

Legal Protection for Trade Secrets in China¹

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I. Overview

A Trade secret, in simple terms, is economically valuable information, which is not generally known. Such information is regarded as an intangible asset of that enterprise; it can create great wealth for the enterprise, and enhance the core competitiveness of the business. Because of its tremendous value and its important position in market competition, violation of trade secrets has emerged in an endless stream. Therefore, specific legal systems have been established to protect trade secrets and to maintain fair competition all over the world.

Following China's access to the WTO, Chinese companies now enjoy far wider economic relationships with companies in other countries. Inevitably, intellectual property problems arise when the trade relationship is widened. China is frequently criticized for having one of the highest rates of infringement of intellectual property rights in the world, and misappropriation of trade secrets is not an uncommon scenario in China.³ However, it is worth noting that trade secret violations do occur in every country, without exception of China. The most important factor is whether that country has effective legislation to protect trade secrets. There is no doubt that China has raised the level of intellectual property protection since China entered the WTO in 2001. To make further progress, the State Council promulgated the Compendium of National Intellectual Property Strategy⁴ on June 5th, 2008,

which specifically places strategic emphasis on improving intellectual property systems and strengthening intellectual property protection. With regard to trade secrets, China has achieved a significant development in its protection since the adoption of reform and opening policies.

Among the existing laws⁵, there is already a legal system in place to protect trade secrets in China. The General Principles of the Civil Law⁶, which came into effect on January 1st, 1987, legislated for the protection of intellectual property. Although General Principles of the Civil Law does not expressly define trade secrets as being intellectual property, trade secrets are still protected as intellectual property under the General Principles of the Civil Law as supported by subsequent judicial practice.⁷ As a legal term, trade secrets appeared for the first time in the Civil Procedure Law promulgated on April 9th, 1991. However, the Civil Procedure Law just sets out the procedural rules concerning trade secrets, such as the exception of public trial.⁸ The Anti Unfair Competition Law (AUCL)⁹ was promulgated on September 2nd, 1993, which specified the substantive content of trade secrets, including definition, modes of misappropriation, civil remedy and administrative remedy. The Contract Law¹⁰, which came into effect on October 1st, 1999, prescribed the protection of trade

⁵ All the laws, regulations and judicial interpretations mentioned in the paper, unless otherwise specified, refer to the ones of China's mainland.

⁶ 中华人民共和国民法通则, April 12nd, 1986, Gazette of the Supreme People's Court (最高人民法院公报) 1986, No. 2, pp. 15-30.

⁷ ZHANG Yurui (张玉瑞), Trade Secret Law (商业秘密法学), Beijing 1999, p. 28.

⁸ 中华人民共和国民事诉讼法, April 9th, 1991 (revised on October 28th, 2007), Gazette of the Standing Committee of the National People's Congress (全国人民代表大会常务委员会公报) 2007, No.7, p. 699-725. The articles related to trade secrets are Art. 66 and Art. 120. Art. 66 Civil Procedure Law: "Evidence shall be presented in court and cross-examined by the parties concerned. But evidence that involves state secrets, trade secrets and personal privacy shall be kept confidential. If it needs to be presented in court, such evidence shall not be presented in an open court session." Art. 120 para. 2 Civil Procedure Law: "A case involving trade secrets may not be heard in public if a party so requests."

⁹ 中华人民共和国反不正当竞争法, September 2nd, 1993, Gazette of the Supreme People's Court (最高人民法院公报) 1993, No. 2, pp. 84-86.

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³ Marisa Anne Pagnattaro, Protecting Trade Secrets in China: Update on Employee Disclosures and the Limitation of the Law, in: American Business Law Journal, Vol. 45 (2008), No. 2, p. 404.

⁴ 国家知识产权战略纲要, June 5th, 2008, Gazette of the State Council (国务院公报) 2008, No. 17, pp. 12-17.

secrets during contract negotiations, performance, and even after the termination of a contract. The Company Law¹¹, which was last amended on October 27th, 2005, set forth the statutory confidentiality duty and special liability for senior managers of a company. On June 29th, 2007, the Labor Contract Law¹² was passed, and came into effect on January 1st, 2008. The new Labor Contract Law supplements and updates the Labor Law¹³ and provides for the protection of trade secrets of employers. In respect of criminal liability, when the Criminal Law¹⁴ was amended in 1997, it added a new type of crime to punish the odious infringers of trade secrets.¹⁵ In addition to the abovementioned legislation, there have been several judicial interpretations and administrative regulations, which support these laws.

Table: Legal Frame for Trade Secret Protection (including the main laws)

	Law	Judicial interpretation / Administrative regulation
Civil protection	General Principles of the Civil Law	
	Anti Unfair Competition Law	Interpretation of the Supreme People's Court on Some Issues Concerning the Application of Law in the Trial of Civil Cases Involving Unfair Competition
	Contract Law	
	Company Law	
	Labor Contract Law	
Administrative protection	Anti Unfair Competition Law	Several Provisions of State Administration for Industry and Commerce on Prohibiting Infringements upon Trade Secrets

Criminal protection	Criminal Law	Regulation of the Supreme People's Procuratorate and the Public Security Ministry Concerning Standards for Prosecution of Criminal Cases under the Jurisdiction of the Public Security Organs (II)
		Interpretation of the Supreme People's Court and the Supreme People's Procuratorate Concerning Some Issues on the Specific Application of Law for Handling Criminal Cases of Infringement upon Intellectual Property Rights

II. What Information Constitutes a Trade Secret?

Although the term trade secret firstly appeared in Civil Procedure Law, it did not specify what a trade secret was. The Opinion of the Supreme People's Court on Some Issues Concerning the Application of the Civil Procedure Law¹⁶, which was promulgated on July 14th, 1992, stated that a trade secret mainly referred to technical secret, commercial intelligence and information, such as production technique, formula, trade contact information, buying and selling channels and other industrial and commercial secrets that litigants were unwilling to keep public.¹⁷ However, this definition cannot represent the essential characteristics of trade secrets systematically.¹⁸ The AUCL defines a "trade secret" as technical and operational information which is unknown to the public, which is capable of bringing economic benefits to the owner of rights, which has practical applicability and which the owner of rights has taken measures to keep secret.¹⁹ Subsequently, the Criminal Law repeats the definition in the AUCL.²⁰ From this definition, we can see that the information that constitutes a trade secret should meet three criteria: 1) unknown to the public; 2) of economic value and useful; 3) taken confidentiality measures. These three criteria represent the prevailing practice of most other countries and are consistent with international practice. However, it is somewhat too vague, leading to confusion in

¹⁰ 中华人民共和国合同法, March 15th, 1999, Gazette of the Standing Committee of the National People's Congress (全国人民代表大会常务委员会公报), 1999, No. 2, pp. 104-151.

¹¹ 中华人民共和国公司法, December 29th, 1993, (last revised on October 27, 2005), Gazette of the Standing Committee of the National People's Congress (全国人民代表大会常务委员会公报), 2005, No. 7, pp. 548-569.

¹² 中华人民共和国劳动合同法, June 29th, 2007, Gazette of the Standing Committee of the National People's Congress (全国人民代表大会常务委员会公报), 2007, No. 5, pp. 410-419.

¹³ 中华人民共和国劳动法, July 5th, 1994, Gazette of the Standing Committee of the National People's Congress (全国人民代表大会常务委员会公报), 1994, No. 5, pp. 3-16.

¹⁴ 中华人民共和国刑法, March 14th, 1997, Gazette of the Standing Committee of the National People's Congress (全国人民代表大会常务委员会公报), 1997, No. 2, pp. 138-218.

¹⁵ See HU Kangsheng/LI Fucheng (胡康生 / 李福成), Expatriation of Criminal Law of RP China (中华人民共和国刑法释义), Beijing 1997, p. 309.

¹⁶ The citing of Civil Procedure Law under Opinion of the Supreme People's Court on Some Issues Concerning the Application of Civil Procedure Law has been revised in order to fit into the amendment of Civil Procedure Law in 2007. 最高人民法院关于适用《中华人民共和国民事诉讼法》若干问题的意见, July 14th, 1992, Gazette of the Supreme People's Court, (最高人民法院公报), 1992, No. 3, pp. 70-93.

¹⁷ Id. Art. 154.

¹⁸ KONG Xiangjun (孔祥俊), Principle of Trade Secret Protection Law (商业秘密保护法原理), Beijing 1999, p. 14.

¹⁹ Art. 10 para. 3 AUCL.

²⁰ Art. 219 para. 3 Criminal Law.

the identification of trade secrets.²¹ This issue has been settled to a certain extent by two regulations concerning the application of the AUCL. One is Several Provisions of State Administration for Industry and Commerce Concerning Prohibiting Infringements upon Trade Secrets (Trade Secret Provision, TRP)²², which was promulgated on November 23rd, 1995 and amended on December 3rd, 1998; the other is the Interpretation of the Supreme People's Court on Some Issues Concerning the Application of Law in the Trial of Civil Cases Involving Unfair Competition (Unfair Competition Interpretation, UCI)²³, which was promulgated on December 30th, 2006 and has come into effect on February 1st, 2007.

1. Unknown to the Public

The definition of a trade secret requires that it should be information that is not known to the public. The TRP interprets the phrase "unknown to the public" as the fact that the information is not directly available through public channels.²⁴ Further, the UCI explains that the information that is unknown and difficult to obtain by the relevant personnel in the relevant field can be affirmed as "being unknown to the public".²⁵ Compared to the first explanation, the latter is preferable because it is more specific and consistent with the requirement of TRIPS.²⁶

The explanation under UCI can be understood from two aspects. First, the information is unknown to the relevant personnel in the relevant field. A trade secret does not require absolute secrecy. The information does not need to be unknown to everyone, but only unknown to the relevant personnel in the relevant field, who can obtain economic value from its disclosure or use.²⁷ For example, a company may authorize its competitor to use the information through contract, and if the information is not generally known, it can also be protected as a trade secret. Second, the information is difficult to

obtain. The information that is not generally known is not necessarily difficult to obtain. If such information is 'known' to a few people, but it is readily (and legally) obtained by others, it will still not be regarded as "being unknown to the public".²⁸

In addition, the UCI also prescribes several specific cases where information may not be deemed as being unknown to the public:²⁹

- The information is the common sense or industrial practice for the personnel in the relevant technical or economic field;
- The information only involves the simple combination of dimensions, structures, materials and parts of products, and can be directly obtained through the observation of products by the relevant public after the products enter into the market;
- The information has been publicly disclosed on any publication or any other mass medium;
- The information has been publicized through reports or exhibits;
- The information can be obtained through other public channels; or
- The information can be easily obtained without any price.

2. Economically Valuable

According to the definition under the AUCL and Criminal Law, the subject matter that qualifies for protection must be capable of bringing economic benefits to the owner of rights and have practical applicability. The TRP explains such subject matter as the information that has definite practicability and can bring actual and potential economic benefits or competitive advantages to the owner.³⁰ As for the requirement of practical applicability, however, scholars have pointed out that: "In the field of trade secrets, eligible information does not need to have practical applicability, which is explicitly provided under TRIPS."³¹ The UCI follows this viewpoint and cuts away the requirement of practical applicability, making it consistent with TRIPS. It provides that, if the information has actual or potential commercial value and can bring com-

²¹ For example, in the case Nanjing Qiangtong Ltd. v. Zhangjiagang Liangfeng Plant, administrative organ and judicial organ had divergent views on the issue of determination of trade secret. Even the courts of first instance and second instance had different opinions. See KONG Xiangjun (supra note 18), pp. 28-32.

²² 国家工商行政管理局关于禁止侵犯商业秘密行为的若干规定, available at: ZHU Jiang (朱江), Handbook of Intellectual Property Litigation (知识产权诉讼法律手册), Beijing 2004, pp. 869-870.

²³ 最高人民法院关于审理不正当竞争民事案件应用法律若干问题的解释, December 30th, 2006, Gazette of the Supreme People's Court (最高人民法院公报), 2007, No. 3, pp. 10-12.

²⁴ Art. 2 para. 2 TRP.

²⁵ Art. 9 para. 1 UCI.

²⁶ According to Art. 39 para. 2. no. a TRIPS, trade secret should be "secret in the sense that it is not...generally known among or readily accessible to persons within the circles that normally deal with the kind of information in question".

²⁷ See ZHANG Yurui (supra note 7), pp. 179-198.

²⁸ See CUI Wenxing (崔文星), Judicial Consideration of Trade Secret Infringement—by Analyzing Opinion on Some Issues Concerning the Application of Law in the Trial of Civil Cases Involving Unfair Competition (侵害商业秘密行为的构成及其司法考量——兼评《关于审理不正当竞争民事纠纷案件适用法律若干问题的解释》), in: Intellectual Property (知识产权) 2007, No. 4, p. 40-41.

²⁹ Art. 9 para. 2 UCI.

³⁰ Art. 2 para. 3 TRP.

³¹ ZHENG Chengsi (郑成思), WTO and Intellectual Property Law of China (世界贸易组织与中国知识产权法), in: Journal of Yunnan University (Law Edition) (云南大学学报·法学版) 2001, No. 3, p. 30.

petitive advantage for the owner of rights, it will be deemed as conforming to this requirement.³²

Specifically, it can be seen from the UCI that the “economically valuable” standard can be understood in the following three ways. Firstly, as its name implies, a trade secret, whether technical information or operational information, refers to a business operation. Any individual privacy and state secret cannot qualify as a trade secret.³³ Secondly, economic value means not only actual commercial value, but also potential value. This extends to information that is being developed and not yet in use; once it becomes ‘potentially’ valuable, it can also be affirmed as economically valuable.³⁴ Thirdly, a trade secret can bring competitive advantages for the owner of rights. Fourthly, all economically valuable information, whether sustained or transient, are protectable. Typical transient information includes, for example, bottom price of a bid and contents of a bidding document, which are displayed under the TRP.³⁵

3. Taken Confidentiality Measures

The eligible subject matter should be information that the owner of rights has taken measures to keep secret. However, the matter at issue here is to what degree should the security measure be; does it need to be a bulletproof measure or simply a reasonable measure? Most scholars agree that if the trade secret owners have taken a reasonable measure to keep the information secret according to the actual situation at a given time and place, it should be viewed as a satisfactory confidentiality measure.³⁶ The TRP confirms this opinion, and sets forth that confidentiality measures include signing a confidentiality agreement, setting up a confidentiality regulation and adopting other reasonable confidentiality measures.³⁷

However, the TRP has not prescribed how to identify reasonable confidentiality measures yet. This problem has been settled by the UCI. Firstly, the UCI reconfirms that the trade secret owners

only need to adopt proper measures; such measures need to be taken for the purpose of preventing information leakage and be suitable for the commercial value or other specific situation.³⁸ Secondly, the UCI sets forth the ways to decide whether the owners have adopted confidentiality measures. The court should consider the following factors: the features of the relevant information carrier, the confidentiality willingness of the owners, the identifiability degree of the confidentiality measures, the difficulty to obtain the information by justifiable means and other factors.³⁹ Thirdly, the UCI also lists several cases that can be viewed as confidentiality measures as follows:⁴⁰

- limiting the access scope of the classified information, and only notifying the contents to relevant persons that should have the access to the information;
- placing the carrier of classified information in a locked area or adopting any other preventive measure;
- displaying a confidentiality mark on the carrier of classified information;
- adopting passwords or codes on the classified information;
- concluding a confidentiality agreement;
- limiting visitors to the classified machinery, factory, workshop or any other place or putting forward any confidentiality request; or
- adopting any other proper measure for guaranteeing the confidentiality of information.

III. Misappropriation of Trade Secret

Misappropriation means improperly acquiring, disclosing, or using of trade secrets.⁴¹ Unlike other kinds of intellectual property, which are granted exclusive rights, the current legislation does not grant exclusive rights to trade secrets but protects them against improper access. Any act of misappropriation is forbidden and anyone who misappropriates trade secrets will assume the related responsibilities. However, it is important to note that it is perfectly lawful to acquire trade secrets by proper means, such as independent development, research and reverse engineering.

1. Modes of Misappropriation

The AUCL and the Criminal Law legislate against the same acts that infringe trade secrets:

³² Art. 10 UCI.

³³ See LIU Heng/XIE Xiaoyao (刘恒/谢晓尧), On Some Issues concerning Legislation of Trade Secret Law (商业秘密立法若干问题探析), in: Journal of Political Science and Law (政法学刊) 1996, No. 3, pp. 62-63.

³⁴ WU Handong (吴汉东), General Textbook of Intellectual Property Law (知识产权法通识教材), Beijing 2007, p. 254.

³⁵ Constitutive Requirements of Trade Secret (商业秘密的构成要件), <<http://smbh.suzhou.gov.cn/jczs.asp>>, visited on June 16th, 2009.

³⁶ This opinion can be found in: WANG Changsong (王长松), Legal Protection of Trade Secret (商业秘密的法律保护), in: Hebei Law Science (河北法学) 2000, No. 2, p. 95; WANG Kui (王奎), Thinking on the Connotation of Trade Secrets between China and the United States (美中商业秘密内涵的思考), in: Tribune of Political Science and Law (政法论坛) 2007, No. 3, p. 104; WU Handong (supra note 34), pp. 255-256; KONG Xiangjun (supra note 18), pp. 54-61.

³⁷ Art. 2 para. 4 TRP.

³⁸ Art. 11 para. 1 UCI.

³⁹ Art. 11 para. 2 UCI.

⁴⁰ Art. 11 para. 3 UCI.

⁴¹ Stephen M. McJohn, Intellectual Property: Examples and Explanations, 2nd edition, New York 2006, p. 379.

“(1) obtaining trade secrets from the owners of rights by stealing, promising of gain, resorting to coercion or other improper means;

(2) disclosing, using or allowing others to use trade secrets of the owners of rights obtained by the means mentioned in the preceding item;

(3) disclosing, using or allowing others to use trade secrets that one has obtained by breaking an engagement or disregarding the requirement of the owners of the rights to maintain the trade secrets in confidence.

Where a third party obtains, uses or discloses the trade secrets of others when he obviously has or should have had full awareness of the illegal acts mentioned in the preceding paragraph, he shall be deemed to have infringed the trade secrets of others.”⁴²

These acts can be reduced to three modes: 1) improper acquisition, disclosure and use; 2) breach of confidential relationship; 3) third party misappropriation.

a). Improper Acquisition, Disclosure and Use

A trade secret holder may claim misappropriation if the defendant obtains trade secret by performing illegal acts, such as stealing, promising of gain and resorting to coercion.⁴³ It is impossible to list all kinds of improper acquisition, so the AUCL and the Criminal Law use the term “other improper means” to cover any other illicit ways of acquiring the information. Whether the trade secret was acquired by proper means or not depends on the doctrine of good faith and generally accepted business ethics.⁴⁴ For example, should the infringers swindle a trade secret through making a false statement, improper business negotiations or illicit cooperation,⁴⁵ such acts would be deemed to be “other improper means” of acquisition.

After obtaining a trade secret by improper means, it will also be deemed to be misappropriation if the individual further discloses, uses or allows others to use the trade secret obtained by the foregoing means.⁴⁶ While it constitutes disclose if the trade secret is disclosed either to particular persons or to the public, the term “use” means actually

applying trade secret in the process of production and operation or in scientific research activity, and the term “allow others to use” includes allowing others to use the trade secret for value or for free.⁴⁷

b) Breach of Confidential Relationship

Breach of confidential relationship includes disclosing, using or allowing others to use trade secrets that one obtains by means of breaking an engagement or disregarding the requirement of the trade secret owner(s) to maintain the trade secret in confidence.⁴⁸ In contrast to the first mode, people obtain trade secrets through lawful means.⁴⁹ The ones who obtain trade secrets through lawful means mainly involve two types. The first type is trade partners or a cooperative partner of the trade secret holder. They obtain trade secrets based on trade relations. The second type is the employees of the trade secret holders. The employee naturally learns the trade secret through the course of employment and thereby acquires the trade secret lawfully.⁵⁰ Such an employee would assume a confidentiality duty to protect such information, whether express or implied.⁵¹ Express confidentiality duty is relatively easy to identify due to the existence of a confidentiality agreement, confidentiality clause or other forms of agreements. Conversely, the existence of implied confidentiality duty must be judged synthetically by the nature of legal nexus, habit of transaction and other factors.⁵²

The existence of implied confidentiality duty imposes an obligation upon the ‘knower’ of the trade secret not to disclose or improperly use any trade secret of the other party even if there is not a confidentiality clause expressly concluded in a contract. For the trade partner or the cooperative partner, they always need to conclude contracts with the trade secret holders. The Contract Law imposes an all-directional implied confidentiality duty upon the contract party. Before a contract is formed, or in the course of negotiation, a party should not disclose or improperly use any trade secret that he obtains, regardless of whether a contract ultimately is formed.⁵³ In the course of contract performance, and even after the termination of a contract, a party

⁴² Art. 10 para. 1 & para. 2 AUCL; Art. 219 para. 1 & para. 2 Criminal Law.

⁴³ Art. 10 para. 1 no. 1 AUCL; Art. 219 para. 1 no. 1 Criminal Law.

⁴⁴ ZHANG Geng (张耕), Trade Secret Law (商业秘密法), Xiamen 2006, p. 223.

⁴⁵ See Department of Treaties and Law of National Administration for Industry and Commerce (国家工商行政管理局条法司), Explanation of Anti Unfair Competition Law (反不正当竞争法释义), Shijiazhuang 1993, pp. 66-67.

⁴⁶ Art. 10 para. 1 no. 2 AUCL; Art. 219 para.1 no. 2. Criminal Law.

⁴⁷ Act of Invasion of Trade Secrets (侵犯商业秘密的行为), <http://smbh.suzhou.gov.cn/jczs_qcxw.asp>, visited on June 16th, 2009.

⁴⁸ Art. 10 para. 1 no. 3 Anti Competition Law; Art. 219 para. 1 no. 3 Criminal Law.

⁴⁹ See e.g. KONG Xiangjun (supra note 18), p. 282.

⁵⁰ See FANG Weiliang (方维亮), New Explanation and Illustration of Anti Unfair Competition Law (反不正当竞争法新释与例解), Beijing 2001, p. 167.

⁵¹ DAI Lei (戴磊), Judicial Identification of Trade Secret Infringement (侵犯商业秘密行为的司法认定解读), in: Shangdong Justice (山东审判) 2007, No. 2, p. 86.

⁵² ZHANG Geng (supra note 44), p. 225.

⁵³ Art. 43 Contract Law.

should also abide by the principle of good faith, and perform the obligations of confidentiality.⁵⁴ In respect of the position of the employees of the trade secret holders, their implied confidentiality duties are relatively more complex. Directors or senior managers of a company have a statutory duty not to illegally disclose the company's confidential information.⁵⁵ However, for the common employees, the Labor Contract Law states an employer may negotiate a confidentiality clause with his employees in the labor contract.⁵⁶ The Labor Contract Law uses the term "may"; it implies that the employer may also not enter a confidentiality agreement with the employees. Would the common employees have an implied confidentiality duty in the absence of confidentiality agreement? The law is silent on this point. In judicial practice, the courts tend to impose an implied confidentiality duty, which is based on the employee's duty of loyalty,⁵⁷ in the situation of lack of confidentiality agreement.⁵⁸ Furthermore, the Labor Contract Law also designs particular regulations, such as non-competition clauses, to protect trade secrets. The employer and the employee may include non-competition clauses in the labor contract or in the confidentiality agreement. If non-competition clauses are formed, when the labor contract is dissolved or terminated, the employees should be given economic compensation within the non-competition period to preclude an employee from working for any other competitors of the former employer which are producing or engaging in products of the same category, or from engaging in business of the same category as the former employer did.⁵⁹ The employer and the employee can still agree on the scope, geographical range and time limit for non-competition.⁶⁰ Still, there are some limitations for non-competition clauses. The persons who should be subject to non-competition are limited to senior managers, senior technicians, and the other employees who have an obligation to keep secrets. The non-competition period should not exceed two years.⁶¹

c) Third Party Misappropriation

The third party is comparative to the first party and the second party. The first party is the trade secret owner, and the second party refers to the one who constitutes improper acquisition, disclosure, use or breach of a confidential relationship.⁶² The second party obtains the trade secret directly through lawful or improper means. The third party is outside the scope of persons who acquire the trade secret directly.⁶³

Pursuant to Art. 10 para. 2 AUCL and Art. 219 para. 2 Criminal Law, if a third party obtains, uses or discloses the trade secrets of others when he obviously has or should have had full awareness of the illegal acts mentioned in the preceding two modes of misappropriation, he would be deemed to have infringed the trade secrets of others.⁶⁴ From an objective stance, the third party conducts an illegal act, including obtaining trade secrets from the second party, using or disclosing the trade secrets he obtains. From a subjective stance, the third party acts in bad faith, that is, he obviously has or should have had full awareness that the trade secrets are illegal.⁶⁵ In addition, when the trade secret owner informs the third party that the second party has violated his trade secret, the third party is deemed to have awareness of the misappropriation by the second party. Then if the third party continued his unlawful acts, the good faith of the third party would transfer into bad faith and his continuing act would constitute misappropriation.⁶⁶

2. Principle for Determination of Trade Secret Infringement

In China, it is common judicial practice to assess the infringement of a trade secret by the following criteria: 1) the plaintiff possesses a trade secret; 2) the information used by the defendant is identical with or substantially similar to the trade secret of the plaintiff; 3) the defendant has access to the plaintiff's trade secret; 4) the defendant could not prove a lawful source for his/her information.⁶⁷ This four-step examination is called Principle of "access + substantial similarity - lawful source".

Strictly speaking, there are no statutory principles for the determination of a trade secret infringement. The Principle of "access + substantial

⁵⁴ Art. 60 & 92 Contract Law.

⁵⁵ Art. 149 para. 1 no. 7 Company Law.

⁵⁶ Art. 23 para. 1 Labor Contract Law.

⁵⁷ Art. 3 para. 2 Labor Law: "Laborers shall fulfill their tasks of labor, improve their professional skills, follow rules on labor safety and sanitation, and observe labor discipline and professional ethics."

⁵⁸ See ZHANG Yurui (supra note 7), p. 382. The case applying this viewpoint can be seen under Final Judgment No.1 (2007) of the Third Civil Tribunal of the Supreme People's Court (2007 民三终字第 1 号).

⁵⁹ Art. 23 para. 2 Labor Contract Law.

⁶⁰ Art. 24 para. 1 Labor Contract Law.

⁶¹ Art. 24 Labor Contract Law.

⁶² See DAI Lei (supra note 51), p. 86.

⁶³ ZHANG Geng (supra note 44), p. 227.

⁶⁴ Art. 10 para. 2 AUCL; Art. 219 para. 2 Criminal Law.

⁶⁵ ZHANG Yurui (supra note 7), p. 540.

⁶⁶ See DAI Lei (supra note 51), p. 86.

⁶⁷ See ZHANG Yurui (张玉瑞), Trade Secret and Commercial Bribe: Legal Risks and Solution (商业秘密·商业贿赂·法律风险与对策), Beijing 2005, pp. 177-178.

similarity - lawful source" can be more precisely referred to as a judicial idea or judicial method.⁶⁸ It has been suggested by some that this principle is only a rule of evidential burden. The "access" step and "substantial similarity" step are burdened by the plaintiff, and the "lawful source" step is burdened by the defendant.⁶⁹ Nevertheless, this principle has been applied efficiently by the courts to almost every case which concerns a trade secret infringement. The TRP also applies this principle to the administrative enforcement, which is prescribed under Art. 5: "If the owner can prove that the information used by the defendant is identical with or similar to its (his) trade secret and that the defendant has access to its (his) trade secret, while the defendant is unable to provide or refuses to provide evidence to prove its (his) lawful acquisition or use of the information, the industry and commerce administrative organ shall determine the infringement of the defendant on the basis of the relevant evidence."⁷⁰

3. Defenses

Although the enforcement organs are prepared to admit certain defenses for trade secret misappropriation, there was not any legal regulation concerning defense against misappropriation until the promulgation of the UCI. According to the UCI, the following circumstances do not constitute misappropriation.

a) Independent Development and Research

As stipulated under Art. 12 UCI, trade secrets obtained through independent development and research cannot be affirmed as misappropriation.⁷¹ When two competitors develop and research the same product separately, and one maintains the product as a trade secret, the other party's actions of using, allowing others to use or disclosure of the information will not constitute misappropriation.

b) Reverse Engineering

Reverse engineering refers to the relevant technical information, which is obtained by technical means through dismantling, mapping or analyzing the products acquired from public channels.⁷² Reverse engineering is a lawful way to acquire trade secrets. Nevertheless, if anyone obtains the trade secrets of others by unjustifiable means and

then claims its acquisition as lawful for the reason of reverse engineering, it will not be supported.⁷³

c) Voluntary Transaction

A customer list may provide great opportunities for business transactions, and could potentially yield great wealth. Thus, it is always kept as a trade secret. Different from relevant public information, a customer list, as a trade secret, generally refers to specific client information, which may consist of the name, address, contact information, trading habits, trading intent, or trading contents of customers. It includes the name scroll that collects a large amount of customers in addition to specific customers that have kept a long-term and stable trading relationship.⁷⁴

Misappropriation of a customer list usually occurs when an employee resigns to take a similar job with a new employer. If such employee uses the customer list and continues to transact with the customers, breach of confidentiality duty may arise. However, there is no misappropriation if the transaction fulfills two conditions. The first one is that this customer relies upon the employee and thus transacts with his former employer before the employee resigns. The other one is that this customer voluntarily chooses to transact with the employee or his new employer after the employee leaves his post. Nevertheless, the defense of voluntary transaction can be excluded by an agreement between the employee and his former employer.⁷⁵

IV. Remedies

As mentioned above, China provides a legal system, which aims to protect trade secrets, including civil, administrative and criminal protection. Accordingly, there are three types of remedies for trade secret misappropriation: civil, administrative and criminal remedy.

1. Civil Remedy

Pursuant to Art. 106 General Principles of the Civil Law, civil remedies are available under two circumstances: tort liability and liability for breach of contract.⁷⁶ All the three modes of misappropriation, according to AUCL, can incur tort liability. The second mode of misappropriation, breach of

⁶⁸ Id., p. 177.

⁶⁹ See *WU Jing* (武静), On Evidential Burden of Disputes of Trade Secret Infringement (论商业秘密侵权纠纷案件的举证责任), in: *Science Technology and Law* (科技与法律) 2006, No. 3, pp. 55-56.

⁷⁰ Art. 5 para. 3 TRP.

⁷¹ Art. 12 para. 1 UCI.

⁷² Art. 12 para. 2 UCI.

⁷³ Art. 12 UCI.

⁷⁴ Art. 13 para. 1 UCI.

⁷⁵ Art. 13 para. 2 UCI.

⁷⁶ Art. 106 General Principles of the Civil Law: "Citizens and legal persons who breach a contract or fail to fulfill other obligations shall bear civil liability. Citizens and legal persons who through their fault encroach upon state or collective property, or the property or person of other people shall bear civil liability. Civil liability shall still be borne even in the absence of fault, if the law so stipulates."

confidential relationship, because of the existence of a contractual relationship, could also infer liability for breach of contract.

a) Liability for Tort

The AUCL only imposes liability for tort on an infringer who has a competitive relationship with the trade secret holders.⁷⁷ Meanwhile, damage is the only tort liability prescribed under AUCL.⁷⁸ In contrast, General Principles of the Civil Law does not limit the scope of the infringers.⁷⁹ Since trade secrets fall within the scope of 'intellectual property', the courts always apply Art. 118 General Principles of the Civil Law, which prescribes injunction, damages and eliminating ill effects as remedies for intellectual property infringement.⁸⁰

aa) Injunction

The scope of injunction includes ceasing the actual and potential infringing act.⁸¹ Furthermore, Art. 16 UCI specifies the period of injunction. Generally, the period of injunction should be extended to the time when the trade secret has or will become known to the general public. However, if the above period is clearly improper, the infringer may be ordered to refrain from 'using' this trade secret within a certain term or scope on condition that the competitive advantage of the trade secret holder is protected.⁸²

bb) Eliminating Ill Effects

In order to eliminate ill effects caused by infringement of reputation or honor, the courts could issue an order of eliminating ill effects. Thus, eliminating ill effects can be applied when the infringement of the trade secret does harm to goodwill, corporate image of the plaintiffs, or brings mental pain to the plaintiffs.⁸³ The most common form of eliminating ill effects is to order the defendant to apologize to the plaintiff verbally, in writing, or in the newspapers.⁸⁴

⁷⁷ Art. 1 AUCL.

⁷⁸ Art. 20 AUCL.

⁷⁹ Art. 2 General Principles of the Civil Law states that the law adjusts property relationships and personal relationships between civil subjects with equal status.

⁸⁰ Art. 118 General Principles of the Civil Law: "If copyrights, patent rights, rights to exclusive use of trademarks, rights of discovery, rights of invention or rights for scientific and technological research achievements of citizens or legal persons are infringed upon by such means as plagiarism, alteration or imitation, they shall have the right to demand that the infringement be stopped, its ill effects be eliminated and the damages be compensated for." This provision is usually explained to provide relief for intellectual property infringement. And the term "technological research achievements" extends to include trade secret.

⁸¹ See *WU Handong* (supra note 34), p. 363.

⁸² Art. 16 UCI.

⁸³ See *ZHANG Geng* (supra note 44), p. 239.

⁸⁴ See *WU Handong* (supra note 34), p. 363.

cc) Damages

Damages are also available. The AUCL offers a general provision to provide liability for damages to all actions of unfair competition, including trade secret infringement. According to Art. 20 AUCL, if the misappropriation of an operator causes damage to an injured operator he should bear the responsibility for compensating the damages. The damages include losses and reasonable costs paid by the injured operator in investigating the acts of unfair competition. If the losses suffered by the injured operator are difficult to calculate, the amount of damages should be the profits gained by the infringer during the period of infringement through the infringing act.⁸⁵

However, how should damages be determined if it is difficult to calculate the profits gained by the infringer? The courts found it difficult to settle this problem. Thus, the UCI states that the determination of damages for acts infringing on trade secrets may be governed by the methods of determining damages for patent infringements by analogy.⁸⁶ By analogy to the Patent Law⁸⁷, if it is difficult to determine the losses suffered by the trade secret holder or the gains obtained by the infringer, the amount should be reasonably determined by reference to the multiple of the royalties for this trade secret. If the royalty obtained for the trade secret is also difficult to determine, the court may, by taking into account such factors as the type of trade secret, nature and particulars of the infringement, etc., decide to award compensation in the sum of not less than 10,000 Yuan but not more than 1,000,000 Yuan.⁸⁸

Furthermore, the UCI points out that in case a tort causes any trade secret to be known by the general public, the damages will be determined according to the commercial value of the trade secret. The commercial value of the trade secret is determined according to the research and development costs, actual and expectant benefits gained by implementing this trade secret, and the time for maintaining the competitive advantage to this trade secret, etc.⁸⁹

b) Liability for Breach of Contract

If a contractual relationship exists, and a party breaches his confidentiality duty, whether express or implied, then liability for breach of contract is

⁸⁵ Art. 20 AUCL.

⁸⁶ Art. 17 para. 1 UCI.

⁸⁷ 中华人民共和国专利法, March 12th, 1984 (last revised on December 28th, 2008), Gazette of the Standing Committee of the National People's Congress (全国人民代表大会常务委员会公报), 2009, No. 1, pp. 27-35.

⁸⁸ Cf. Art. 65 Patent Law.

⁸⁹ Art. 17 para. 2 UCI.

incurred. If an ordinary contract exists, liability for breach of contract can be sought under Contract Law,⁹⁰ but the plaintiff should preferentially resort to the Labor Contract Law in the existence of a labor relationship.⁹¹ Still, the regulations in Contract Law, as long as they do not contradict the basic principle of Labor Contract Law, can fill the gaps in the Labor Contract Law.⁹² In addition, the Company Law stipulates a special liability for directors or senior managers.

aa) Specific Performance

Specific performance means that if the breach of contract is confirmed, the plaintiff can request the defendant to continue to perform the contractual obligation. The Labor Contract Law does not expressly prescribe the specific performance, but Contract Law does. According to Art. 107 Contract Law, the plaintiff can ask the defendant to continue to perform the duty of confidentiality when one party breaches the obligation of confidentiality.⁹³ In addition, if the plaintiff still suffers from other damages after specific performance, the defendant should compensate the plaintiff for such damages.⁹⁴ However, specific performance cannot be applied in a situation whereby it is not possible to perform the duty,⁹⁵ for example, in the event that the trade secret has become generally known.

bb) Compensation for Losses

Both Contract Law and Labor Contract Law state that compensation will be available if the breach of confidentiality agreement causes losses to the other party.⁹⁶ Furthermore, Contract Law sets forth that the amount of compensation for losses is equal to the losses caused by the breach of contract, including the profits receivable by performing of the contract. Whereas, compensation cannot exceed the probable losses caused by the breach of contract, which has been foreseen or ought to be foreseen when the breaching party concludes the contract.⁹⁷

⁹⁰ Art. 2 Contract Law: "A contract in this Law refers to an agreement among natural persons, legal persons or other organizations as equal parties for the establishment, modification of a relationship involving the civil rights and obligations of such entities. Agreements concerning personal relationships such as marriage, adoption, guardianship, etc. shall be governed by the provisions in other laws."

⁹¹ Art. 2 Labor Contract Law.

⁹² See WANG Quanxing (王全兴), *Labor Law (劳动法)*, 2nd edition, Beijing 2004, p. 40; See also WANG Liming (王利明), *Research on Contract Law (合同法研究)*, Beijing 2002, p. 54.

⁹³ Art. 107 Contract Law.

⁹⁴ Art. 112 Contract Law.

⁹⁵ Art. 110 Contract Law.

⁹⁶ Art. 107 Contract Law; Art. 90 Labor Contract Law.

⁹⁷ Art. 113 Contract Law.

cc) Liquidated Damages

Liquidated damages are applied on the premise of the existence of clause penale, under which the parties agree that if one party breaches the contract, it will pay a certain sum of liquidated damages to the other party in light of the circumstances of the breach.⁹⁸ Principally, the Labor Contract Law disallows the employer to stipulate clause penale with the employee, but there is an exception for the violation of confidentiality duty or non-competition duty.⁹⁹

Although liquidated damages predetermine a plaintiff's loss in the event of the defendant's breach, it may be amended under certain circumstance. If the amount of liquidated damages agreed upon is lower than the actual damages, a party may petition the court or the arbitration institution to request an increase. On the other hand, if the amount of liquidated damages agreed upon is significantly higher than the actual damages, a party may petition for making an appropriate reduction.¹⁰⁰

dd) Special Liability for Directors or Senior Managers

As mentioned above, directors or senior managers of a company have a statutory duty not to illegally disclose the company's confidential information. Once they violate this statutory duty, apart from the above three liabilities, any income which is gained as a result of the violation will belong to the company.¹⁰¹

c) Conflict between Tort Liability and Liability for Breach of Contract

Misappropriation prescribed under the AUCL includes a breach of confidentiality agreement, so an infringer could also incur tort liability. Meanwhile, breach of a confidentiality agreement also incurs liability for breach of contract. Thus, if the competitor of the trade secret holder breaks the confidentiality agreement, both tort liability and liability for breach are available. If this conflict happens, in accordance with Contract Law, the aggrieved party can only pursue a claim under tort or contract but not both.¹⁰²

⁹⁸ Art. 114 para. 1 Contract Law.

⁹⁹ Art. 25 Labor Contract Law.

¹⁰⁰ Art. 114 para. 2 Contract Law.

¹⁰¹ Art. 149 para. 2 Company Law.

¹⁰² Art. 112 Contract Law.

2. Administrative Remedy

The right to protect a trade secret is a private right,¹⁰³ but if the infringement of trade secret undermined fair competition and threatened public interests, the infringer could incur administrative liability.¹⁰⁴ Administrative liability for infringement of a trade secret is set forth under the AUCL, and is further specified under the TRP.

The administrative organs that handle trade secret infringement are the Administrative Bureaus of Industry and Commerce at (or above) the county level.¹⁰⁵ The administrative procedure can only be triggered by application of the trade secret owner.¹⁰⁶ If the relevant administrative organ determines that the act of the respondent constitutes misappropriation, it can order him/it to desist from the illegal act and may, according to circumstances, impose on it/him a fine of more than RMB 10,000 and less than RMB 200,000.¹⁰⁷ The infringing materials can be disposed as follows: 1) ordering the infringer to return to the owner the drawings, the software and other relevant data containing the trade secret; 2) supervising the infringer in the destruction of the products which have been produced by using the owners' trade secret, and would make the trade secret known to the public once the products are traded on the market, unless the owner agrees to do so.¹⁰⁸ In order to ensure that the infringer would implement the punishment decision conscientiously, the TRP states that if the infringer refuses to implement the punishment decision and continues its/his illegal act, it can be deemed to have committed a new violation and can be given a more severe punishment.¹⁰⁹

3. Criminal Remedy

Before the Criminal law was amended in 1997, there was no direct criminal legislation against trade secret infringement. Serious infringement of a trade secret, in some circumstances, was criminalized as theft, crime of fraud, crime of corruption, or crime of divulging state secrets.¹¹⁰

The Criminal Law added a new crime, namely "crime of infringing on trade secrets", to criminalize the act of infringing upon trade secrets when it was amended in 1997. The "crime of infringing

upon trade secrets" is subject to the following aspects:

a) Subject of the crime. A natural person or unit¹¹¹ can be accused of infringing upon a trade secret.¹¹²

b) Objective aspects of the crime. From the perspective of legislative technique, the Criminal Law replicates all the acts of misappropriation that the AUCL bans.¹¹³ All types of misappropriation can be criminalized when it brings significant losses to trade secrets holders.¹¹⁴ The term "significant losses" is specified by two judicial interpretations.¹¹⁵ In the event that the amount of loss (or gains obtained by infringers) is no less than 500,000 Yuan, it can be deemed to have "brought significant losses". Besides, the infringer could also be prosecuted if the misappropriation bankrupted the trade secrets holders or caused other serious consequences.¹¹⁶ In addition, the Criminal Law specifies that trade secret holders include both owners of the trade secret and users who have the permission of the owners.¹¹⁷

c) Subjective aspects of the crime. Generally speaking, the subject accused of infringing upon a trade secret is criminalized only when he/it acts intentionally. However, for a third party misappropriation, the infringer can be criminalized even when he/it does not act intentionally, but simply "should have had full awareness".¹¹⁸ Some scholars argue that many countries maintain a cautious attitude towards criminalizing trade secret infringement, and have tight restrictions towards the criminal scope of infringing upon trade secret, and it is too strict for China to condemn the negligent third party.¹¹⁹

¹¹¹ According to Art. 30 Criminal law, a unit (单位, Dan Wei) refers to a company, enterprise, institution, state organ, or social organization.

¹¹² Art. 219 & 220 Criminal law.

¹¹³ Art. 219 para.1 & para. 2 Criminal law; Art. 10 para. 1 & para. 2 AUCL.

¹¹⁴ Art. 219 para. 4 Criminal law.

¹¹⁵ Two judicial interpretations are: (1) Regulation of the Supreme People's Procuratorate and the Public Security Ministry Concerning Standards for Prosecution of Criminal Cases under the Jurisdiction of the Public Security Organs (II) (最高人民检察院、公安部关于公安机关管辖的刑事案件立案追诉标准的规定·二), May 7th, 2010, New Laws and Regulations (司法业务文选), 2010, No. 22, pp. 24-48; (2) Interpretation of the Supreme People's Court and the Supreme People's Procuratorate Concerning Some Issues on the Specific Application of Law for Handling Criminal Cases of Infringement upon Intellectual Property Rights (最高人民法院、最高人民检察院关于办理侵犯知识产权刑事案件具体应用法律若干问题的解释), December 8th, 2004, Gazette of the Supreme People's Court, (最高人民法院公报), 2005, No. 1, pp. 6-8.

¹¹⁶ Art. 73 Regulation of the Supreme People's Procuratorate and the Public Security Ministry Concerning Standards for Prosecution of Criminal Cases under the Jurisdiction of the Public Security Organs.

¹¹⁷ Art. 219 para. 4 Criminal law.

¹¹⁸ Art. 219 para. 1 & para. 2 Criminal law.

¹⁰³ Preface of TRIPS.

¹⁰⁴ ZHANG Geng (supra note 44), p. 247.

¹⁰⁵ Art. 4 TRP.

¹⁰⁶ Art. 5 TRP.

¹⁰⁷ Art. 25 AUCL.

¹⁰⁸ Art. 7 TRP.

¹⁰⁹ Art. 8 TRP.

¹¹⁰ See NI Cailong/WANG Mianqing (倪才龙 / 王勉青), Trade Secret Protection Law (商业秘密保护法), Shanghai 2005, p. 215.

The Criminal Law provides different degrees of punishment for different levels of misappropriation. Any natural person who engages in any type of misappropriation and brings significant losses to the trade secret holders may be sentenced to not more than 3 years of fixed-term imprisonment, criminal detention, and may in addition or exclusively be sentenced to a fine. If particularly serious consequences arise,¹²⁰ the responsible natural person may be sentenced to not less than 3 years and not more than 7 years of fixed-term imprisonment and a fine.¹²¹ If a unit commits such a crime, it should be sentenced to a fine, and the responsible person who is directly in charge and other personnel of direct responsibility should be punished in the same manner that a natural person would be punished.¹²²

V. Conclusion

It is clear from this discussion that China does not disregard the protection of trade secrets, but has a comprehensive legal protection for trade secrets. The legal framework for the protection of trade secrets can be analyzed on three levels: civil, administrative and criminal. On the level of civil protection, the General Principles of the Civil Law provides general provisions for intellectual property protection; the AUCL plays an essential role in trade secret protection; the Contract Law and the Labor Contract Law can be sought when a contractual relationship exists; the Company Law stipulates special regulations towards the directors or senior managers. The AUCL also offers administrative protection for trade secrets. The onus of criminal protection rests with the Criminal Law. These laws together build up the legal system for trade secret protection.

Although China has established a comprehensive form of legal protection for trade secrets, there are still some underlying problems. Firstly, there is a lack of express provision concerning ownership of trade secrets. Secondly, on the level of laws, it exists only some general regulations. These general regulations are specified by the judicial interpretations and administrative regulations. However, the

judicial interpretations administrative regulations have a lower rank than laws and thus cannot replace the position of the established laws. Therefore, protection of trade secrets needs to be improved on the level of law. Thirdly, the AUCL only assists the parties who have a competitive relationship. For the ones who do not have a competitive relationship, they can be protected under the Contract Law or the Labor Contract Law if the contractual relationship exists, for example the employee steals his employer's trade secret. In respect of the one who has neither a competitive relationship nor a contractual relationship with the trade secret holder, misappropriation of trade secrets---for instance, someone steals trade secrets through internet for sale instead of own use ---- can be held liable through the amplified interpretation of Art.118 General Principles of the Civil Law. Nevertheless, problems still exists since the General Principles of the Civil Law does not protect trade secrets expressly.¹²³ In order to resolve these problems, it is generally agreed by most scholars that it would be desirable to draw up a uniform law, Trade Secret Protection Law.¹²⁴ In fact, the State Economic and Trade Commission have already drafted a Trade Secret Protection Law in 1996, and it has been delivered it to State Council for further analysis.¹²⁵ With this in mind, we look forward to the further development of trade secret protection in China.

¹¹⁹ See KONG Xiangjun (supra note 18), pp. 374-375; see also YU Liping/ YIN Xianyin (俞利平 / 尹显英), Cognizance and Prevention of Offence against Commercial Secret (侵犯商业秘密罪的认定及其防范), in: Journal of Chinese People's Public Security University (Social Sciences Edition) (中国人民公安大学学报·社会科学版) 2007, No.1, pp. 15-20.

¹²⁰ In case the amount of losses is no less than 2,500,000 Yuan, it can be deemed to have "caused particularly serious consequences", See Art. 7 Interpretation of the Supreme People's Court and the Supreme People's Procuratorate Concerning Some Issues on the Specific Application of Law for Handling Criminal Cases of Infringement upon Intellectual Property Rights.

¹²¹ Art. 219 para. 1 Criminal law.

¹²² Art. 220 Criminal law.

¹²³ As stated at note 78, the terms "trade secret" and "intellectual property" even don't appear under Art. 118 General Principles of the Civil Law. This provision can be applied to trade secret infringement just for the reason that the term "technological research achievements" is extensively interpreted to include trade secret.

¹²⁴ See e.g. KONG Xiangjun (supra note 18), pp. 17-18.

¹²⁵ Report of Finance and Economic Committee of the National People's Congress Concerning Discussion Result for Bill Introduced by the Presidium of the 3rd Meeting of the 9th National People's Congress (全国人大财政经济委员会关于第九届全国人大第三次会议主席团交付审议的代表提出的议案审议结果的报告), Gazette of the Standing Committee of the National People's Congress (全国人民代表大会常务委员会公报), 2000, No. 6, pp. 659-665.