



Developments of Trade Secret Protection in China

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Background of the amendments to trade secret laws



Background of the amendments to trade secret laws

China-US Phase-one Economic and Trade Agreement – Trade Secrets Clauses

Chapter 1 Intellectual Property (11 sections and 36 articles)

Section B Trade Secrets and Confidential Business Information

- Article 1.3 Scope of Actors Liable for Trade Secret Misappropriation
- Article 1.4 Scope of Prohibited Acts Constituting Trade Secret Misappropriation
- Article 1.5 Burden-Shifting in a Civil Proceeding
- Article 1.6 Provisional Measures to Prevent the Use of Trade Secrets
- Article 1.7 Threshold for Initiating Criminal Enforcement
- Article 1.8 Criminal Procedures and Penalties
- Article 1.9 Protecting Trade Secrets and Confidential Business Information from Unauthorized Disclosure by Government Authorities



Existing laws protecting trade secrets

Civil:

- *Anti-unfair Competition Law of the People's Republic of China* (passed in 1993, amended in 2017 and 2019).
 - Articles 9, 17, 21 and 32: Definition of trade secret, types of infringing acts, scope of potential infringers, calculation of damages, administrative penalty amounts, burden of proof.

Criminal:

- *Criminal Law of the People's Republic of China*.
 - Article 219 [Crime of infringing upon trade secrets].

Amendments to trade secret protection laws

Civil:

- *Anti-unfair Competition Law of the People's Republic of China (amended in 2017 and 2019).*
- *Interpretations of the Supreme People's Court on Several Issues Concerning Application of Law in Trials of Trade Secret Misappropriation Cases (Exposure Draft) (10 June 2020).*

Criminal:

- *Amendment XI to the Criminal Law of the People's Republic of China (Draft) (26 June 2020).*
- *Interpretations of the Supreme People's Court and the Supreme People's Procuratorate on Several Issues Concerning Specific Application of Law in Trials of Criminal IP Cases III (Exposure Draft) (17 June 2020).*
- *Supplementary Provisions on Amending the Trade Secret Related Articles of the Provisions (II) of the Supreme People's Procuratorate and the Ministry of Public Security on the Standards for Initiating Investigation and Prosecution of Criminal Cases under the Jurisdiction of the Public Security Organs (Exposure Draft)(10 June 2020).*

2 Key amendments to civil and criminal trade secret laws



Key legislative amendments

Civil:

- Expansion of the scope of infringing acts.
- Burden shifting.
- Specification of the conditions for obtaining injunctions.
- Increases in damages.

Criminal:

- Specification of criminal acts and sentencing criteria.

2.1 Expansion of the scope of infringing acts

Article 9 of the Anti-unfair Competition Law

- **Obtaining** trade secrets through **electronic intrusion**.
- **Disclosing or using** trade secrets in violation of legal or agreed confidentiality obligations.
- Expanding the scope of actors liable to include natural persons, organizations and former employees, in addition to businesses.

2.1 Expansion of the scope of infringing acts

Interpretations of the Supreme People's Court on Several Issues Concerning Application of Law in Trials of Trade Secret Misappropriation Cases (Exposure Draft)

- Article 11 “**Obtaining** a trade secret through **other improper means**” --- violating the law or obviously violating generally accepted business rules.
- Article 15 “**Using a trade secret**” --- using a trade secret **directly or after modification** in production and business activities, or **adjusting** related production and business activities based on the trade secret.

2.2 Burden shifting

	Before the amendment to the Anti-unfair Competition Law	After the amendment to the Anti-unfair Competition Law
Plaintiff's burden of proof	<ol style="list-style-type: none"> 1. Content and carrier of the claimed trade secret. 2. The claimed trade secret must meet the requirements of a trade secret: <ol style="list-style-type: none"> a. undisclosed to the public; b. valuable; and c. kept confidential. 3. The accused infringer committed trade secret misappropriation. 	<ol style="list-style-type: none"> 1. Content and carrier of the claimed trade secret. 2. Security measures were taken to protect the trade secret. 3. Prima facie evidence proving that the trade secret has possibly been misappropriated: <ol style="list-style-type: none"> a. The infringer had channels or opportunities to obtain the trade secret; the infringer has disclosed or used the trade secret or there is a risk that they may disclose or use it. b. The allegedly misappropriated information is substantively the same as the plaintiff's trade secret.
Defendant's burden of proof	The claimed information was obtained through independent R&D or reverse engineering.	<ol style="list-style-type: none"> 1. The information claimed by the plaintiff is not a trade secret (it is not secret and is well known to the public). 2. The defendant did not misappropriate the trade secret (the claimed information was obtained through R&D, assignment, license, reverse engineering, succession or other means).

2.2 Burden shifting

Interpretations of the Supreme People's Court on Several Issues Concerning Application of Law in Trials of Trade Secret Misappropriation Cases (Exposure Draft)

- **Burden shifting precondition:** The right holder should provide prima facie evidence to prove that the accused infringer has channels or opportunities to obtain the trade secret and is very likely to commit trade secret misappropriation (the likelihood is determined by a judge's discretion).
- **Period for a plaintiff to adduce evidence:**
 - The right holder should clarify the specific content of the claimed trade secret **before the closing of the first-instance court debate**. Where they are unable to clarify the trade secret, the court can dismiss the suit. Where they are only able to clarify part of a trade secret, the court can dismiss the part of the suit relating to the unclarified part.
 - Where the accused infringer requests an evidence exchange and cross-examination after the claimed trade secret has been clarified, the court should approve it.

2.3 Specification of the conditions for obtaining injunctions

Provisions of the Supreme People's Court on Several Issues Concerning the Application of Law in Reviewing Intellectual Property Disputes Involving Injunction:

- Urgent situation: The right holder's trade secrets are in danger of **imminent** illegal disclosure.

Interpretations of the Supreme People's Court on Several Issues Concerning the Application of Law in the Trial of Trade Secret Misappropriation Cases (Exposure Draft):

- Where a defendant **attempts to or has already managed to disclose, use or allow others to use** a trade secret claimed by a right holder and refusing a preliminary injunction will cause difficulty in enforcing a judgment or will cause some other injury to the right holder, the People's Court may grant a preliminary injunction if the right holder provides a security.

2.3 Specification of the conditions for obtaining injunctions

Interpretations of the Supreme People's Court on Several Issues Concerning the Application of Law in the Trial of Trade Secret Misappropriation Cases (Exposure Draft):

Obtaining an injunction:

- **Low evidential burden:** Clarifying the specific content of the claimed trade secret and proving that security measures were taken. There is no need to provide evidence of infringement.

Terminating an injunction:

- The **accused infringer proves** that what is claimed by the right holder is **not a trade secret** or that they **did not misappropriate** it.

2.4 Increases in damages

Anti-unfair Competition Law:

- a. **Ceiling increase of legal damages:** Below **RMB 5 million**;
- b. **Punitive damages:** Where the misappropriation is malicious and the circumstances are serious, damages should be multiplied **1 to 5 times**; and
- c. **Stronger administrative penalty:** Confiscation of illegal gains and a fine of **RMB 0.1 to 1 million**. Or, if circumstances are **serious**, a fine of **RMB 0.5 to 5 million**.

Interpretations of the Supreme People's Court on Several Issues Concerning the Application of Law in the Trial of Trade Secret Misappropriation Cases (Exposure Draft):

- d. The calculation of damages by reference to a reasonable multiple of licensing fees is proposed; and
- e. The contribution rate is taken into account in the calculation of damages.

2.5 Expanding the scope of trade secret crimes

Amendment XI to the Criminal Law of the People's Republic of China (Draft)

Interpretations of the Supreme People's Court and the Supreme People's Procuratorate on Several Issues Concerning Specific Application of Law in Trials of Criminal IP Cases III (Exposure Draft)

- Obtaining other's trade secrets through:
 - bribes and fraud;
 - unauthorized reproduction or electronic intrusion; and
 - unauthorized use or use beyond authorization of a computer information system.

2.5 Specification of criminal acts and sentencing criteria

Interpretations of the Supreme People's Court and the Supreme People's Procuratorate on Several Issues Concerning Specific Application of Law in Trials of Criminal IP Cases III (Exposure Draft)

Supplementary Provisions on Amending the Trade Secret Related Articles of the Provisions (II) of the Supreme People's Procuratorate and the Ministry of Public Security on the Standards for Initiating Investigation and Prosecution of Criminal Cases under the Jurisdiction of the Public Security Organs (Exposure Draft)(10 June 2020)

- **Criteria for conviction:** The infringer caused a great loss to the right holder, i.e. the amount of loss or illegal gain is over RMB 500,000. Where the amount is over RMB 2.5 million, the punishment will be aggravated.
- **Calculation of loss:** Reasonable licensing fees for the trade secret or the loss of profit incurred by the right holder due to the misappropriation (using the calculation methods for patent cases).
- **The “necessary remedial costs”** incurred by the right holder “to mitigate the damage caused by the trade secret misappropriation to business operations” or “to re-secure computer or other systems” can be considered losses to implement the interim step in Article 1.7 of the China-US Economic and Trade Agreement.
- **The contribution rate of a trade secret** is taken into account when calculating the right holder’s losses and the infringer’s illegal gains.

2.5 Adjusting the criteria for sentencing

Amendment XI to the Criminal Law of the People's Republic of China (Draft) adds one paragraph to Article 219 of the Criminal Law.

Interpretations of the Supreme People's Court and the Supreme People's Procuratorate on Several Issues Concerning Specific Application of Law in Trials of Criminal IP Cases III (Exposure Draft) Article 11:

- Those who steal, spy, obtain through bribe or illegally provide trade secrets to foreign institutions, organizations and personnel shall be punished severely and sentenced to more than five-year imprisonment or detention with a fine, or only be fined; and
- For those sentenced to detention or imprisonment for less than three years, probation is generally not applicable.

Coordination of criminal and civil proceedings

Interpretations of the Supreme People's Court on Several Issues Concerning the Application of Law in the Trial of Trade Secret Misappropriation Cases (Exposure Draft)

- **Criminal proceedings first:** Where a party requests a stay of civil trade secret misappropriation proceedings due to parallel criminal proceedings, the People's Court shall generally support such a request, except where the information claimed by a right holder does not constitute a trade secret or the infringer did not misappropriate the trade secret.
- **Impact of criminal evidence on civil proceedings:** Concerning evidence used in criminal proceedings, the People's Court hearing the civil dispute shall examine and verify such evidence in accordance with the law. Upon a litigant's request, the Court should collect the evidence kept by the relevant organs handling the criminal proceedings.
- **Damages for losses incurred as a result of a crime:** Where the right holder claims compensation in civil proceedings, the People's Court should review this claim.

3 Impact on trade secret litigation, compliance and protection



Impact on trade secret litigation

- The protection of right holders has, overall, been enhanced and damages have been increased;
- The shifting burden of proof reduces the onus on plaintiffs;
- Criminal proceedings can be initiated when necessary and can facilitate civil proceedings; and
- Infringement can promptly be stopped through injunctions.

Impact on trade secret compliance and protection

- Trade secrets management and security measures
 - R&D, production, operations, management
 - Employees, cooperative partners
- Trade secrets protection strategy
 - Protection: trade secret or patent?
 - Litigation: suing and defending strategies



THANK YOU !



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