

China Amends Trade Secret Law to Further Favor Rights-Holders

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IP Litigation

On April 23, 2019, the Standing Committee of the National People's Congress of China passed a bill amending China's Anti-Unfair Competition Law ("AUCL"). Changes made by the amendment bill took effect on the same day. Further to the [last amendment to the AUCL](#) in 2017, the newly introduced burden-of-proof shifting and punitive damages rules will significantly enhance the protections for trade secret right holders.

New burden-of-proof shifting provision will substantially favor trade secrets rights-holders

The most significant change in the amendment is a new burden-of-proof shifting provision with respect to right holder's establishment of (1) the existence of a trade secret, and (2) the existence of misappropriation. Under the new rules, the burden on the plaintiff is lowered to require only prima facie evidence on these two elements, after which the burden shifts to the defendant to disprove the existence of a trade secret or misappropriation.

According to the first paragraph of Article 32, when a trade secret rights-holder presents prima facie evidence reasonably demonstrating that it has taken confidentiality measures with respect to its alleged trade secret and it was nonetheless misappropriated, the burden then shifts to the defendant to disprove that the asserted information is a trade secret. This is a significant departure from the previous rules, which placed a heavy burden on a trade secret plaintiff to show that the asserted trade secret was not "known to the public." This issue was frequently the most fiercely-litigated as it serves as a threshold objective defense. Typically proving this point would require the court to rely on a report from an independent judicial appraisal agency, at the plaintiff's cost. This change is likely to allow plaintiffs to cement their evidence supporting trade secret status and require defendants to instead bear burden to refute claims of trade-secret status.

The second paragraph of Article 32 provides that a trade secret rights-holder can rest on prima facie evidence which reasonably shows that its trade secret has been misappropriated, and also provides evidence supporting that either (1) defendant has an opportunity to access the trade secret, and the information that defendant has used is substantially similar to the trade secret; or (2) the trade secret has been disclosed or used, or there is a risk of being disclosed or used, by defendant. When this prima facie showing has been made, a defendant then has the burden to prove that it has not misappropriated the trade secrets. Due to the lack of fulsome common law-style discovery, parties in trade secret litigation in China frequently find it difficult, if not

impossible, to obtain evidence from a defendant to support a claim for misappropriation. By allowing the inference of misappropriation and shifting the burden-of-proof, the new AUCL will help remove this obstacle and compel an accused infringer to present evidence in its possession to try and defeat such a claim.

Enhanced monetary remedies by creating up to fivefold punitive damages and increasing statutory damages cap

Notably, the new AUCL provides for the court to amplify exemplary damages up to five times in cases of willful and malicious misappropriation. This is unprecedented in China's Trade Secret Law and is intended to serve a punitive purpose. Article 17 of the new AUCL permits the court to exercise the discretion in granting punitive damages where willful misappropriation reaches a "serious degree". How subsequent legislation and judicial interpretations will define "serious degree", as well as the more general issue as to how the new willful misappropriation rules will change the legal landscape and parties' litigation strategies, remains to be observed by practitioners and interested parties.

Article 17 also further increases the upper limit of statutory damages from RMB 3 million (approximately US\$ 446,400) in the 2017 AUCL to RMB 5 million (US\$ 744,000). As noted in our analysis of the 2017 AUCL amendment, courts in China frequently award statutory damages due to the inability of the injured party to acquire information on an infringer's unjust gains. This further substantial increase can be expected to provide further relief to right-holders and encourage more right holders to assert trade secret claims that may have seemed too marginal under the old damages limits.

Stronger enforcement power granted to the administrative authority

The new AUCL also grants more enforcement powers to the administrative regulator under the AUCL, the State Administration for Market Regulation ("SAMR") and its local branches. Previously the SAMR could pursue an administrative investigation into alleged trade-secret theft and was authorized to conduct on-site inspection and dawn raids, sealing and seizing property related to the alleged illegal acts, and further could obtain information on an alleged infringer's bank accounts. The new AUCL further empowers the SMAR to forfeit the illegal gains from the misappropriation. In addition, the amendment further escalates the range of fines that can be imposed by SAMR. Previously the SAMR could levy a fine ranging from RMB 100,000 (approximately US\$14,880) to RMB 500,000 (US\$ 74,400), increased to RMB 500,000 (US\$ 74,400) to RMB 3 million (US\$ 446,400) for severe cases. Under the new AUCL the higher end of these ranges are increased to RMB 1 million (US\$ 148,800) and RMB 5 million (US\$ 744,000) respectively. These changes can be expected to increase the deterrence against trade secret theft in China.

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