



**Analysis on the Protection of Trade Secret from the Perspective of the Revision of Anti-Unfair  
Competition Law**

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**Foreword**

The 10<sup>th</sup> Session of the Standing Committee of the 13th National People's Congress passed *the Decision on the Revisions of the Anti-unfair Competition Law of the PRC* (AUCL) on 23 April 2019. The revised provisions came into force as of April 23. This revision was unexpected as before the Decision, there was neither solicitation of opinions nor any news. Moreover, the current AUCL was revised at the 30<sup>th</sup> session of the Standing Committee of the 12<sup>th</sup> National People's Congress on November 4, 2017, and came into effect on January 1, 2018. It is rare in China's legislative practice to amend a law for the second time within such a short period as 1 year. Seeing from the content, this revision is mainly focused on trade secrets. In light of the revised *Trademark Law* as well as *the Regulations on Technology Import and Export Management* and *the implementation Regulations of the China-foreign Joint Venture Law*, which were revised within a month previously, it is not difficult to conclude that this revision is made in order to address the IPR problems that have been criticized in the context of the China-US trade war.

In the China-US trade war, the US demanded a lot on the IP legal system and IP protection of China, among which the problem of trade secret infringement has been emphasized all along. This not only reflects the importance of trade secrets in IPR protection, but also shows that domestic and foreign companies do not sufficiently understand the legal system as well as the protection and remedies relating to trade secrets in China.

This article intends to introduce the Chinese legal system relating to the constitutive requirements, infringement determination and remedies for trade secret infringement with a view to this revision of AUCL, and proposes suggestions on the protection of trade secrets with reference to the author's



practical experience in dealing with trade secret cases.

## **1. Regarding this revision of AUCL**

### **1.1 The main changes in the revision**

This revision mainly involves four articles covering the following three aspects.

#### **(i). Article 9: Timely expanding and expressly prescribing the definition of trade secrets, the scope of infringers as well as infringement means and acts**

In Article 9, “technical information and operational information” in the definition of trade secret is amended as “technical information, operational information and other business information”, so as to add a miscellaneous provision.

Moreover, an item is added to include “all individuals, legal person and unincorporated organization” in addition to “business operators”, in the liability subjects for trademark secret infringement, according to the Article 9 of the revised AUCL.

As for the infringement means and acts, “computer trespass” is added as one of the inappropriate means to obtain trade secrets in Item 1 of Paragraph 1 of Article 9; “violation of agreement” is expressly provided as “violation of confidentiality obligations” in Item 3 of Paragraph 1 of Article 9; and the situation that “solicit, seduce or assist others to obtain, disclose, use or allow a third party to use the trade secrets in violation of confidentiality obligations or of the trade secret owner’s confidentiality requirement” is added into paragraph 4 of Article 9.

#### **(ii). Article 17 and Article 21: Increasing the penalties for trade secret infringement**

Article 17 introduces the punitive damages for malicious infringement and lifts the ceiling limit for statutory damages. “Where trade secret infringement is committed with maliciousness, if the situation is serve, the damages shall be determined as the amount of or up to five times the amount of the actual loss of the right owner incurred by the infringement or the infringer’s gains from infringement.” At the same time, the ceiling amount of the statutory damages is increased from RMB 3 million to RMB 5 million.



In addition, Article 21 included the confiscation of illegal gains as one of the administrative penalties, increasing the cap penalty from RMB 500,000 and RMB 3 million to RMB 1 million and RMB 5 million, respectively. Hence the administrative liabilities are strengthened.

**(iii). The newly added Article 32: specifying the allocation of burden of proof in civil litigation case of trade secret infringement, stipulating the means of proof of “accessibility + similarity” used in legal practice in explicit terms**

It is prescribed in the newly added provision that, in the civil trial procedures of trade secret infringement, where the right owner of trade secret produces *prima facie* evidence proving his confidential measures for the asserting trade secret and reasonably demonstrating that the trade secret is infringed, the accused infringer shall prove that trade secret asserted by the right owner does not constitute the trade secret under the Law.

If the right owner of trade secret adduces preliminary evidence to prove the infringement of his trade secret and produces one of the following evidence, the accused infringer shall prove the non-existence of the infringement:

- a. There is evidence that the accused infringer has access or opportunities to obtain the asserted trade secrets and the information used is substantially identical to the asserted trade secrets;
- b. There is evidence that the asserted trade secrets have been used or disclosed, or are at risk of being used or disclosed, by the accused infringer;
- c. There is other evidence showing that the asserted trade secrets are infringed by the accused infringer.

## **1.2 Impact and significance of the revision**

It can be said that this revision is of significance, but exerting limited influence on the practical level, as it mainly makes the consensuses reached in judicial practice explicitly stipulated.

### **(i). The revision of Article 9**

The newly added miscellaneous provision of “other business information” in the definition of trade secret intends to protect the business information that meets the constitutive requirements of trade secret but is hard to be classified as technical information and operation information as trade secret. In judicial



practice, the information that is highly technology-related is often classified as technical information while other kinds of information are classified as business information. There is little information that is difficult to be classified. Moreover, the classification of trade secrets into two categories has practical significance; that is, the jurisdiction over each category of information is different. The first instance of infringement disputes related to technical secrets shall be under the jurisdiction of the IP court or the IP tribunal while the second instance shall be under the unified jurisdiction of the Supreme People's Court (SPC). Infringement disputes related to trade secrets other than technical information are general IP related cases same as trademark infringement cases where no well-known trademarks are involved and other cases of unfair competition, , of which the first instance shall be heard by a basic or intermediate people's court with jurisdiction over general IP cases and the second instance shall be under the jurisdiction of a corresponding higher court. Generally the case will not be brought before the SPC.

The inclusion of other natural person, legal person and unincorporated organizations into the subject of the liability for trade secret infringement by Article 9 is mainly to cope with the situation where the infringement is committed by an employee or a former employee rather than business operators. In practice, the major way of trade secret disclosure in trade secret infringement cases is employees. Trade secrets infringement cases involving employees and former employees dominate above 90% of the total number of trade secret cases. Although the liability subject of trade secret infringement was constraint to "business operators" in the AUCL before the revision, in judicial practice, it is a consensus that the natural persons such as employees can also be held liable according to AUCL. And there is no dispute over this issue.

Regarding the infringement means and infringement acts, it is true that the inclusion of "computer trespass" keeps pace with the highly computerized society; but, because of the miscellaneous prescription of "or other improper means" in Item 1 of Paragraph 1 of Article 9, the improper acquisition of trade secrets by computer trespass can also be held accountable according to the law even before this revision. The newly added paragraph 4 in Article 9 stipulates the situation of "solicit, seduce or assist others to obtain, disclose, use or allow a third party to use the trade secrets in violation of confidentiality obligations or of the trade secret owner' s confidentiality requirement" is beneficial for



the regulation on indirect infringers. But such acts could be held liable before this revision based on Article 9 “Instigating and helping others to commit infringements shall bear joint and several liability with the perpetrator” of Tort Liability Law.

In addition, “violation of the agreement” is clearly defined as “violation of confidentiality obligations” in Item 3 of Paragraph 1 of Article 9, which further covers the situation of violations of statutory confidentiality obligations. The provisions before the revision are more focused on the agreement and the rights holder's requirements. In practice, where there is no clear agreement but the confidentiality obligation is statutory, the plaintiff would often claim the implied confidentiality agreement and confidentiality requirements. But the revision will undoubtedly make the legal provisions more rigorous.

**(ii). Revision of Article 17 and Article 21**

Increasing penalties and compensation is a major trend of law amendments in recent years, which is also closely related to economic development.

With regard to the compensation for unfair competition, the calculation method prescribed by AUCL is consistent with that in infringement cases relating to patents and trademarks. The newly added provisions of Article 17 with regard to punitive damages for malicious infringement and increased cap of compensation are also consistent with the amendments to the Trademark Law promulgated on the same day. It is believed that the same change will be made in the subsequent amendments to the Patent Law.

As for the punitive damages for malicious infringement, not only the related provisions are added in this revision, but the punitive damages as high as five times have been introduced. This is rare in the legal systems of all countries in the world, and demonstrates China's determination on strengthening its IP protection. As far as judicial practice is concerned, the earliest introduction of punitive damages in China was the amendment to the Trademark Law in 2013. However, since the implementation of the



amended Trademark Law on May 1, 2014, there have been few cases applying punitive damages. The main reason is that the loss of the right owner and the interests of the infringer which are the grounds for calculating the penalties are difficult to calculate accurately. In the absence of the base number, it is certainly difficult to calculate a number by multiplication. Therefore, in most cases, maliciousness will be taken into account for a relatively high discretionary statutory compensation.

In this revision, the upper limit of statutory compensation has also increased accordingly. For right owners, it means more chances to obtain higher statutory compensation. However, it does not necessarily mean that the compensation in all cases will increase correspondingly. The court will still make the discretion according to the specific circumstances of the case. In each case, the right owner should still actively produce evidence to gain protection to an extent as far as possible.

**(iii). Revision of Article 32**

The newly Article 32 mainly specifies the burden of proof in civil litigation. It is rare in Chinese legislation that the method of producing evidence is stipulated in such details at the legal level.

As specified in the first paragraph of Article 32, if the right owner provides preliminary evidence to prove that confidential measures have been taken for the claimed trade secret and reasonably indicates that the trade secret has been infringed, the alleged infringer shall prove that the trade secrets claimed by the plaintiff does not constitute trade secret stipulated by law. Trade secrets have three constitutive requirements, namely, non-publicity, commercial value and the adoption of confidentiality measures. Commercial value is often self-evident; and non-publicity is a negative fact. Therefore, in judicial practice, when the right owner claims a trade secret, to produce the evidence of the confidential measures having been taken is the key point. The alleged infringer can submit counter-evidence on non-publicity. Therefore, the first paragraph is also a rule established based on the constitutive requirements for the trade secret and the features of evidence.

The second paragraph of Article 32 specifies the evidence producing of infringement act. Item 1 of this



paragraph corresponds to the principle of “accessibility + similarity”, which is the basic principle of evidence producing in trade secret infringement cases in judicial practice. Accessibility means that the alleged infringer has access to the trade secret or has a chance to obtain the trade secret. Similarity means that the information used by the alleged infringer is essentially identical to the trade secret. Item 2 of this paragraph specifies the situation where the direct evidence of trade secret infringement is provided, in which situation it is not required to determine the infringement according to the principle of “accessibility + similarity”. Item 3 of this paragraph is the miscellaneous provision.

Although Article 32 is essentially to explicitly prescribe the method of evidence producing in judicial practice, it does not cause substantial change. However, the clarification of the allocation of the burden of proof provides legal basis for the right owner, which is conducive to the relief of the difficulties of evidence producing.

## **2. Protection of trade secrets**

In light of this legal revision, China's protection of trade secrets can be deemed as relatively advanced in legislation. But there are various difficulties in the implementation of the law. It remains an attention-calling problem of companies should to strengthen the protection of trade secrets.

### **2.1 Constitutive requirements of trade secret**

It is generally believed that in China, trade secrets are subjected to three constitutive requirements, which is roughly the same as in most countries.

#### **(i). Non-publicity (Secrecy)**

It means that the information is not generally known or easily available to the relevant personnel in the field.

As mentioned above, non-publicity is a negative fact. The judicial interpretation enumerates situations against non-publicity from an opposite perspective, including:



1. The information is the general knowledge or industry practice for the person in his technical or economic field;
2. The information only involves product's size, structure, material, simple combination of components, etc. which can be directly obtained by the relevant public by observing the product after the product enters the market,;
3. The information has been publicly disclosed by public publications or other media;
4. The information has been disclosed through public reports, exhibitions, etc.;
5. The information is available from other public sources;
6. The information is easy to obtain without certain costs.

The information listed above obviously does not constitute a trade secret. It is worth noting that, information accessible from industry survey reports, etc., for example, although can be obtained from public sources, acquiring such information obviously requires necessary efforts of searching, collecting, and sorting. Such information as sorted and obtained at certain costs may be determined as non-public.

**(ii). Commercial Value (Practicality)**

It means that the relevant information has realistic or potential commercial value and can bring competitive advantages to the right owner. As mentioned earlier, the commercial value of information is often self-evident. In practice, right owners usually do not need to work hard to prove this. There are very few cases where the asserted trade secret is not recognized due to lack of business value, but indeed there were precedents.

For example, in the trade secret infringement case involving PowerScan Company Limited and its legal person Xiaoming SUN, both the courts of the first instance and the second instance have clearly determined that there are two parts of information having no commercial value: the information of early transactions and the information of early trading practices. The court believes that the equipment model sold in an early stage of the company is an early model that was used long before the alleged infringement, and the accused infringer did not use the above-mentioned early equipment model to compete for the project. Therefore, the sales price and the parameters of the equipment sold in the early stage do not have commercial value in this case, thus do not constitute trade secrets. As for the early trading practice, the court holds that the trading practice has changed along with the changed policy,





and thus the trading practice in early projects no longer have a commercial value. It is worth noting that in the case, the judgment stated that “there is no commercial value in this case and does not constitute a trade secret of the case”. It can be seen that whether the information has a commercial value is determined with regard to the specific circumstances of a case.

**(iii). The adoption of confidentiality measures**

The adoption of confidentiality measures refers to the reasonable protection measures which match with specific circumstances such as the commercial value of the information taken by the right owner to prevent information leakage. Whether the right owner has taken confidential measures should be determined based on the features of the information carrier involved, the willingness of the right owner to keep confidential, the identifiability of the confidentiality measure, and the difficulty for others to obtain the information through proper means.

The judicial interpretation further enumerates the circumstances in which it is deemed that the right owner has taken confidentiality measures:

1. The access to the confidential information is limited to to the relevant personnel who must know it;
2. Precautions are taken such as locking the carrier of the confidential information
3. **Secrecy mark** is provided on the carrier of the confidential information
4. Passwords or codes are used for the confidential information
5. **Non-disclosure agreement** is signed
6. Visitors to confidential machines, workshops, workshops, etc. are restricted or confidentiality requirements are imposed on visitors to confidential machines, workshops, workshops, etc.
7. Other reasonable measures are taken to ensure the confidentiality of information

Confidentiality measures one of the key points for the evidence producing of the right owner. From the perspective of the difficulty of proof, it is easier to provide a confidentiality mark on the carrier, sign non-disclosure agreement, and establish a confidentiality system relating to confidentiality measures.

The enterprises should also pay close attention in this regard.

**2.2 Remedies for trade secret infringement**



When a case trade secret infringement is raised, there are civil, administrative, and criminal remedies under the Chinese laws and regulations. In addition, the right owner may also resort to private remedies by warning or negotiating with the infringer. In fact, our firm has settled a number of trade secret infringement disputes by sending warning letters or by negotiation. In these cases, after the collection of evidence is completed, we sent a warning letter to the infringer and negotiated with the infringer about the terms of settlement. Finally, an agreement was reached on the conditions of stopping the infringement, eliminating the influence of the infringement, and compensating for the losses. Such a solution costs less time and money, and can be used as a first step of remedy measures. However, if the infringer was obstinate, it is necessary to resort to public remedy means and take tough measures.

**(i). Administrative approach**

The administrative approach is a unique solution in China. Through this method, the right owner may file a complaint to a governmental department that performs industrial and commercial administrative duties at or above the county level against the acts violating the provisions of the AUCL with regard to trade secrets. Based on the current institutional reform, most of the official departments that perform the industrial and commercial administration duties at or above the county level are the local market supervision bureaus.

One of the major advantages of the administrative approach is that the administrative organs can take the following measures to conduct investigations, which is far more effective than the survey and evidence collection performed by the right owners on their own.

1. Entering the business premises suspected of unfair competition to conduct inspections;
2. Inquiring the operators, interested parties and other relevant units and individuals under investigation, and asking them to explain the situation or to provide other information related to the investigated acts;
3. Inquiring and duplicating agreements, account books, receipts, documents, records, business correspondences and other materials and documents related to the suspected unfair competition;
4. Sealing up or distraining property related to the suspected unfair competition;
5. Checking the bank account of the operator suspected of unfair competition.



Once the administrative organ determines that the accused infringer violates the law, it may impose an administrative punishment on the infringer, including ordering to stop the illegal act, confiscation of illegal income, and imposing a fine of RMB 100,000 or more and no more than RMB 1 million; if the consequences are severe, the fine may reach RMB 500,000 or more and no more than RMB 1 million.

However, the right owner cannot directly claim damages in the administrative approach. Another difficulty is that it is not easy to persuade the administrative organ to establish a case. The right owner still needs to collect a large amount of evidence in the early stage.

### **(ii). Civil Litigation**

Civil litigation is a common means, through which a lawsuit is filed before a court of competent jurisdiction to investigate the infringer's civil liability including stopping the infringement and paying damages.

In this revision, the amount of statutory damages for civil compensation has been raised, and the rules for producing evidence in civil litigation clarified. Thus, the advantages of civil litigation as a remedy to resolve disputes is further strengthened.

Furthermore, the right owner can also obtain and collect evidence through procedures such as evidence preservation. In judicial practice, in trade secret infringement cases, the request for evidence preservation is highly likely to be supported by court given the difficulty of the burden of proof of the right owner. In the civil cases of trade secret infringement our firm has attended, our requests for evidence preservation were approved by the court. The court preserved a large number of drawings and data materials in the infringer's factory, which laid the foundation for our final victory.

The weakness of civil litigation is that it takes a long time and is costly, and the investigation methods and strength of evidence preservation by court are weaker than that in administrative and criminal litigation.

### **(iii).Criminal Remedy**

If the infringement is serious and the loss incurred is more than RMB 500,000, criminal liability could be held. Specifically, the plaintiff can report the case to the public security organ. Alternatively, the plaintiff may file a criminal private prosecution, which, however, still needs a large amount of



evidence to be collected. Therefore, when criminal remedy is employed, it is more common to report the case to the police.

The criminal punishment is obviously more deterrent to the infringer. If the damages caused by the infringer are more than RMB 500,000, the infringer will be sentenced to fixed-term imprisonment of no more than three years or criminal detention as well as or alternatively be fined; if the losses incurred exceeds RMB 2.5 million, the infringer will be sentenced to fixed-term imprisonment of no less than three years and no more than seven years as well as be fined. Moreover, the criminal investigation methods are far more powerful than civil and administrative investigations. Although it is difficult to directly claim damages in criminal cases, it is possible to reach a settlement at the criminal trial stage or to file a civil compensation lawsuit after the criminal judgment is made. Civil litigation will be smoother based on the criminal judgments in which the crime has been recognized by court.

However, criminal remedies are only applicable to the cases where the situations are serious and the loss has reached the level where the criminal responsibility could be investigated. In addition, it is not the case that the public security organ will establish a case as long as it is reported. The right owner also needs to provide a considerable amount of evidence to prove that the criminal act is highly possible to exist. For example, usually, it is necessary to provide an appraisal opinion issued by a judicial appraisal agency approving the secrecy of the trade secret claimed by the right owner for the public security organ to establish a case.

### **2.3 Response to the leakage of trade secrets**

Generally there are two kinds of situations when a company notices the leakage of its trade secrets. Firstly, it was found that the company's confidential information was improperly accessed. For example, in the technical secret infringement dispute of Lilly Company (U.S.) and Lilly (China) R&D Company v. Huang Mengyu, Lilly noticed that its employee Huang Mengyu logged into the server and downloaded the company's core technical secrets. The companies took immediate measures. However, it is more often that companies did notice the leakage of its secret information and only began to investigate whether its trade secret has been disclosed when the same / similar products or information are suddenly found on the market.

In either case, once the company's trade secrets are disclosed, the immediate action to be taken is to



investigate and check. The way and the scope of information leakage should be determined; the path of information leakage should be shut down immediately. Priority should be given to making up for the losses and preventing greater losses. The way of investigation varies from company to company. But, basically, the investigation starts from persons who have access to the confidential information and his approaches.

For the infringement act that has already occurred, it is advised to choose an appropriate remedy according to the infringement act, scope and the collected evidence. As mentioned above, each remedy has advantages and disadvantages. It is necessary to choose the most suitable method in specific situations. But evidence collection is essential regardless of which means is adopted.

For the right owners, evidence collection can be performed in terms of the following aspects:

1. Content of rights: carrier of trade secrets (drawings, technical documents, customer lists, etc.)
2. Ownership of rights: technical documents of the development process or a contract stipulating the ownership of rights, etc.
3. Secrecy measures for the claimed trade secrets: confidentiality agreements, confidentiality regulations, etc.
4. Accessibility of the suspected infringer to secret information: for example, a labor contract or other commission contract, etc. signed when the infringer was still a employee or had a cooperative relationship
5. Evidence that the information used by the alleged infringer being identical or similar to the trade secret: the evidence to support this claim is the most difficult, especially when it involves the technical secret information related to production method and equipment. The information used by the alleged infringer often exceeds the right owner's legal reach of evidence collection. At this point, some *prima facie* evidence may be collected, for example, by notarized purchase of the defendant's products so as to explain that the production methods and equipment are likely to be similar based on the similarity of the products. It is also workable to hunt clues from the public promotional material of the alleged infringer, especially from the content about company's technical strength and production method.

After the above-mentioned evidence is collected as far as possible, a lawsuit may be brought to the court. If the evidence is not sufficient, a request for evidence preservation can be filed. Alternatively, a complaint may be filed with the administrative organ, or a case may be reported to the public security



organ when it is serious.

#### **2.4 Advice on trade secret protection**

Although the law stipulates remedies for trade secret infringement, there are three major hurdles in afterward remedy. Firstly, the evidence is difficult to collect. Evidence such as confidentiality measures, ownership of rights and labor contracts are often missing or absent due to the negligence in enterprise management. If the infringement is conducted secretly, the evidence of infringement is mastered by the infringer, which is even more difficult to obtain even by means of evidence preservation, for example. Secondly, the determination of infringement is also difficult. Technical secret infringement cases are highly technology-related and specialized. With great controversy in whether the business information constitutes a trade secret as well as complicated evidence, in trade secret infringement cases, regardless of the means of remedy, it is difficult and takes a relatively long time to determine the infringement. Thirdly, effective protection is a further difficulty. Although the cessation of infringement will be ordered according to the remedy, it is hard to assure that the infringer will not continue to use the trade secret that is already under the control of the infringer. Moreover, producing evidence in the civil litigation may cause a secondary disclosure of the trade secret. As for the liability for damages, it is the fact that the amount of compensation for the plaintiff remains low because the loss is difficult to calculate.

Therefore, it is more important to take precautionary measures than seeking for afterward remedies. The following measures are recommended:

##### **(i). Improve the management system of trade secrets**

It is recommended to formulate trade secret management rules to classify and manage the trade secrets of the company, so as to limit the disclosure of trade secrets to a necessary extent. Confidentiality marks should be clearly marked on the carriers of trade secrets and should be properly stored and managed.

Non-disclosure agreement should be signed with all personnel and companies to whom the trade secrets are exposed, including internal employees and external cooperative companies to clearly stipulate the confidentiality obligations. When an employee resigns, a further non-disclosure agreement should be signed and confidential information carrier should be affirmed to be returned



Education of the employees should be conducted to strengthen confidentiality awareness, including lectures on the trade secret management regulations, identification of secret information, confidentiality measures taken for the trade secrets, trade secret infringement liability, and the measures to be taken if it is found that the trade secret is disclosed.

**(ii). Evidence collection and preservation**

Regarding the secret information of a company, it is suggested to timely preserve evidence by notarization, timestamp and other means, so as to ensure the ownership of rights and the time of existence. Moreover, evidence of confidentiality education, confidentiality regulations and standards, etc., can also be preserved to prove that confidentiality measures have been taken.

Employee files, labor contracts, job responsibilities, non-disclosure agreements, records of access to secret information, etc. should be preserved for a period long enough and should not be simply destroyed in case of the loss of evidence.

**(iii). Establishment of the infringement response mechanism**

When a company establishes a confidential management system, it is also suggested to establish an infringement response mechanism where responsible personnel is determined and lawyers who are experienced in handling of trade secret disputes appointed. Once it is found that the trade secret is disclosed or is at risk, immediate action should be taken to prevent the loss of evidence and to avoid further loss.