of damages also includes the reasonable expenses of the right holder to stop the infringing conduct. When the trade secrets become publicly known as a result of the infringing conduct, the amount of damages should be determined by the commercial value of the trade secrets. The commercial value of the trade secrets should be determined by multiple factors including the cost of research and development, the earnings of implementing the trade secrets, the expectant benefits, and the duration for retaining the competitive edge.

32) Should courts award moral damages?

no

Aspect (iv) - Proving infringement

33) What measures to secure or preserve evidence should be available?

Answer: There are many means to preserve evidence, such as sealing-up, detainment, photographing, tape-recording, video-recording, duplication, identification, inquest and transcripts etc. The court should decide the most appropriate method according to the specific type of evidence to be persevered. For documentary evidence, the original should be collected in the first place. If it is impossible, duplication, photograph, transcript or extract of the original should be collected instead. For physical evidence, the court could use the means of on-the-spot inquisition, photographing, video-recording, drawing, or making duplication model of the original object. For audio-visual materials, the court could record or

duplicate the image, sound, voice or digital data.

34) What restrictions should apply to the use of seized evidence by the claimant?

Answer: The preserved evidence should be kept in the custody of the court and disclosed gradually at the appropriate stage in the evidence examination and cross-examination session. The preserved evidence should not be disclosed to the parties all at once from the beginning of the proceeding. The court should review the evidence that the parties already produced and decide if it is necessary to disclose the preserved evidence. If it is clear enough based on the evidence already submitted by the parties that the plaintiff's allegation cannot stand, the court may decide not to disclose the preserved evidence at all. As to how to handle with the evidence including trade secret information, the answer b and c to Question No. 29 could be referred to.

Summary

Abstract: China has attached importance to the protection of trade secret. The Chinese laws have provided the legal definition and protection mechanism for trade secret. In the judicial practice, the right holders of trade secret often face more difficulties in evidence production. Trade secret cases are more complicated, and the court proceedings are more time-consuming. During the court proceeding, the trade secret of the plaintiff is exposed to the risk of being divulged again. All these factors result in the high cost and low success rate of litigations for trade secret protection and poor willingness of the holders of trade secrets to defend their rights in courts, which may hinder the innovation incentives of the public to some extent. . Therefore, it is our opinion that the task of the legal reform on trade secret protection is to enhance the protection level by means of solving the difficulties in evidence production, preventing divulgence during litigation proceedings and providing sufficient and reasonable remedies.

Please comment on any additional issues concerning trade secrets you consider relevant to this Working Question.