China: Trade secrets – policy and latest developments

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In recent years, with continuous changes in the market environment, economic situation and commercial competition, technology secrets and trade secrets related to emerging technologies, core technologies, important business information, etc, have become fundamental and key to the survival and success of enterprises at all levels in China.

Article 9, paragraph 4, of the Anti-Unfair Competition Law of China stipulates that:

> *"trade secrets in this Law refer to technical information, business information, and other commercial information that are not known to the public, have commercial value, and have been subject to corresponding confidentiality measures by the right holder."*

Therefore, the three elements of trade secrets are defined as:

- secrecy: they are not known to the public;
- value oriented: capable of bringing economic benefits to rights holders, thus having commercial value; and
- confidentiality: confidentiality measures already taken by the right holder.

Technical information is usually reflected in design drawings, process flow, formulas, technical solutions, etc, while business information usually includes customer information, transaction habits, business policies and financial information.

Currently, the framework of trade secrets protection is mainly achieved through three dimensions: civil enforcement litigation, criminal measures and administrative enforcement request.

Civil enforcement litigation, as the most comprehensive remedial measure, is handled by courts in the place where the infringement is implemented, the place where the infringement results occur and the place where the defendant is domiciled. The threshold for accepting civil enforcement litigation is relatively low, and only a complaint and preliminary evidence are necessary. The most difficult part of civil enforcement litigation for trade secrets is evidence collection. Compared to the discovery procedure in the United States, China implements the evidence rule of 'the burden of proof is on the party who claims'. Therefore, plaintiffs need to submit evidence to prove that their trade secrets have been infringed, which is quite difficult to achieve. This is because it is often difficult for rights holders to obtain evidence held by infringers, especially as infringers often use various means to conceal their infringement behaviour. To solve this problem, the revised Anti-Unfair Competition Law in 2019 added article 32 to clearly stipulate the shift of the burden of proof. The holder of a trade secret only needs to provide preliminary evidence to prove that they have taken confidentiality measures against the claimed trade secret and reasonably demonstrate that the trade secret has been infringed, and the burden of proof will be shifted to the accused infringer. This greatly reduces the burden of proof for the rights holder.

The pendency of rights protection in civil litigation is relatively long, taking about one to two years from filing a lawsuit to issuing of a first instance judgment. If the defendant raises an objection to jurisdiction, the first and second instance ruling of the objection will take an additional three to six months. If the case also involves complex technical solutions, the parties themselves or the court may need a technical appraisal to determine the technical facts, which will result in a longer trial cycle. All the points in the first instance judgments can be appealed, without the need for courts to approve appeals in some other countries. The second instance judgment is effective and final, which generally take about another one year. According to the new regulations on jurisdiction implemented on 1 November 2023, the appeal for significant and complicated technical secret cases is handled by the Supreme Court IP Tribunal, while for other trade secret cases, the appeal court is the local high court.

In terms of damages, in addition to the actual losses suffered by the rights holder due to infringement and the reasonable expenses paid to stop the infringement, the rights holder may also be awarded punitive damages with the times ranging from one to five. As pointed out by the Guangzhou Intellectual Property Court, there is a positive correlation between the market value of trade secrets and the damages awarded for infringement of trade secrets. However, the market value of trade secrets is not the only factor determining the damages. The nature of trade secrets, development costs and the competitive advantage brought by the trade secret, as well as the nature, circumstances and subjective faults of infringement behaviour, are all factors to consider when damages are decided.

According to the press conference held by Beijing Intellectual Property Court on 30 November 2023, from 2021 to October 2023, a total of 89 new trade secret cases were received, accounting for 0.46 per cent of civil cases, and 86 cases have been concluded, accounting for 0.47 per cent of civil cases. In total, the number of cases involving the infringement of trade secrets

has remained at a low level, with around 50 cases concluded each year. The main characteristics of trade secret infringement cases are as follows:

- The proportion of technical secret cases is high, and the difficulty of trial is high. Among the new cases received from 2021 to October 2023, 75 per cent were cases of infringement of technical secrets. Owing to the comparison of trade secrets and infringing technical information involved in technological secret cases, the difficulty of trial is usually high.
- The winning rate of plaintiffs is relatively low, and the reasons for losing are concentrated. Among the cases concluded by judgment, only 15 per cent were won by the plaintiff. The main reason for losing the case is the inability to prove that trade secrets meet legal requirements.
- There are many lawsuits against departing employees for infringement. More than 70 per cent of cases are filed against employees or former employees as defendants.
- Procedural requests such as preservation are more common. Infringement of trade secrets is relatively covert, and it is common for plaintiffs to apply for evidence preservation, behaviour preservation or an investigation order.

Criminal measures are the most effective remedies for fighting crimes, which are usually under the jurisdiction of the public security organs in the place where crime happens, which generally includes the place where the criminal act occurred and the place where the criminal result occurred. However, a common challenge faced by criminal measures is the high threshold for case acceptance. Public security organs usually adopt a cautious attitude towards the reporting of trade secrets infringement. If the reporter fails to provide sufficient evidence during the reporting process, public security organs may consider it impossible to confirm the facts of the crime and refuse to establish the case. Taking the requirements of Zhejiang Provincial Public Security Department as an example, there are four types of reporting materials needing to be provided:

- evidence materials that prove the identity and qualifications of the subject;
- evidence materials that prove the existence and establishment of trade secrets;
- preliminary evidence materials that prove the existence of infringement of trade secrets; and
- evidence materials to prove the degree of infringement of trade secrets.

After successful establishment of the case, the case will enter the investigation stage. Public security organs will investigate and collect relevant evidence materials for criminal cases. After entering this stage, public security organs can use the functions of the power organs to conduct investigations and collect evidence that the rights holders cannot obtain, filling the gaps in the dilemma of evidence collection. Therefore, although the filing requirements for criminal proceedings are relatively high, it can alleviate the burden on some rights holders. In practice, the holder of trade secret rights usually adopts the approach of first filing a criminal case and then filing a civil infringement lawsuit to address the issue of 'difficulty in evidence collection'. The Kapo case, concluded by the Supreme Court IP Tribunal in 2020 (2019 SPC Civil Final No. 562), is a typical case where the above strategy is applied. The rights holder already obtained an effective criminal judgment before filing a civil lawsuit, which recognised that some of the accused infringers had committed the crime of infringement of trade secrets. Therefore, in civil litigation, after substantive examination, the court adopted evidence from related criminal cases and determined that:

> *"the appraisal team not only summarized the information claimed by the company in the past two days into more than ten specific technical solutions, but also searched, compared, and analyzed their confidentiality one by one before finally reaching a conclusion."*

At the same time, the accused infringer failed to provide counter-evidence to reverse the determination. Therefore, the second instance court, the Supreme Court IP Tribunal, ultimately adopted the facts determined by the criminal judgment.

The pendency in criminal proceedings is relatively short. Generally, the technical investigation procedure after filing takes about three to six months, and the procuratorate generally needs to determine whether to review and prosecute within one month. The first instance criminal procedure usually takes about three months to make a judgment.

Damages in criminal proceedings are relatively low compared to civil litigation, but they have a high deterrent effect on the infringer. The defendant may be sentenced to imprisonment of not less than three years but not more than 10 years and may also be fined.

An administrative enforcement request is the fastest measure to obtain protection for a trade secret. Under normal circumstances, the trade secret holder can report to the local Market Supervision and Administration Bureau in the place where the infringement took place. The case acceptance requirements for such an administrative enforcement request are relatively low, such as the evidence that the commercial information it possesses meets the legal requirements for trade secrets (eg, infringement evidence, which is the easiest of the above three dimensions).

After the case is accepted, the investigators should conduct an investigation, and collect and request to submit evidence from the accused infringer. The special advantage of such administrative enforcement is that the local Market Supervision and Management Bureau has the authority to register and preserve evidence related to the accused infringing activities in advance, especially in cases where evidence may be lost or difficult to obtain in the future. It is also allowable for officers to require the parties involved, other relevant companies and individuals, to provide evidence or other materials related to accused infringing activities within a certain period of time. Therefore, the enforcement channel through the Market Supervision and Management Bureau has strong capabilities of evidence collection.

The whole pendency is relatively short. In general, the administrative decision may be issued within about three to five months from the date of filing the request, which undoubtedly helps to stop infringement as soon as possible.

A drawback of administrative enforcement is that the local Bureau can only mediate the parties to negotiate for the damages, but cannot decide the damages to help the trade secret rights holders recover economic losses. The general practice is that the right holder may file a separate civil infringement lawsuit to pursue damages based on the evidence obtained during the administrative enforcement.

When the trade secret protection is enforced, the above channels can be combined to formulate a three-dimensional network to maximise the advantages of each channel. In summary, the threshold for accepting a civil lawsuit is low, but it is relatively difficult for the rights holder to collect evidence on their own. It may be worth considering to collect evidence through criminal or administrative measures. The damages in criminal and administrative protection measures could be low, and it can be worth considering to collect and fix evidence through criminal and administrative procedures before filing civil lawsuits in a timely manner. Only by fully utilising multiple channels of relief can the losses caused by trade secret infringement be maximally compensated.

From 2020 to 2023, the Supreme People's Court made multiple influential judgments on trade secret cases, providing clear judicial guidance for regulating acts of infringement of trade secrets.

The carrier and scope of trade secrets are important issues that the parties focus on in technical secret cases, and the main question is whether the scope of the technical secret is uncertain before filing the case, leaving space for debate by defendants and posing a significant risk of losing the case for the plaintiff. In a technical secret case involving CMP equipment, the first instance court held that if the plaintiff claims that drawings constitute a technical secret, it should specifically indicate which contents, technical links, steps, data, etc, of the drawings constitute the technical secret, clarify the specific composition and reasons of the technical secrets, and distinguish and explain it from the information known to the public. Drawings are only carriers of fixed technical information, and relying solely on drawings cannot determine the specific content and scope of technical secrets. In the second instance, the Supreme People's Court's Intellectual Property Tribunal made a judgment ((2021) SPC IP Civil Final No. 2526), stating that drawings can serve as carriers of technical secrets and, based on the drawings, the content and scope of the claimed technical secrets can be determined. The rights holder can claim that the collection of all or some technical information recorded in the drawings belongs to technical secrets. The court cannot simply dismiss the case on the grounds that the plaintiff did not clarify which specific information in the drawings belongs to technical secrets.

The above second instance judgment provides clear guidance for defining the scope and content of trade secrets, making trade secrets not only based on textual descriptions, but also expanding the scope of physical protection for trade secrets.

In a trade secret case involving vanillin, the first instance court found that the defendant had infringed on some technical secrets and ordered them to cease infringement, awarding damages of 3 million yuan and reasonable attorney fees of 500,000 yuan. Subsequently, both parties appealed. In February 2021, the second instance judgment determined that the defendant had infringed all of the technical secrets involved in the case. Based on the economic loss-related data provided by the plaintiff, the serious nature of the infringement, the great commercial value of the technical secrets involved and the infringer's refusal to execute the effective act preservation ruling, the judgment was revised to jointly compensate each infringer for economic losses of 159 million yuan.

The damages in this case are believed to be the highest among technology secret infringement cases. The second instance judgement adopts the damages calculated based on sales profits as the basis for actual losses, and corrected the erroneous view in the first instance judgment that the plaintiff's submitted evidence was insufficient to prove the actual losses due to infringement. The Supreme Court has comprehensively considered the three damages calculation methods proposed by the plaintiff, namely based on business profit, sales profit and price erosion. In particular, the Court believes that the defendant's malicious infringement is deep, the infringement circumstances are severe and there had even been intentional obstacles for evidence submission and bad-faith behaviour during the litigation process. Therefore, the Supreme Court decided to calculate the infringement damages in this case based on the sales profit of vanillin products.

In a trade secret infringement case of October 2023, the Supreme Court believed that the losses suffered by the plaintiff included the sunk costs of their investment (already paid and unrecoverable costs) and the expected benefits (commercial transaction opportunity benefits), which were likely to exceed the value of the commercial information evaluation report. The second instance judgement reversed to award the infringer of 50 million yuan.

The specialty of this case lies in the fact that the technical information claimed by the plaintiff, or its content, had been disclosed by public publications, national standards and other evidence submitted by the defendant, which are believed to be easy for those skilled in the relevant field to deduce and calculate, and known to the public. Partial content cannot determine whether the right to technical information belongs to the plaintiff. Partial information is only an introduction to the general principles, raw materials and process flow of the relevant technology, and is not a specific technical solution that can be implemented. The plaintiff has no direct evidence to prove its claimed infringing behaviour, has not displayed the defendant's specific products or the technology implemented by the products and has not provided evidence to explain how the defendant used its specific business information. The evidence in the case also does not fully demonstrate the specific nodes where trade secrets may be transferred. Therefore, the first instance court rejected the plaintiff's lawsuit request.

In this regard, the second instance judgement believes that for trade secret infringement cases, as the rights holder has not yet mastered the agreed trade secrets, this part of the trade secrets cannot be characterised as the delivered trade secrets. The main focus should be whether the parties can reasonably foresee or believe that the agreed trade information can constitute trade secrets, and the behaviour and responsibility of infringing on trade secrets. The scope of trade secrets that are not known to the public includes the combination of their entire or partial content. Even if some of the content in a specific technical information is known to the public, the overall or combination of specific technical information should generally be considered as not known to the public. Therefore, the second instance court reversed the first instance judgement.

Although the number of trade secret cases is increasing, the winning rate is relatively low, indicating that enterprises in China still lack awareness of protecting trade secrets. Based on the judicial practice of trade secrets, it is recommended that enterprises strengthen the protection of trade secrets from the following aspects:

- Improve the confidentiality system: establish an internal confidentiality system based on industry characteristics and technical requirements, and develop a detailed and feasible confidentiality manual. Clarify the scope of trade secrets and set the level of trade secrets. According to business needs, define the scope of personnel in contact with trade secrets, and prevent the leakage of trade secrets through coding management, tracking of confidential personnel and labelling of secret labels.
- Strengthen confidentiality measures: regularly conduct training on employee confidentiality system, establish training record files, clarify confidentiality clauses in the labour contract or sign separate confidentiality agreements. Personnel participating in major projects are required to sign a confidentiality commitment letter, which is tailored to individual needs, situations and local conditions.
- Strengthen the protection of trade secrets in activities outside: sign a confidentiality agreement with potential business entities such as partners, product suppliers and service providers who may come into contact with trade secret information. Clarify the confidential information and emphasise confidentiality obligations. In business negotiations, measures such as concealing confidential information and replacing codes should be taken to prevent the leakage of confidential documents.

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