

ALLEN & OVERY

*Tutorial on Protecting Trade Secrets in  
China/US Technology Transactions*

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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
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- 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.

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## 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 your have operations.

## 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**

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>**

**Thank You**  
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