Bird & Bird & Trade Secrets

A comparison between the EU Trade Secrets Directive and the Chinese trade secret protection regime

This is the 7th in a series of articles written by members of our International Trade Secrets Group, highlighting points of note regarding the protection of Trade Secrets in various jurisdictions. In this article we look at the development of trade secret protection under Chinese laws and compare it with some of the provisions in the EU Trade Secrets Directive (the "**Directive**").

Definition and enforcement of Trade Secrets

In China, a trade secret holder can elect to pursue trade secrets breaches via civil litigation, administrative complaint, or criminal enforcement. The legal provision which triggers a civil or criminal liability is highly homogenous. The only additional requirement under the Criminal Code is a monetary threshold of RMB 500,000 (~ USD 70,000) in the amount of damages claimed, whilst a civil claim has no *de minimis* rule apart from the requirement to show that the trade secret has commercial value. However due to the very different procedural aspects and background of the authorities handling these claims, the standard of proof and results can be very inconsistent. It is a [tactical/strategic] question on how these routes should inter-relate - should a trade secret holder be encouraged to file a criminal complaint first and then seek damages under the civil route, or the other way round?

One of the obstacles to effective trade secret protection is the focus on the quality of the information for which protection is sought, rather than the misappropriation aspect. The definition of trade secret under the Criminal Code is:

a) technical or business information;

b) not known to the public;

c) which can bring economic benefit to the right owner and is of practical value; and

d) is the subject of confidentiality measures taken by the right owner.

The definition under the (Civil) Anti-Unfair Competition Law has a slightly wider scope for (a) and (c) but is otherwise similar:

a) commercial information such as technical or business information

b) not known to the public;

c) which can be bring commercial value to the right owner; and

d) is the subject of confidentiality measures taken by the trade secret holder.

In civil actions trade secret breaches are handled by IP judges, and in particular patent judges. This experience might have contributed to the practice of using a novelty test similar to that under patent law in deciding whether a piece of information is "not known to the public". Instead of pointing to information which is secret "*as a body or in the precise configuration and assembly of its components*" (c.f. Article 2 of the Directive), the right holder is often required to identify precise trade secret "points" within the information, akin to identifying technical features in a patent claim. The defendant can then challenge whether a particular trade secret "point" is secret because it was disclosed in a certain prior art document accessible by the public. This is an easier defence than to show that the information is "generally known among or readily accessible to persons within the circles that normally deal with the kind of information in question" under the Directive.

A high threshold is also applied in assessing whether the information used or disclosed by the defendant is "similar" to the trade secret points as alleged. This creates a possible defence of non-infringement by slight modifications to the information used, especially when there is no documentary discovery/disclosure procedure under the civil procedure law for the plaintiff to ascertain what the defendant in fact used at a given point in time. It is sometimes considered easier to bring the case when the gun is still smoking, in which case the plaintiff only needs to show an imminent risk of the trade secret being unlawfully acquired, rather than to select trade secret points while having no access to what the defendant is actually using.

At the other end of the spectrum, the narrow definition potentially balances out the risk of the criminal procedure being abused. Police officers are often reluctant to take on a trade secret case because of the difficulty in understanding what qualifies as a "trade secret point" from highly technical documents. However, the difficulty in delineating the boundary of a trade secret could result in the case being sent back multiple times by the prosecution for further investigation by the police. This delay results in the accused being detained for a long time, sometimes one or two years, pending a charge being pressed. There are few procedural safeguards for the accused to dispute the case during the detention period, especially when trade secret theft is alleged and details of the case are confidential. As a result, some right holders prefer the criminal route because of the great pressure that can be asserted on the accused. That said, trade secret enforcement is certainly the Cinderella of IP actions in China, with the fewest cases.

Strengthening of Trade Secret Protection in recent legislation amendments

Amid the US-China trade negotiation and in an effort to follow the global trend to strengthen trade secret protection, China amended its Anti-Unfair Competition Law in April 2019 to:

a) clarify that civil action against breach can be taken against a natural person (e.g. ex-employee) and not just against a "business operator in competition";

b) impose liability on the act of electronic intrusion, or the act of inciting, coercing, abetting trade secret breach by a third party;

c) increase the statutory damages of trade secret breach from RMB 3 million to RMB 5 million;

d) impose a punitive basis of damages calculation in case of bad faith infringement up to five times the infringer's gain or the right holder's loss;

e) shift the burden of proof to the defendant when the right holder is able to provide prima facie evidence of infringement, e.g. by showing "access + similarity": that the defendant had means or opportunities to acquire the trade secret and that the information used by the defendant is similar to the trade secret.

It remains to be seen whether the Court is willing to alleviate some of the evidentiary requirements so that more right holders could benefit from the amendments aiming to strengthen trade secret protection. What is encouraging is that significant damages awards in trade secret cases are on the rise, such as the award of RMB 35 million (approx. US$ 5 million) by the Zhejiang Higher People's Court in the 2018 case of *Zhejiang NHU Co., Ltd v Fukang Pharmaceutical*. The case relates to intermediaries in the production of Vitamin E.

On 10 June 2020, the Supreme Peoples' Court ("SPC") published a draft judicial interpretation relating to trade secrets for public consultation ("Draft"). The Draft proposes that:

a) the right holder can change or add trade secret points before the end of the 1st instance court debate;

b) a piece of information that was unknown to the public at the time when infringement happened but was later published is still considered "unknown to the public"; information created by re-organising or improving public information can also qualify as trade secret;

c) the burden of proof is shifted to the defendant when the right holder can prove "access + high likelihood of infringement", rather than proving similarity in actual infringement;

d) the obtaining of trade secrets in violation of accepted business practices also constitutes misappropriation;

e) for electronic intrusion, jurisdiction is seized by the court where the terminal or server used by the intruder is located, or where the terminal or server which stores the infringing information, or the place of domicile of the infringer. If these locations are difficult to ascertain, the court located at the place of domicile of the plaintiff would have jurisdiction.

The Draft shows an inclination to relax the evidentiary requirements on right holders, although it remains to been seen how courts would interpret the new rules such as "obtaining in violation of business rules", "high infringement possibility", or whether the criteria for "not generally known to the public" would change. The Draft will be open for public consultation until 27 July 2020.

Protection of Confidential Information in Court Proceedings

There are a number of procedural safeguards already implemented by Chinese courts to protect confidential information submitted in the course of legal proceedings. Upon request from a party, the entire trial hearing can be conducted in private and not just the part discussing the confidential information. Persons allowed to attend the closed door hearing are required to sign up to suitable confidential undertakings. Judgments containing the confidential information are redacted unless both parties consent to its disclosure. Information seized by the Court during an evidence preservation exercise is not automatically served on the other side and, upon request by the defendant, is often available for inspection in court by the plaintiff's outside counsel only with no representative from the plaintiff company.

In contrast with the narrow definition of trade secret, judges are willing to implement these procedural safeguards as long as the information litigated is generally of a confidential nature.

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