

Trade Secret Law In China: 3 Highlights From 2017

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China saw significant developments in trade secret law in 2017. The new Anti-Unfair Competition Law substantially strengthens trade secret protection in the civil and administrative proceedings. A series of high-profile trade secret cases demonstrated that rights owners are taking trade secret more seriously, especially for the companies in the high-tech industries. To streamline the trial of trade secret cases, the Shanghai Intellectual Property Court issued detailed guidance for trade secret cases. All of these developments are encouraging trade secret rights-holders, including multinational companies with a presence in China, to enforce their trade secret rights in the world's second largest economy.



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Amendment to the Anti-Unfair Competition Law Enhances Trade Secret Protection

A group of representatives to the National People's Congress (NPC) has made continuous calls for stronger protection of trade secrets by codifying a stand-alone trade secret law. In response to these requests, China's highest legislative body, the Standing Committee of NPC, passed the bill amending China's Anti-Unfair Competition Law (AUCL) on Nov. 4, 2017. Protection of trade secrets in China has traditionally taken place under the auspices of the AUCL, which was initially enacted in September 1993. The trade secret amendment, together with amendments to other areas such as false advertisement, has taken effect since Jan. 1, 2018.



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To enhance the protections for trade secret right holders, the draft amendment to the AUCL initially contemplated a provision permitting the inference of misappropriation and a concomitant shift of the burden of proof. That is, where a trade secret rights-holder can prove that the information used by another party is substantively similar to its own trade secrets and the other party had or has access to the trade secrets, the other party shall bear the burden of proving that the information was acquired through a legitimate source. Due to the lack of full discovery found in common-law jurisdictions, such a provision would help with a significant obstacle to prevailing on trade secret claims: the proof that a trade secret was misappropriated. However, this burden shifting provision does not appear in the final



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promulgated version. Though the AUCL has not solved the issue of balancing the burden of proof within the context of Chinese civil procedure, it includes other significant enhancements to the protection of trade secrets in the civil and administrative proceedings. Two key enhancements are an increased cap on damages and expanded enforcement powers given to the State Administration for Industry and Commerce and its local branches.

Threefold Increase to Damages Cap Is Applauded by Rights-Holders

In civil trade secret cases, Chinese civil courts can order damages calculated under a similar rubric as patent infringement damages, i.e., plaintiffs' lost profits, defendants' illegal gains, a reasonable royalty, or statutory damages. The courts can also issue permanent and preliminary injunctions. Due to the lack of an effective evidence exchange mechanism to access a defendant's financial information, it is generally difficult for a plaintiff to prove up a defendant's illegal profits, or even obtain information about the scope of defendant's infringing activities to estimate the rights-holder's lost profits or extent of a reasonable royalty. As such, where it is difficult to determine the losses incurred to the right holder or the gains obtained or royalties to be paid by the infringer, civil courts in China can impose statutory damages at its discretion, but only up to a statutory limit. The AUCL dramatically increases the cap of statutory damages from RMB 1 million (\$151,520) to RMB 3 million (\$454,550).[1] Because of the relative frequency that statutory damages are awarded, such a change would significantly affect the expected recovery for successful trade secret claims and encourage more right holders to assert the trade secret rights before the Chinese civil courts.

More Powers Are Granted to the SAIC and Its Local Branches

In addition to bringing a civil suit in the appropriate court and asking local prosecutors to bring criminal charges, trade secret rights-holders can also seek administrative relief by submitting a complaint to the local branch of the SAIC in China. The local branch may then pursue an administrative investigation into the alleged theft, and is authorized to levy a fine as a penalty and issue injunctions. Restitution is not, however, available.

The AUCL gives SAIC local branches new administrative investigative powers in trade secret cases, i.e., to conduct on-site inspection and dawn raids, sealing and seizure of property related to the illegal acts, and access to and inquiry concerning bank accounts of the infringer. These powerful investigative tools (e.g., both the dawn raids and seizure would be helpful and essential for locating the infringing evidence) provide the opportunity to obtain significantly more information than is typically the case for a private litigant in the Chinese courts. It is therefore likely that more trade secret right holders would resort to administrative relief with the local SAIC branch due to the potential for a substantively better outcome.

Moreover, the AUCL gives SAIC and its local branches more power in ordering a fine in trade secret cases. The administrative enforcement agencies previously could only impose fines from RMB 10,000 (\$1,515) to RMB 200,000 (\$30,300), while the amended AUCL permits a fine ranging from RMB 100,000 (\$15,150) to RMB 3 million (\$454,550), depending on the specific types and severity of violations. This change can be expected to increase the deterrence against trade secret theft in China.

Guidance Issued by Shanghai IP Court Provides a Clear Road Map for Trade Secret Case

The impact of the specialized IP courts in Beijing, Shanghai and Guangzhou has been positive, and many high-profile cases have been filed with these specialized IP courts since their 2014 launch.[2] To streamline the trial of civil trade secret cases, the Shanghai IP court issued a special guidance in

November 2017, including 40 articles. Guidance is sometimes issued by courts in China in order to unify and harmonize the practices within its jurisdiction in the absence of the precedent-based system used in common law countries.[3] Significant developments in the guidance mainly include:

- When filing a trade secret case, the plaintiff should identify the trade secrets with reasonable particularity and specify the media on which such trade secrets are embodied;
- Minor amendment to plaintiff's original identification of its trade secrets is allowed in response to defendant's arguments, but substantial expansion beyond the original scope will generally not be permitted;
- The proffer of preliminary evidence of infringement is the precondition for the court to grant preliminary injunction, asset preservation and/or evidence preservation, and a bond is generally required if the court grants plaintiff's petition.
- The parties to the civil action, the attorneys and other participants should sign nondisclosure agreements prior to evidence exchange, undertaking that they will not disclose or use trade secret information accessed during the litigation.
- The court will ascertain whether the defendant's information is the same as or substantially similar to the plaintiff's trade secret information. The court will also ascertain whether the defendant has access to plaintiff's trade secret information, with the focus on the time of the access and the time the trade secret information was developed.
- Reverse engineering could be a viable defense where such reverse engineering is itself legal. However, such defense would be denied by the court if the reverse-engineered product was from illegal source.
- For technical issues (e.g., whether the asserted trade secrets were known by the public, and whether the plaintiff and defendant's technologies are the same or substantially similar), the court may rely on court-appointed experts and judicial appraisal,[4] and the parties are allowed to retain their own experts.
- The guidance provides detailed rules on damages, with seven of the 40 articles in the guidance relating to how to determine damages.

Though the guidance does not have binding effect over other Chinese courts, it could still be a persuasive authority and good reference for other courts, and would be thus helpful for harmonizing China's fragmented patchwork of laws and regulations governing trade secrets enforcement.

High-Profile Cases Demonstrate Stronger Faith in China Trade Secret Protection

As the trade secret has become an essential asset of many companies, especially for the companies in industries where other kinds of intellectual rights, such as patents and copyrights, cannot effectively afford sufficient protection, some companies are beginning to use trade secret as a preferred method to protect their rights and interests in China. This explains the increase in high-profile trade secret cases filed in China in the last several years. The table below lists exemplary high-profiled trade secret cases occurred in China in 2017.

Plaintiff/Victim	Defendant/Suspect	Technology at issue	Nature of procedure
Baidu	Its former employee	Self-driving and artificial intelligence	Civil, claiming for RMB 50 million (US\$7.58 million) ⁵
Gaode Map	Its former employees, and Didi Chuxing ⁶	Map	Civil, claiming for RMB 75 million (US\$11.36 million)
Robstep	Its former employees and Inmotion ⁷	Self-balancing vehicles	Civil, claiming for RMB 60 million (US\$ 9.09 million); and criminal

First, it is notable that all of the above high-profile trade secret cases relate to new technology or new industries, including self-driving vehicles and artificial intelligence. Interestingly, the case brought by Baidu against its former employee in December 2017 is widely reported as the Chinese version of the Waymo v. Uber litigation occurring at the same time in the United States.

Second, similar to trends demonstrated in the patent, trademark and copyright civil cases in China,[8] these cases show that the trade secret rights-holders are claiming high damages. This phenomena was partly attributed to China's determination to strengthen the country's intellectual property laws and enhance the protection of intellectual property rights.

Lastly, some right holders are also resorting to the criminal procedure, which generally has a stronger deterring effect against trade secret theft. Another benefit of criminal procedure is having access to the infringing evidence that are difficult to collect in the civil procedure as the criminal investigative authority has more powerful means to collect infringing evidence than the civil court. The evidence collected in the criminal procedure can be further used in the civil procedure.[9]

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[1] In China, the current caps of statutory damages for patent, trademark and copyright cases are RMB 1 million(US\$ 151,520), RMB 3 million(US \$454,550), and RMB 500,000 (US\$ 75,760), respectively. China is contemplating an increase to the caps for patent and copyright cases.

[2] For example, in addition to the foregoing patent infringement cases brought by Sogou against Baidu, Apple filed two civil actions against Qualcomm with the Beijing IP Court in January 2017, in which Apple alleged that Qualcomm abused its dominance in the sale of baseband processor chipsets and claimed damages of RMB 1 billion (US \$145.3 million), and that Qualcomm refused to license its standard essential patents to Apple on fair, reasonable and nondiscriminatory terms.

[3] For instance, Jiangsu Higher People's Court issued a guidance for trade secret cases in 2011, which is followed by the courts within Jiangsu province.

[4] Judicial appraisal is a mechanism commonly used by the Chinese courts to handle issues needing special knowledge and expertise. The opinion issued by the judicial appraisal tribunal is a form of admissible evidence in China.

[5] Unlike a minimal filing fee for civil trade secret cases in the United States, the plaintiff of a civil trade secret case in China shall pay the filing fees proportional to the damages claimed. For example, around RMB 300,000 (US\$ 45,500) would be charged if the plaintiff claims for RMB 50 million in a civil trade secret case.

[6] Didi Chuxing is a major Chinese ride-sharing company, which is one of the most valuable start-ups and technology companies in the world, with over US\$50 billion worth of valuation. These former employees worked for Didi Chuxing after leaving Gaode Map.

[7] These former employees established Inmotion after leaving Robstep.

[8] For instance, Sogou, a leading search engine in China, sued its competitor Baidu in Beijing and Shanghai IP courts for patent infringement in 2015 and claimed for RMB 260 million (US\$ 39.4 million).

[9] For more information about the interplay between criminal and civil procedure, please refer to "Tips For Protecting Trade Secrets in China."