

## *Protecting Trade Secrets in China: Tips and Lessons Learned*

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# Trade Secrets Law: China vs. US

- Chinese “Trade Secret” Concept Is Similar to That of the US
- But here comes the triple whammy:
  - ① China does not have US-style discovery
  - ② In China, oral testimony carries little or no weight; and
  - ③ In China, evidence must be original; copies are not evidence.
- Original written evidence is practically the only form of admissible evidence in China for trade secret cases!

# Definition of “Trade Secret”

- Article 10 of Anti-Unfair Competition Law defines “trade secret” as:
  - technical or business information that is unknown to the public;
  - which has economic value and practical utility; and
  - for which the trade secret owner has undertaken measures to maintain its confidentiality.
- Definition of “Trade Secret” Similar to the US.
  - processes
  - methods
  - recipes
  - marketing strategies
  - customer lists
  - pricing information

# Four Forms of Actionable Misappropriation

## A. Perpetrator's Liability

- 1) Acquiring trade secrets by theft, inducement, coercion or other illicit means;
- 2) Disclosing, using, or allowing others to use trade secrets acquired by the above means;
- 3) Disclosing, using, or allowing others to use trade secrets in breach of an agreement or a confidentiality obligation imposed by a legal owner.

## B. Accomplice's Liability

- 4) Acquiring, using or disclosing trade secret when a third party knows or should have known that the trade secret has been misappropriated in any of the above ways.

# Enforcement Options

## – Administrative Enforcement

- Handled by the Administration for Industry and Commerce
- Can investigate trade secret misappropriation acts and
  - ✓ order the return of drawings, blueprints, and other materials containing the trade secrets; and
  - ✓ order the destruction of the goods manufactured using the stolen trade secrets if such goods would disclose the secrets to the public when made available.
- Can impose a fine of at least ¥10,000 (\$1,500) but less than ¥200,000 (\$30,000)
  - ✓ No damages award

## – Civil Enforcement

- Seek damages and injunctive relief

# Enforcement Options

## – Criminal Enforcement

- Misappropriation of trade secrets; and
- Causing significant economic losses to trade secret owner.
  - If loss is > ¥500,000 [~\$75,000], imprisonment of up to 3 years
  - If loss is > ¥2,500,000 [~\$375,000], imprisonment of 3 to 7 years

## – Great “discovery” tool for civil suits

- Evidence obtained by police is admissible in court
- But it may be hard to get police interested in plain-vanilla cases

# Chinese Criminal Code for IP Crimes

**Article 219.** Misappropriating trade secrets and bringing about **significant losses**.  
[i.e., at least ¥500,000]

**Article 220.** When an entity commits the above crime, it shall be subject to a fine;  
directly responsible persons should be punished in accordance with these  
Articles.

## Statute of Limitations

- Two years from the time that the trade secret owner knew or should have known about such misappropriation act.
- For continuous misappropriation, the trade secret owner can get damages for misappropriation for the last two years only. Of course, other remedies, such as injunction, are also available.



# Remedies

- Evidence preservation
- Property preservation
- Pre-suit injunction
- Permanent injunction
- Compensation for damages
  1. IP Owner's lost profits
  2. Infringer's profits due to infringement
  3. Reasonable royalties
- Penalties (administrative remedies)
- Criminal charges (criminal remedies)

# Injunctions

- Preliminary injunction: extremely rare because it is rather difficult to show likelihood of success from the outset of trade secret litigation.
  - Trade secrets are NOT government-granted rights, unlike patents, trademarks, and copyrights; and
  - Misappropriation may be hard to prove before trial.
- Permanent injunction: mostly granted when trade secret owner prevails.
  - The length of a permanent injunction cannot be extended to the time when the trade secret becomes known to the general public.

Note: China does not subscribe to the notion of inevitable disclosure.  
Actual misappropriation must be proven by admissible evidence.

# Confidentiality Agreement

- How long can confidentiality obligation last?
  - Is there a post-termination obligation? If so, for how long?
  - Chinese Contract Law allows survival of confidentiality obligation after termination of contract but is silent on length
  - No court guidance; no regulation on point
  
- My View
  - Forever is probably not enforceable
  - Silence on length is NOT golden
  - Consider specifying a definite term or having confidentiality obligation to last as long as the information remains secret

# Non-compete Agreements

- Non-compete Agreements for Employees Are Enforceable
- Enforceability Depends on **Length** and **Consideration**
  - ✓ Article 24 of the Labor Contract Law: the length for the non-compete obligations shall not exceed two (2) years
  - ✓ Article 23 of the Labor Contract Law: the employee shall be paid monthly monetary compensation during the non-compete period.
- Enforcement of non-compete is much more straightforward than misappropriation of trade secrets.
  - ✓ Can get injunction and damages.
  - ✓ Enforcing non-compete is like enforcing trade secrets based on the inevitable disclosure doctrine.

# Non-compete Agreements

## – Practical Tips:

- Prepare non-compete agreement **separate from labor contract** to avoid mandatory labor arbitration; should also include non-solicitation and assignment obligations.
- Non-compete obligations are limited to senior management, senior technical personnel and others with confidentiality obligations.
- Pay appropriate additional compensation during non-compete period.
- Check local regulations for the locations where you have operations.

For more details on the how to protect trade secrets in China, please see the following article

**J. Benjamin Bai, *et. al.*, Strategies for Trade Secrets Protection in China, 9 Nw. J. Tech. & Intell. Prop. 351 (2011), <http://scholarlycommons.law.northwestern.edu/njtip/vol9/iss7/1>**

## Snapshot of Chinese Trade Secret Cases

- www.ciela.cn maintained by Rouse & Co.
- **231** trade secrets analyzed (in Feb. 2013).
- Average damages awarded: about RMB **192,000**. Average duration: about **12 months**
- Second tier cities seem to be better than Beijing and Shanghai.
- Only Beijing and Shanghai are statistically significant.
  - Plaintiff's win rate
    - Beijing: **63%**
    - Shanghai: **46%**
  - Beijing is better for plaintiffs than Shanghai (which is consistent for all types of IP cases).

# Fighting Trade Secret Theft in China from the U.S.

## Section 337 Investigations

United States International Trade Commission

[www.usitc.gov](http://www.usitc.gov)



## 337 Investigations: Not Mere Litigation

*“A Section 337 investigation is not mere litigation among private parties.”*

- Order No. 10, *Certain Gel-Filled Wrist Rests and Products Containing Same*, Inv. No. 337-TA-456

# Overview

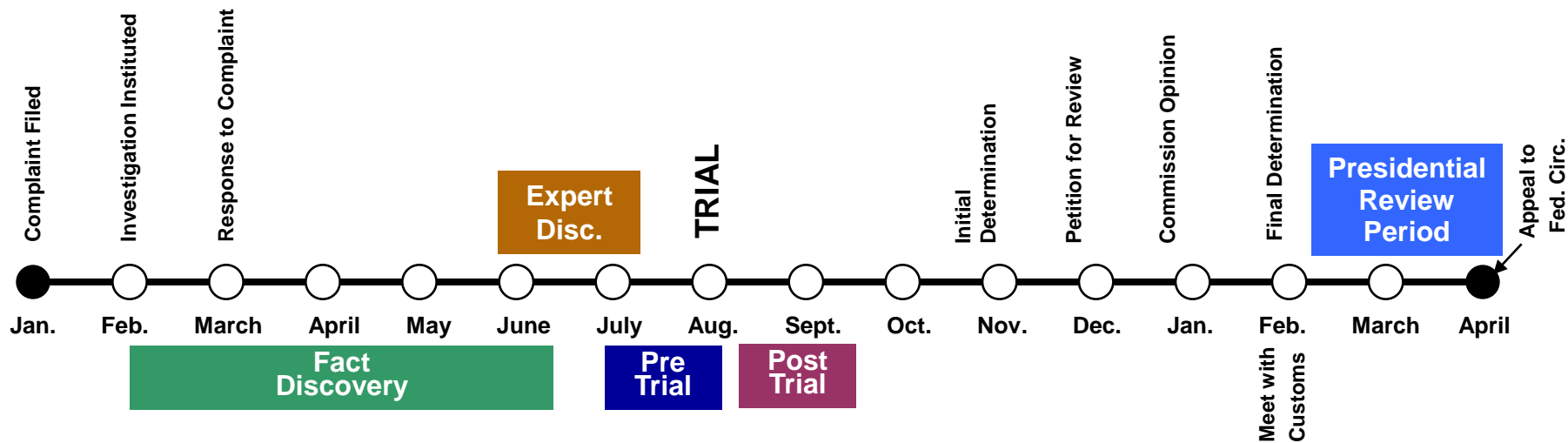
## Section 337

Products Excluded from U.S. if:

- There is a U.S. industry using valid IP right, and
- Product is imported/to be imported into U.S., and
- Product infringes valid U.S. IP right.
  - patent
  - trademark
  - trade dress
  - trade secrets
  - parallel imports/grey market goods

# Overview

## The Process



# Overview

## Remedies — Exclusion Order

- **Limited:**
  - bars imports from those named in the Complaint
  
- **General:**
  - bars all imports from any source
  - maker need not be a respondent – or related to a respondent — in the investigation
  - less common – only available if source of goods is difficult to identify or if necessary to give effective remedy

# Overview

## Remedies — Cease and Desist Order

- Bars entity from engaging in infringing activity related to imported article within U.S. (inventory)
- Penalty for violation of up to US \$100,000 per day or twice the value of goods imported, whichever is *greater*

# The Reach of the ITC: *TianRui*



## *TianRui*: Implications

*TianRui*

*TianRui Group Co. v. ITC*  
661 F.3d 1322 (Fed. Cir. 2011)

# *TianRui*

Trade secrets:

- stolen in China
- used to make train wheels in China
- train wheels imported into the United States



## *TianRui:* Federal Circuit

The Commission has authority to investigate and grant relief based in part on extraterritorial conduct insofar as it is necessary to protect domestic industries from injuries arising out of unfair competition in the domestic marketplace.

## *TianRui: Federal Circuit*

The Commission does not purport to enforce principles of trade secret law in other countries generally, but only as that conduct affects the U.S. market.

## *TianRui:* Federal Circuit

The general provisions relating to unfair practices is not satisfied by evidence showing only that a domestic industry exists; it requires that the unfair practices threaten to “destroy or substantially injure” a domestic industry.

## *TianRui: Dissent*

I see nothing in the plain language of the statute that indicates that Congress intended it to apply to unfair acts performed entirely abroad.

In this case, *none* of the acts which constitutes misappropriation occurred in the United States.

## *TianRui: Dissent*

United States trade secret law simply does not extend to acts occurring entirely in China. We have no right to police Chinese business practices.... The potential breadth of this holding is staggering.

## ***TianRui: Federal Circuit***

The Commission's interpretation of section 337 does not, as the dissent contends, give it the authority to “police Chinese business practices.” It only sets the conditions under which products may be imported into the United States.

# Statistics on U.S. Trade Secrets Lawsuits

- Subject Matter Most Frequently At Issue
  - 94% of trade secrets cases involve **internal business trade secrets** (i.e., customer lists and internal business information) and **technical trade secrets** (i.e., formulas, technical information, and **software** or computer programs); article did not report on remaining 6% of cases.
  - Internal trade secrets were litigated in 70% of state cases, and technical trade secrets were litigated in 36% of state cases.
  - For federal cases, internal business trade secrets were litigated in 48% of federal cases, and technical trade secrets were litigated in 56% of federal cases.
- *A Statistical Analysis of Trade Secret Litigation in State Courts*, Gonzaga Law Review, Vol. 46:1

## Statistics on U.S. Trade Secrets Lawsuits

- States in which state appellate cases are heard most frequently, providing insight into geography of case filings:
  - California: 16%
  - Texas: 11%
  - Ohio: 10%
  - New York: 6%
  - Georgia: 6%
- On appeal, alleged misappropriators won 57% of the time and lost 41% of the time.
- *A Statistical Analysis of Trade Secret Litigation in State Courts*, Gonzaga Law Review, Vol. 46:1



## Statistics on U.S. Trade Secrets Lawsuits

- More than half the states have enacted criminal statutes regarding trade secret theft.
- Criminal trade secrets cases are relatively rare. From 1995 through 2009, state courts applied civil statutes 68% of the time and state common law 24% of the time. Criminal law was applied 2% of the time.
- *A Statistical Analysis of Trade Secret Litigation in State Courts*, Gonzaga Law Review, Vol. 46:1

## Conclusions

- Chinese “Trade Secret” Concept Is Similar to That of the US
- Proving Access to Trade Secret Is Key in China
- Tips for Protecting Trade Secrets in China
  - Implement and Enforce Trade Secrets Policy
  - Take Measures to Guard Secrecy
    - ✓ IT security
  - Use Confidentiality Agreements
    - ✓ three way vs. two way
  - Obtain Written Acknowledgment for Confidential Information
  - Employee Education/Exit Interviews
  - Build Relationships with Police
- **Enforcing Non-Compete Is Easier Than Trade Secrets**

# **Thank You**

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