



IPKey

CHINA



STUDY ON TRADE SECRETS:

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EXECUTIVE SUMMARY

This project is an update to the IP Key 2017 comparative study which used the EU Trade Secret Directive 2016/943 (the **Directive**) as its baseline. Fundamentally, the project explores key questions on how the Chinese trade secret system is functioning today, following the implementation of the amended Anti-Unfair Competition Law (AUCL) in 2019 (the 2019 amendments), and how it might be improved.

We summarise the work done in three parts:

1. A review of the changes made to the trade secret law and practice in China since 2017
2. An analysis of how the changes are working in practice
3. An examination of how the law and its enforcement could be improved

Much continues to change in relation to the protection and enforcement of trade secrets, as noted below. This study states the position as at 1 October 2020.

1. Changes to the Chinese trade secret law since 2017

Since 2017, there have been several individual positive improvements in trade secret protection and stakeholder confidence has improved, but from a very low base.

- **The new civil laws – AUCL, Civil Code and SPC Civil Trade Secret II - together are positive.** Trade secret owner and their advisers agree that the developments in the civil law are positive and materially improve the protection of trade secrets in China. The SPC Civil Trade Secret II, issued following the stakeholder engagement process, in our analysis provides reason and greater foundation for that increased confidence in the system.
- **The broader scope of acts of trade secret misappropriation and the actors that may be liable is welcomed.** The extension to electronic intrusion is a key development, as is the extension beyond the primary acts of misappropriation to instigating, inducing or assisting others to misappropriate. Similarly the extension of potentially liable actors to include natural persons, legal persons and non-legal persons other than business operators are welcomed.
- **The new civil laws provide a better balance of the burden between plaintiff and defendant.** Historically, it has been very challenging for plaintiffs to meet all the requirements to succeed in claims to a sufficient evidential standard. Practices in court had been improving in recent years, but the changes in the law solidify recent developments and present new developments which together provide a better, more realistic view on what can constitute reasonable protective measures from the plaintiff to protect trade secrets, and a better, more realistic view on the appropriate balance between plaintiff and defendant in showing that as trade secret has/has not been unlawfully misappropriated.

- **The increase in statutory compensation levels and the addition of the possibility of punitive compensation awards are very positive.** These developments are in line with the improvements across the IP rights in China and are important in improving the remedies available to compensate for trade secret misappropriation.

2. How the changes are working in practice

There remain substantial concerns about the law. Significant improvement is still required to achieve broad confidence in the system as a whole

- **The provisions regarding the shift in burden are essential but require more detail to be fully effective.** These are central provisions in getting the balance right between plaintiff and defendant, given the nature of trade secrets as protectable objects and given the nature of misappropriation. The developments are welcomed, but more detail as to the operation of the shift could be added.
- **The availability of preliminary injunctions remains a material concern.** Preliminary injunctions are an important tool. Once trade secrets are learned and become the tacit knowledge of people, they become very difficult to control further. Early control measures are important.
- **There is no notion of infringing products.** Trade secret owners have no measure of control over products that incorporate their trade secrets in the way that they do for patented inventions. This limits the extent of the effectiveness of the law where technical trade secrets are involved in particular.
- **When assessing compensation, the plaintiff's R&D costs should be considered.** R&D costs should always be something that can be taken into account, not only when a trade secret has become known to the public.
- **Criminal monetary thresholds remain too high.** While the reduction of the monetary threshold for criminal prosecution to RMB300,000 from RMB500,000 is positive, the fact that it remains higher than for other IP crimes is a concern.

The SPC Civil Trade Secret JI should be beneficial in improving consistency going forward, but to date there has been inconsistency in application which should be monitored.

- **Differing interpretation of the meaning of 'not known to the public'.** Judicial interpretation since the 2019 amendments has varied, creating uncertainty for plaintiffs, particularly where some aspects of the information are or were publicly known, but where the information has been processed, improved or added to.
- **Differing interpretation of reasonable protective measures.** Whether general confidentiality measures – such as in employment contracts, standard NDAs and employee handbooks – are sufficient, or specific measures related to the particular trade secret are required has not been even applied.

- **Balance between trade secret owners and employees may not favour trade secret owners.** Confusing messaging from the SPC with the model case published in 2019 may mean that the provisions in the new SPC Civil Trade Secret IJ continued to receive different interpretations in lower courts
 - **Regional variation in interpretation.** The interpretation of the law in Guangdong courts was notably consistently narrower and more conservative than other parts of the country, in particular as to what constitutes a trade secret and when the burden should be shifted.
 - **Confidence in enforcement lags behind perceived improvements in the law itself.** The intentions of the Chinese legislature to improve the trade secret system overall are not yet fully realised in the application and enforcement of the law, which remains somewhat weak, reflected in relatively low confidence from trade secret owners and their advisers.
3. **How the law and its enforcement could be improved**

Three high level recommendations follow.

1. **Supporting the development in China of a discrete trade secret code.** The protection of trade secrets through laws on unfair competition mean an incomplete form of protection. The express recognition of trade secrets as a discrete form of intellectual property constituting the proprietary rights of the rights holder in the Civil Code is an indication of the maturing of the understanding and protection. As China moves ever further towards a knowledge and innovation economy, a full, comprehensive and robust understanding and protection of trade secrets is warranted. This should be reflected in a discrete trade secret code, reflecting the status of trade secrets alongside other IP rights and offering comprehensive protection in primary legislation to drive greater sophistication and consistency in the law's application.
2. **Expanding the scope of cases heard by IP Courts/IP Tribunals and allowing all trade secret cases to be heard by IP Courts/IP Tribunals.** Currently only technical trade secret cases fall within the jurisdiction of specialist IP Court and IP Tribunals; business/commercial cases do not. Trade secret cases are complex, given the very nature of trade secrets. Whether relating to technical trade secrets or not, cases should be heard by specialist courts to improve quality and consistency.
3. **Further study (not before 2022) should be conducted to review the application of the law.** The 2019 amendments themselves are new. The issued IJs are extremely new. The law and practice requires time to settle down. We recommend a further review three years after implementation of the 2019 amendments and at least 18 months after the issuance of the IJs, H2 2022.

Several detailed recommendations also follow:

1. **Further detail and guidance is required on the application of the shift in the burden of proof.** The SPC and Higher People's Courts should issue judicial guidance and guiding cases on the application of the shift in the burden of proof, to drive consistency in its application to ensure trade secret owners derive full benefit. This should include clear guidance as to the interpretation of the prima facie evidence required to effect the shift in burden.
2. **Courts should provide greater transparency and guidance on the issuance of preliminary injunctions.** The SPC and Higher People's Courts should publish more clear and transparent data regarding the numbers of preliminary injunctions applied for and awarded. There is also a key need for more detailed guidance on the circumstances in which preliminary injunctions should be granted taking a broad view of the damage that trade secret owners can suffer and the unfair advantage that trade secret owners obtain from trade secret theft.
3. **The law should be amended to introduce the notion of infringing products in the context of trade secret infringement.** Trade secret owners, particularly technical trade secret owners, will not derive full protection and benefit from the law unless products that incorporate misappropriated trade secrets can be removed from the market. Provisions should mirror those already in place for other IP rights.
4. **Courts should provide guidance and publish guiding cases to allow R&D costs to be considered when assessing compensation.** Trade secrets, once leaked, can be very difficult to control. The loss of competitive advantage for the trade secret owner from leakage should be reflected by directing that R&D costs to develop trade secrets can be considered in compensation assessments as part of the loss to the plaintiff.
5. **Courts should provide further guidance and publish guiding cases regarding the interpretation of 'not known to the public'.** Consistency in the interpretation is key to provide confidence to trade secret owners as to what constitutes a trade secret where investment has been made to process, develop, augment or otherwise improve information that may be available to the public in some way.
6. **Courts should provide further guidance and publish guiding cases regarding the interpretation of 'reasonable protective measures'.** Consistency in the interpretation of reasonable protective measures is important in itself but will also inform the day to day protection practices that trade secret owners need to implement as a minimum in order to enjoy protection.
7. **The SPC should publish more guiding cases to drive consistency in interpretation nationally.** Full benefit from the law should not depend on where misappropriation takes place or the court before which the matter is heard. Leadership from the top is required to drive consistency.

8. **The SPC should publish more guiding cases to drive consistency in interpretation of the balance between trade secret owners and employees.** Given confusing messaging in 2019, more SPC guiding cases are required to ensure true and consistent application of the new SPC Civil Trade Secret II as regards the balance between trade secret owners and employees.
9. **Criminal thresholds should be reduced further.** The monetary threshold for criminal prosecution of RMB300,000 remains higher than for other IP crimes. It should be reduced to be in line with other IP crimes.
10. **SPP and MPS should publish guidance and guiding cases on the assessment of 'serious loss' as the threshold for criminal cases.** Guidance making clear that not only direct or actual loss but also R&D costs, anticipated illegal income from infringers and reasonable royalties can be considered when assessing 'serious loss'.

1. METHODOLOGY

1.1. Methodology

The study took the following steps:

- (i) China research and analysis
- (ii) European research and analysis

1.2. China research and analysis

The purpose of the China research was to explore and understand the key question of how the Chinese trade secret system is functioning today, following the implementation of the amended AUCL. It comprised desk-based research and market-based research.

Desk-based research

This covered three areas:

- (i) Research and analysis of available case law in China

Rouse created and runs CIELA, the Chinese IP Litigation Analysis Service – see www.ciela.cn – including over 60,000 civil and administrative IP decisions including AUCL cases. Using CIELA, we obtained copies of all trade secret decisions issued by Chinese courts since 23 April 2019, the date when the amended AUCL came into force. The research was conducted on 1 July 2020. Given the publishing behaviours of courts in China, it is possible that further trade secret judgments issued within that period could have been and could still be published at a later date.

In total, we identified 111 judgments that had been issued in that period. It is these that we analysed.

- (ii) Research and analysis of the law, available official interpretations and guidance

We analysed the amendments, judicial interpretations and other guidance issued by senior courts.

- (iii) Research and analysis of existing literature

We conducted a full literature review to assess and analyse any existing material, including available academic analyses made prior to the AUCL amendments and any subsequent to it.

Market based research

We conducted market-based research to identify the priority topics:

- (i) those topics of greatest concern for stakeholders in China before the 2019 amendment, to determine to what extent they remain; and
- (ii) those topics addressed in the 2019 amendments, to determine the impact of the 2019 amendments.

To do this we conducted research amongst key stakeholders. We:

- (i) developed and circulated a questionnaire to more than 200 key stakeholders. It was circulated by email and through WeChat. The questionnaire itself could be completed through a web interface and through a WeChat mini-program. The questionnaire had two versions: one aimed at corporate respondents; one aimed at Chinese practitioners. The stakeholders were drawn from:
 - Rouse's substantial client and contact database of European and other MNC clients, in particular those with inhouse Chinese IP counsel.
 - all lawyers within Lusheng Law Firm, Rouse's Network Firm and a highly regarded specialist Chinese IP law firm itself, with >60 Chinese IP lawyers in Beijing, Shanghai, and Guangzhou.
- (ii) requested interviews with 15 in-house IP counsel from European and other MNCs from a range of industries all drawn from our own contacts. We experienced material reluctance from those contacts to be interviewed. From the responses received, we believe that for many potential respondents: i) trade secrets are not part of their core expertise making them feel unqualified to answer more detailed questions; and/or ii) they were reluctant to be revealing details of trade secret arrangements or issues within their companies (notwithstanding the assured confidentiality/no-names bases of the interviews. In total one interview were successfully conducted.
- (iii) explored the possibility of interviews with key European IP attaches based in China. Unfortunately, many key contacts (e.g. German, Dutch, British) are newly arrived in China and were yet to have the opportunity to learn about detailed concerns of companies from their countries and were yet to have the opportunity to develop detailed experience in the trade secret system in China and its operation. Ultimately none were able to contribute.

- (iv) reviewed the 2019/20 and 2020/21 Position Papers issued by the European Union Chamber of Commerce in China (EUCCC) to identify trade secret related issues that were of concern to European businesses.

We collated all the China research and analysed it to understand how the Chinese trade secret system is functioning today, following the implementation of the amended AUCL, and what issues remain.

1.3. European research

By taking the approach set out below we sought to identify: (i) implemented provisions in Member State offering improvements on or solutions to issues identified; and (ii) an exemplar decided case for comparative analysis.

As advised by DG TRADE, the focus of our European research was engagement of and exchanges with Harrie Temmink, Deputy Head of the Unit, Industrial Property and the Fight against Counterfeiting and Davide Follador, Legal and Policy Officer, both at DG GROW, given their oversight of the implementation of the Trade Secret Directive in Member States. With that perspective, DG GROW was able to guide us towards those implemented provisions that offer alternatives to, improvement on or solutions to the continuing issues identified in China.

2. DETAILED FINDINGS

We set out the detailed findings of the study in three parts:

1. A review of the changes made to the trade secret law and practice in China since 2017
2. An analysis of how the changes are working in practice
3. An examination of how the law and its enforcement could be improved

2.1. Changes to the Chinese trade secret law since 2017

The protection of trade secrets under China's current legal system mainly relies on the AUCL and relevant judicial interpretations. Civil and administrative protection provisions are set out in the AUCL, while criminal protection provisions related to trade secrets are set out in the Criminal Law.

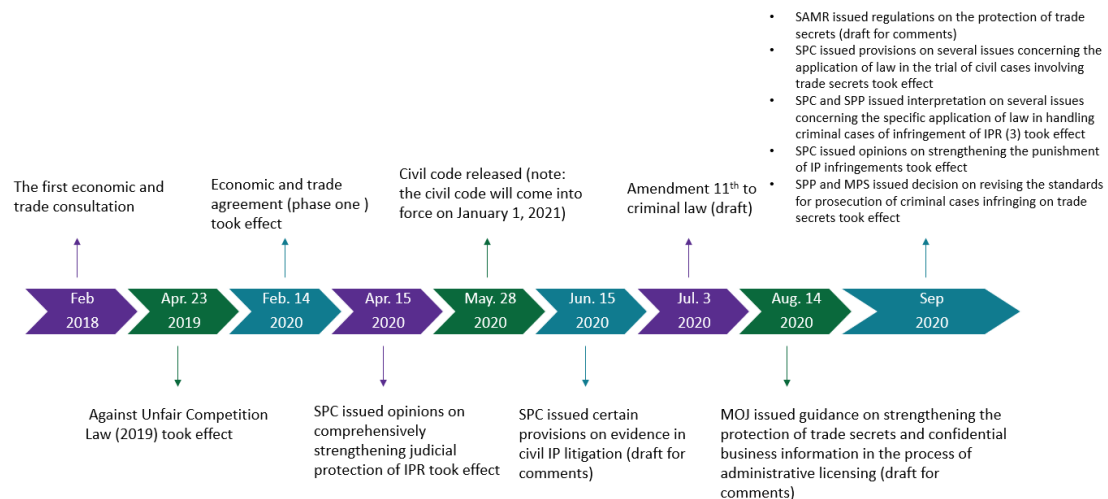
Since 2017, there have been the following major changes to the protection of trade secrets in China:

- The passing and coming into force on 23 April 2019 of the 2019 amendments to the AUCL¹

¹ Standing Committee of the PRC National People's Congress: Law of the People's Republic of China Against Unfair Competition, 23 April 2019 [[全国人民代表大会常务委员会](#), 中华人民共和国反不正当竞争法, 2019.04.23 生效]

- The issue of an SPC Judicial Interpretation on Several Issues Concerning the Application of Law in the Trial of Civil Cases of Disputes over Infringements on Trade Secrets² (the **SPC Civil Trade Secret JI**)
- The issue of a joint SPC/SPP Judicial Interpretation on Several Issues Concerning the Specific Application of Laws in Deciding Criminal Cases Involving Infringement of Intellectual Property Rights (III)³ (the **SPC/SPP Criminal IP JI**)

The figure below shows a timeline of these and other related developments.



2.2. The 2019 amendments to the AUCL

On 23 April 2019 the 2019 amendments to the AUCL came into force. These were only the second amendments to the AUCL as a whole and focused on amendments to the trade secret provisions. The changes and a comparison with the previous version of the AUCL are set out in Annex I.

The key amendments relate to the following issues, all of which are covered in more detail below.

- The **expansion of the definition of trade secrets** to include “...other business information that is not known to the public, has commercial value and is subject to corresponding confidentiality measures...” in Article 9
- The **extension of the scope of infringing acts** to include:
 - obtaining trade secrets by “electronic intrusion” in Article 9 and,
 - “abetting, inducing or helping another person” to obtain etc trade secrets in Article 9

² Supreme People's Court: Several Issues Concerning the Application of Law in the Trial of Civil Cases Involving Trade Secret Infringement, 12 September 2020 [最高人民法院, 关于审理侵犯商业秘密民事案件适用法律若干问题的规定, 2020.09.12 生效]

³ Supreme People's Court, the Supreme People's Procuratorate: Several Issues Concerning the Specific Application of Laws in Deciding Criminal Cases Involving Infringement of Intellectual Property Rights (III), 14 September 2020 [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 (三), 2020.09.14 生效]

- The **extension of persons potentially liable** to expressly include “any natural person, legal person or organisation without legal personality” in Article 9
- The **inclusion of punitive compensation** where the acts are done “maliciously” or the “circumstances are serious” in Article 17, and
- The **shifting of the evidential burden** to the defendant in certain circumstances regarding:
 - the qualification or not of the trade secret within the terms of the law in Article 32
 - the infringement or not of the trade secret in Article 32.

2.3. The Civil Code

On 28 May 2020, the first ever Civil Code was passed and will be implemented on 1 January 2021⁴. The key development in the Civil Code is the express recognition of trade secrets as a discrete form of intellectual property constituting the proprietary rights of the rights holder, in Article 123.

The Civil Code is not yet implemented and so has not been reflected in any judicial decisions or the like, but this is a notable development for trade secrets ‘elevating’ them to the same level as other IP rights such as copyright, patents and trade marks. We do not analyse this development further in this study, but note that it reflects the seriousness with which the Chinese government regards trade secrets and the importance that will be attached to them in future.

2.4. The Criminal Law (draft amendments)

A draft of the amended Criminal Law was published by the NPC in October 2020 for comment⁵. At the date of this report, it was still under consideration and has not yet been passed by the NPC. But there is value in briefly examining the amendments to understand the overall direction of the treatment of trade secrets.

Two aspects of the amendments are notable.

Firstly, an additional paragraph has been added to Article 219 specifically covering the illegal provision of trade secrets to foreign parties. The terms of imprisonment are more severe under this clause than for trade secret theft to benefit a domestic entity. Academic opinion⁶ suggests that the motivation for China’s enactment of this amendment does not appear to be issues of private international law. As drafted, the provision retaliates against companies and individuals rather than foreign governments, and so the greatest may be that it could have a chilling effect on a certain types of commercial conduct by foreigners in China, such as foreign companies investing or collaborating with Chinese counterparts who may now

⁴ PRC National People's Congress: PRC Civil Code, 1 January 2021 [全国人民代表大会, 中华人民共和国民法典, 2021.01.01 生效]

⁵ PRC National People's Congress: Amendment (XI) to the Criminal Law (Draft for Second Deliberation) [全国人大常委会《刑法修正案（十一）（草案二次审议稿）》]

⁶ <https://chinaipr.com/2020/07/13/proposed-amendments-to-the-criminal-code-on-trade-secrets/>

find allegations of trade secret theft more common as a tactical move when in the dissolution of a Sino-foreign collaboration arrangement or the like.

And secondly, the draft provides trade secret theft can occur through fraud and electronic intrusion, not just “theft, lure, coercion or other improper means” as is set out in the current law. This aligns with the 2019 amendment to the AUCL in ensuring that hacking and the like is clearly covered.

2.5. The SPC Civil Trade Secret JI

The SPC Civil Trade Secret JI was issued on 11 September 2020⁷. Given its recent issuance, we have not seen any express application of this JI, but its key provisions are notable, again to indicate the direction of trade secret protection in China.

Its scope is comprehensive addressing many issues associated with bringing civil trade secret misappropriation claims. It covers:

- Article 1 – the scope of the definition of trade secrets, including the meaning of technical information, business operation information and customer information
- Article 2 – limitations on the protection of customer information
- Articles 3 and 4 – the interpretation of “not known to the public” and “available to the public”
- Articles 5 and 6 – clarification as to what constitutes sufficient confidentiality measures
- Article 7 – the interpretation of “commercial value”
- Article 8 – the interpretation of “improper means”
- Article 9 – the interpretation of “use of a trade secret”
- Article 10 – the interpretation of “obligation of confidentiality”
- Article 11 – the interpretation of “employees” and “ex-employees”
- Article 12 – the interpretation of “means or opportunities to access trade secrets”
- Article 13 – the interpretation of “substantively identical”
- Article 14 - the exclusion of self-development and reverse engineering from acts of infringement
- Article 15 – the circumstances in which a preliminary injunction may be granted
- Article 16 – the liability of persons other than business operators
- Article 17 – the duration of final injunctions
- Article 18 – the return or destruction of media containing trade secrets
- Articles 19, 20 and 23 – guidance on compensation calculations concerning: the commercial value of the trade secret; notional licence fees; and, loss/illegal gain as determined in a criminal judgment
- Article 20 – guidance on determining notional licence fees when assessing compensation
- Article 21 – confidentiality of materials within the trial process
- Article 22 – the use in civil proceedings of evidence obtain in criminal proceedings

⁷ Supreme People's Court: Several Issues Concerning the Application of Law in the Trial of Civil Cases Involving Trade Secret Infringement, 12 September 2020 [最高人民法院, 关于审理侵犯商业秘密民事案件适用法律若干问题的规定, 2020.09.12 生效]

- Article 24 – the burden of proof regarding compensation calculations
- Article 25 – the suspension of civil proceedings pending a related criminal case
- Article 26 – the standing of licensees of trade secrets to bring proceedings
- Article 27 – the obligation of the trade secret to disclose the specific content of the trade secret asserted
- Article 28 – the appropriate law to be applied relating to when the alleged infringing act occurs

The SPC Civil Trade Secret JI is significant for the range of issues it covers. It restates certain principles relating to trade secret cases previously established in the SPC Unfair Competition JI from 2007 and includes new principles many of which have been developing in the jurisprudence of the more progressive courts. It is valuable for bringing together all the key judicial principles – old and new – in one place.

Specific articles are discussed further in the analysis below. In addition, other comments are worth making.

- The JI is helpful for the additional clarity it provides to the definition and meaning of important terms.
- The terms ‘known to the public’ in relation to information and ‘sufficient protective measures’ in relation to trade secrets are interpreted in ways favourable to trade secret owners. If consistently applied by lower courts, these interpretations will be useful to enhance protection.
- The guidance on the calculation of compensation is generally helpful and may lead to larger compensation awards.
- The guidance on the connection with criminal cases, in particular the articles relating to the availability and use of evidence related to criminal cases, should also be helpful to trade secret owners.

2.6. The SPC/SPP Criminal IP JI

The SPC/SPP Criminal IP JI was issued on 13 September 2020⁸. It covers issues concerning the criminal prosecution of trade secret theft amongst other IP issues. Given its recent issuance, we have not seen any express application of this JI, but its key provisions are notable, again to indicate the direction of trade secret protection in China.

The issues it covers regarding trade secrets are:

- Article 3 – the interpretation of “theft” to include unauthorised use of computer systems, and the interpretation of “other improper means”
- Article 4 – the interpretation of “significant damage” to the trade secret owner and “causing particularly serious consequences”
- Article 5 – the determination of damage or illegal gain resulting from trade secret theft
- Article 6 – issues of confidentiality of trade secrets within criminal proceedings

⁸ Supreme People's Court, the Supreme People's Procuratorate: Several Issues Concerning the Specific Application of Laws in Deciding Criminal Cases Involving Infringement of Intellectual Property Rights (III), 14 September 2020 [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(三), 2020.09.14 生效]

- Articles 8 and 9 – aggravating and mitigating circumstances to trade secret theft (amongst other IP crimes)
- Article 10 – the determination of criminal fines

While the Criminal Law amendments remain in draft, the issuance of SPC/SPP Criminal IP JI is welcomed for bringing further guidance and greater clarity to the interpretation of the laws.

One of the significant developments is the reduced monetary threshold for criminal prosecution, which is now set at RMB300,000, down from RMB500,000 previously. The JI also provide valuable detailed guidance on the different ways in which the trade secret owner's loss may be calculated and, importantly, it makes clear that costs relating to "remedial measures" taken to mitigate the loss or restore the computer systems and other security can be included in the loss suffered by the trade secret owner. All these provisions should make criminal enforcement easier and more accessible, but the threshold is still high, compared to other types of IP crimes.

2.7. How the changes are working in practice

In this section, the responses to the questionnaires by companies and their advisers and the results of the interview undertaken with a company in-house counsel are reviewed first to understand the perception and feeling amongst these key stakeholders as to the impact of the changes in the law. We also highlight the concerns raised by European Businesses through recent EUCCC Position Papers.

These are then compared with the results of the case law analysis to understand how the new rules are being applied in practice.

2.7.1 The company questionnaire and interview results

The full results of the company questionnaire are set out in Annex II. A total of 12 company responses were received with 75% being completed by executives or in-house counsel, and 25% completed by others.

In terms of the steps take to manage trade secrets within their businesses:

- Almost all employed physical (83%) and/or technical/IT (92%) security arrangements
- Similarly 83% used employee onboarding and offboarding procedures, but only 17% put place special employment arrangements
- 50% maintain a register of trade secrets and just 25% operate trade secret management software
- 67% have in place special contractual arrangements with vendors to the business and 75% have NDAs for people visiting manufacturing or R&D premises

In terms of their experience of trade secret misappropriation and enforcement:

- half of the respondent businesses had suffered trade secret leakage when an employee leaves
- half had suffered trade secret leakage in other circumstances
- 42% had sent C&D letter to prevent misappropriation or misuse of trade secrets

- 17% had filed administrative complaints
- 25% had filed civil proceedings
- 25% had filed criminal complaints

All responses to the survey were made before the passing of the SPC Civil Trade Secret II and the SPC/SPP Criminal IP II.

Overall, while there is clearly improvement in the confidence of individual aspects of trade secret law in China, 50% of respondents remain concerned about the protection the law provides in case of trade secret theft, with only 17% being confident and none at all being very confident. Indeed, none of the respondents were very confident in relation any of the questions in the survey regarding the AUCL following amendment, and at most 35% were confident in relation to any specific aspect. This shows that the majority – over 80% of businesses – consider that the law and/or its application still need to develop to provide trade secret owners with confidence as to the protection they enjoy. Compared to practitioners (see below), trade secret owners are more sceptical or cautious about the amendments. In our view, businesses' assessment of the law generally is more informed by experience than by technical analysis. With the amendments being so recent, it may take time before trade secret owners' have experiences that may change their view

Equally, however, while basic trade secret protection and management measures are in place, it appears that more could be done within the business to protect themselves from misappropriation happening and/or to better equip them legally if misappropriation does occur.

As to specific issues, comparing the view before and after the implementation of the AUCL:

- There is an improvement in the view taken of the **definition of trade secrets**, but only 33% are confident today, and none are very confident; with 67% being neutral or concerned
- There is a significant improvement in the view taken of the **acts that constitute misappropriation**, but only 25% are confident today, and none are very confident, with 75% being neutral or concerned
- There is a slight improvement in the view taken of the **persons that can be liable**, but only 25% are confident today, and none are very confident, with 75% being neutral or concerned
- There is a significant improvement in the view taken of the **evidential burden to prove that information is a trade secret**, but only 33% are confident today, and none are very confident, with 66% being neutral or concerned
- There is an improvement in the view taken of the **evidential burden to prove a trade secret has been misappropriated**, but 42% remain concerned about this issue, making it the most sensitive issue still facing trade secret owners
- There is a significant improvement in the view taken of the availability of **adequate and effective remedies**, but 33% remain concerned with only 33% now confident
- There is a significant improvement in the view taken of the availability of **preliminary injunctions**, but from a very low base. Before the 2019 amendments, no one was confident of their availability and 67% were concerned or very concerned, making it the most sensitive issue for trade secret owners historically. Today 25% remain concerned but 33% are now confident

Apart from the AUCL itself:

- No respondents are confident that legal relations between their business and **current employees** provides adequate remedies for trade secret misappropriation, though most (75%) are neutral
- Only 8% are confident that legal relations between their business and **departing employees** provides adequate remedies for trade secret misappropriation, though most (67%) are neutral

2.7.2 The practitioner questionnaire results

The full results of the practitioner questionnaire are set out in Annex III. A total of 35 practitioners responded with the majority (69%) having more than ten years' experience in IP law, and 80% mostly acting for foreign businesses in China.

The most common measures to manage trade secrets on which practitioners advised were the external relations matters with 63% advising on NDAs for visitors and 63% advising on special contractual arrangements with vendors. In terms of internal matters, the most common measures advised on were employee onboarding and offboarding procedures (51%), trade secret registers (43%) and physical and technical security arrangements (each 29%).

In terms of their experience advising on trade secret misappropriation and enforcement:

- 57% have advised on trade secret leakage when an employee leaves
- 49% have advised on trade secret leakage in other circumstances
- 54% have sent C&D letter to prevent misappropriation or misuse of trade secrets
- 25% have filed administrative complaints
- 46% had filed civil proceedings
- 34% had filed criminal complaints

All responses to the survey were made before the passing of the SPC Civil Trade Secret II and the SPC/SPP Criminal IP II.

Overall, while there is clearly improvement in the confidence of individual aspects of trade secret law in China, 9% of practitioners remain very concerned and 37% remain concerned about the protection the law provides in case of trade secret theft; 29% are now confident. Compared to trade secret owners, we see a more positive view from practitioners. In our view, this may be informed by a more technical analysis of the improvements, rather than the experiential view we believe businesses take. Notwithstanding a slightly more positive outlook, it is worth noting that very few practitioners were very confident about any individual aspects of the amended AUCL and none were very confident overall. As such this indicates that over 75% of practitioners are of the view that the law and its application still need to develop to provide trade secret owners and their advisers with confidence as to the protection they enjoy.

As to specific issues, comparing the view before and after the implementation of the AUCL:

- There is a significant improvement in the view taken of the scope of the **definition of trade secrets**, with 60% being confident or very confident today, although 17% remain concerned or very concerned
- There is a significant improvement in the view taken of the **acts that constitute misappropriation**, with 57% being confident today, although 31% remain concerned or very concerned
- There is a significant improvement in the view taken of the **persons that can be liable**, with 63% being confident or very confident today, although 29% remain concerned or very concerned
- There is a significant improvement in the view taken of the **evidential burden to prove that information is a trade secret**, with 51% being confident or very confident today, although 24% remain concerned or very concerned
- There is a significant improvement in the view taken of the **evidential burden to prove a trade secret has been misappropriated**, with 43% being confident or very confident today, although 26% remain concerned or very concerned
- There is a significant improvement in the view taken of the availability of **adequate and effective remedies**, with 49% being confident today, although 34% remain concerned or very concerned
- There is an improvement in the view taken of the availability of **preliminary injunctions**, but from a very low base. Before the 2019 amendments, only 14% were confident of their availability and 77% were concerned or very concerned, making it the most sensitive issue for practitioners historically. Today 49% remain concerned or very concerned and 34% are now confident

Apart from the AUCL itself:

- Practitioners are in general (85%) not confident that legal relations between their business and **current employees** provides adequate remedies for trade secret misappropriation; only 15% are confident
- 31% of practitioners are confident that legal relations between their business and **departing employees** provides adequate remedies for trade secret misappropriation, though 40% concerned or very concerned

2.7.3 Company interview

In addition to the questionnaire, one company representative was willing to be interviewed in depth on these issues. The representative was in-house counsel for an American multinational software business that makes software for the architecture, engineering, construction, manufacturing, media, education, and entertainment industries.

Notes of the interview are set out in Annex IV

The key points arising were these:

- Trade secrets are core to the business and are used to protect core technology (source code).
- Leakages can cause huge losses to the company, so strong injunctive relief is critical, but the evidence threshold is high at present
- Criminal powers are a key deterrent but sentences are still not heavy enough

- The 2019 amendments are positive, in particular as regards express inclusion of electronic intrusion, shifting the burden of proof and the increase in statutory damages to RMB5m.

But concerns remain: availability of preliminary injunctions; more detailed required on shifting the burden of proof; impact of criminal sentencing

2.7.4 EUCCC Position Paper review

Our review of recent position papers also revealed acknowledgements of progress regarding the amendments to the AUCL, which were described overall in both the 2019/20 paper when they became effective and in the 2020/21 paper as “a positive development”.

There were also clear concerns raised regarding the criminal enforcement of trade secrets and early concerns about the amended AUCL. The concerns with the related recommendations were as follows:

- A concern was raised that the lack of stringent criminal liabilities leads to the absence of sufficient deterrent effect on infringers which discourages innovation and creates dishonest working ethics. The associated recommendations were that annual special action projects should be launched, to crack down on trade secret infringement crime and that more be allocated to the PSB to handle trade secret infringement allegations, particularly where former employees are involved
- A concern was raised that limiting the interpretation of ‘serious loss’ – the threshold for initiating criminal enforcement - to direct and actual loss suffered by the trade secret owner makes it extremely challenging for that owner to request a criminal investigation or further indictment of trade secret theft in situations where the stolen production know-how has been used to make products not yet available in the market. The recommendations were that the SPP and MPS should issues guidance providing more options for assessing loss, and that the SPP and SPC should publish demonstration cases to show how to calculate loss in criminal cases by referring to the development costs invested by the owner, the amount of illegal income to be anticipated by the infringer and/or a reasonable royalty fee.
- A concern was raised that the standard of ‘prima facie evidence’, as required to be presented by the plaintiff in civil trade secret infringement proceedings in order to shift the burden to the defendant, is vague increasing the evidential burden on the plaintiff hindering innovation. The recommendation was that the SPC or other Higher People’s Courts should issue judicial guidance and publish sample or guiding cases providing clarification.

2.7.5 Case law review

Copies of all trade secret decisions issued by Chinese courts from 23 April 2019, (the date when the amended AUCL came into force) to 1 July 2020 were obtained,. Given the publishing behaviours of courts in China, it is possible that further trade secret judgments issued within that period could have been and could still be published at a later date.

In total, we identified 111 judgments issued in that period. This included 93 full published judgments on the merits. A further 18 judgments were issued but not fully published. Here is a breakdown.

Total no. of judgments issued			
111			
Fully published			Not fully published
93			18
Applicable law			
1993 AUCL	2017 AUCL	2019 AUCL	
25	51	17	

↓

Total no. of judgments issued under 2019 AUCL			
17			
First instance		Second instance	
14		3	
Plaintiff wins	Defendant wins	Plaintiff wins	Defendant wins
5	9	1	2

Commentary on the number of published cases

Seen in context, these numbers of cases appear to be low, particularly when compared against patent, trade mark and copyright cases. The AUCL covers not only trade secrets but other acts of unfair competition including passing off/trade dress infringement and unlawful advertising. It was not possible to easily obtain comparable trade secret litigation data for the EU.

IP Cases at First Instance				
	Patent	Trade mark	Copyright	Unfair Competition
All cases concluded in 2019, published and unpublished (2019 SPC White Paper)	22,272	65,209	293,066	4128 (including trade secret cases)
All IP cases published from 23 April 2019-30 June 2020 (the period of analysis in this report) (CIELA and commercial databases)	3,272	14,755	42,708	2427 (non-trade secret cases) 111 (trade secret cases)

It is to be noted that only a proportion of concluded cases are published. Courts are encouraged but not obliged to publish all cases and publishing practices vary around the country.

These numbers reflect two key points. Firstly, there has been a very rapid growth in civil IP cases generally in the last ten years, but that this trend has not been seen in the same way

with trade secret cases, which have increased but not to the same degree. Between 2015 and 2019, numbers of copyright cases grew 339%, trade mark cases 170% and patent cases 92%. Unfair competition cases as a whole, including trade secret cases, grew 89%, but the vast majority of those cases are other forms of unfair competition. And secondly, in our experience, given the challenges, in particular the evidential challenges associated with civil litigation claims of trade secret infringement, trade secret owners have either preferred pursuing criminal enforcement, given the power that the enforcement authorities have to obtain evidence, or have sometimes decided not to pursue civil claims at all.

Case analysis

All 17 published decisions issued under the 2019 AUCL were analysed. In addition, three typical cases selected by the SPC in 2019 related to trade secrets; one of those was amongst the 17 published decisions note above; two were earlier decisions, making a total of 19 cases analysed.

The full list of these cases is set out in Annex V.

Of these 19 cases, we have taken a qualitative approach to the analysis. Below we highlight three decisions finding for the plaintiff that we believe are examples of positive developments in the law and practice, and we highlight four decisions finding against the plaintiff that are examples of where the law or practice still needs to develop further.

Translations of these seven decisions into English are set out in Annex VI.

In taking a qualitative approach, we highlight the following points:

- While 18 of the 19 cases were decided under the 2019 AUCL they do not all apply provisions introduced by the 2019 amendments; some therefore do not shed light on the impact of the 2019 amendments. This is so with all three SPC typical cases published since April 2019.
- Some decisions, particularly those from less experienced courts or less sophisticated judges, are short with little or no analysis and reasoning. These also provide little insight.
- Where a point has arisen in several cases and very similar reasoning has been applied, we have focused on the decision from the most senior, sophisticated or influential court's decision
- We have also highlighted cases that demonstrate what we see as positive developments in practice generally, whether or not they necessarily relate directly to the specific provisions amended in the 2019 amendments.
- All cases are domestic cases; none involve foreign plaintiffs
- All cases relate to former employees that are alleged to have misappropriated trade secrets from their former employers
- Most cases relate to trade secrets in the form of business information, in particular customer lists; few relate to technical information

Winning cases

These winning cases have demonstrated that the court has effectively applied the 2019 amendments or has otherwise progressed or reinforced the progression of trade secret protection in China.

- *Case No. 3: Beijing Hongwei Xianchuang Technology Co., Ltd. et al; Shijingshan District People's Court, Beijing:* This case related to customer information. It is a very positive judgment regarding the application in two circumstances of the shifting of the burden of proof to the defendant as provided for in the new Article 32 of the AUCL.

Firstly, the court applied Article 32, paragraph 1 regarding the burden of proof as to the qualification of the relevant information as a trade secret. The plaintiff provided evidence to show that it had taken measures to keep the customer information secret and provided evidence to show that the customer information had been infringed. Having met those two requirements, the customer information was presumed to be a trade secret within the meaning of Article 9 and the court shifted the burden of proof onto the defendant to prove that it was not. The defendant successfully showed part of the customer information was publicly available, but it was unable to show that all of it was, and hence it failed to discharge the burden of proof and the customer information was deemed a trade secret.

Secondly, the court further applied the rule of “access & substantial identity” in Article 32 paragraph 2(1), i.e. that the plaintiff need only prove the defendant had the access to plaintiffs’ information and the information used by the defendant is identical or substantially identical, and that it need not prove the defendant obtained the plaintiffs’ customer information “by improper means”. The plaintiff proved both the required elements and so the court held that it was the defendant’s burden to prove that the customer information in use had a legitimate source. The defendant failed to prove this and so the court ruled in favour of the plaintiff, finding infringement and awarding compensation of RMB 390,000.

- *Case No. 1, Shanghai Haoshen Chemical Reagent Co., Ltd., et al; Yangpu District People Court, Shanghai:* The case again related to customer information and considered issues that are now covered by Article 2 of the SPC Civil Trade Secret JI. The case is a good example on how the court should make a good balance between the protection of trade secrets of the former employer and the employees’ freedom to use knowledge gained within their former employment in a new employment. We have highlighted this case in particular because the reasoning and approach are reflected in the SPC Civil Trade Secret JI.

In this case, the defendant resigned from the former employer/plaintiff and approached and successfully won business from 41 customers among the 42 customers for whom he worked at the plaintiff by lower prices and using the customer information he obtained from the plaintiff while in employment there. The defendant argued the customers had voluntarily traded with them based on the personal trust established with the customers and so had not used unfair means to obtain trade secrets, as provided for in Article 2,

paragraph 2 of the SPC Civil Trade Secret JI. However, the court found against the defendant on two important points.

Firstly, it held that the defendants liaison with the customers was designated and directed by the plaintiff rather than resulting out of the defendant's personal contribution and investment, i.e. that the relationships were not based on the personal trust of the defendant.

And secondly, it was not proved by the defendants that the business relations between the plaintiffs' customers and the defendant were initiated by the customers.

As such, the court ruled in favour of the plaintiff and awarded compensation of RMB600,000.

- *Case No. 11: Hangzhou Hangcheng Patent Office Co., Ltd. et al; Intermediate People's Court, Hangzhou:* Once again this case concerned the plaintiff's customer information, which it claimed was a trade secret that had been misappropriated by the defendant.

The first instance court applied the old law (1997), rejecting the plaintiff's claims as it considered the customers' information did not fall into the definition of a trade secret namely lacking "special and deep information", as required by the SPC Unfair Competition JI of 2007.

At second instance, it is notable that the court applied the new law, determining that the plaintiff's customer information did fall within the definition of a trade secret, as they were distinguishable from public information. This reasoning is more in line with the related provision in Article 3 of the SPC Civil Trade Secret JI that has recently been issued.

As a result the court found that what the defendant had misappropriated was a trade secret entitled to protection and so it found for the plaintiff, ordering the defendant to stop the infringement and pay compensation.

What is significant about this case is the willingness of the court to apply the new law. Normally, acts are judged on the basis of the law in force at the time those acts were undertaken. In this case, the court has clearly taken the view that the new understanding and principles related to trade secrets are more appropriate to be applied today, notwithstanding the historic nature of the acts, to better reflect the justice of the situation.

Lost cases

We highlight these lost cases principally because we see them representing one of the continuing issues with trade secret protection: the inconsistent application of the law. These cases demonstrate how the court sometimes applies the law in a rather strict and narrow manner, or how in some cases the court did not correctly apply the rule of shifting burden of proof under the new law. Notably, cases coming from Guangdong were markedly more strict in their application of the law, with more apparent divergence from the spirit of the

amendments and practices elsewhere in the country. Given the massive industrial base in Guangdong, the fact that the courts appear out of step with the rest of the country is also a specific concern.

- *Case No. 12: Shenyang Meiyang Education Information Consulting Co., Ltd. et al; Intermediate People's Court, Shenyang:* Again a case involving the plaintiff's customer information. The court rejected the plaintiff's claim with one of key reasons being that the court considered the plaintiff failed to prove the defendant had obtained the customers' information "by improper means". In this case, the court failed to apply the established practice – now clearly stated in the SPC Civil Trade Secret II – that showing the defendant's "improper means" is not something the plaintiff necessarily has to prove.

Instead, once the plaintiff has reasonably shown that the trade secret has been infringed, that the defendant had access to the trade secret and that the information he uses is substantially identical to the trade secret, the court should have shifted the burden of proof onto the defendant to demonstrate that he did not unlawfully appropriate the trade secret. This is now embodied in Article 32 paragraph 2(1) of the SPC Civil Trade Secret II (as was applied in as Case No. 3 above).

- *Case No. 9, Guangzhou Caorou Travel Agency Co., Ltd et al; Tianhe District People's Court, Guangzhou:* In this case, the court rejected the plaintiff's claim regarding misappropriation of its trade secrets in the form of customer information. One of main reasons was that the court considered the plaintiff failed to prove the customers' information was not known to the public.

The issues and limitation here is the narrow/outdated application of the law: the court did not apply the established practice – again, now clearly stated in the SPC Civil Trade Secret II – that the plaintiff need only prove they have taken protective measures and that the trade secrets have been infringed before the burden of proof should be shifted to the defendant. It is then for the defendant to prove that the plaintiff's information did not qualify as a trade secret, for instance because it is publicly available. This is now embodied in Article 32 paragraph 1 of the SPC Civil Trade Secret II (as was applied in as Case No. 3 above).

- *Case No. 18: Mai Da Keer (Tianjin) Technology Co., Ltd et al; Supreme People's Court:* This is a case whose facts took place under the old (1997) and which was decided under the old law. Its significance today is explained below.

The plaintiff won the case at first and second instances in Tianjin courts, with the courts finding that the plaintiff's customer information should be regarded as a trade secret and had been misappropriated by the defendant. But the plaintiff lost in the SPC retrial.

The fundamental issue in the case is the balance between the employee's freedom to change jobs and to use their knowledge and experience from their previous employment in a new employment, and the employer's ability to control valuable commercial information that it has developed in its business. In this case, the SPC very strictly applied the law and arguably gave too much weight to the employees' freedom

to choose a new job, something that was emphasized by the court reasoning in the judgment). While it may not be appropriate to say that the court as ‘wrong’, the decision was a high profile decision that contradicted the better practices established by other courts (such as Shanghai Court at Case No. 1 above) and which practice is now established in the SPC Civil Trade Secrets JI.

The defendants used the plaintiff’s information on 43 customers. In analysing the customer information, the court considered most of it - but crucially not all of it - was publicly available, and therefore should not be entitled to protection. This reasoning is very strict as under current practice in other courts, the information should still be protected even if just part of information is not publicly available (like did by Beijing court at Case No. 3 above).

As noted, the case applied the old law; it’s not clear if the SPC would have made a different judgment if the case had been applied the new law. But the case is confusing because it was selected as one of the model SPC cases in 2019. Although it is not binding the concern is that it may still have negative impact on local courts, notwithstanding the better practice already developed in other courts.

This decision is now also directly at odds with the SPC Civil Trade Secret JI which in Article 4, paragraph 2 makes clear that where new information is formed by sorting out and improving information known to the public, the court shall determine that the new information is “not known to the public”.

- *Case No.6: Kejielong Robot Co., Ltd., et al; Zhongshan First People’s Court, Guangdong.* This case is another example where the court was very strict in applying the new law, specifically in determining what are “reasonable protective measures” taken by the plaintiff to protect their trade secrets.

The court applied the new 2019 AUCL and also applied Article 14 of the SPC Unfair Competition JI from 2007, at the time the most recent JI on these issues. However, in recent years many other courts have established practices which consider confidentiality agreements, NDAs, corporate rules on confidentiality requirements and the like as sufficient to prove the plaintiff had applied reasonable measures (such as Case No. 10, Hangzhou Court). However, in this case (also in other cases such as Cases No. 2, 5, 12), the court considered standard agreements, NDAs, and corporate rules on confidentiality as insufficient. Instead it required specific measures relating to the information involved in the case.

This decision is also now contradicted by Article 6 of the SPC Civil Trade Secret JI which makes clear that any of those measures – confidentiality agreement, NDA, standard employee confidentiality requirements etc – are sufficient to constitute “reasonable protective measures”.

It is also worth noting that of the 19 cases analysed all six decisions from Guangdong courts (including Guangzhou and Shenzhen) were losing cases for the plaintiffs indicating that the courts in Guangdong are generally more negative (or more strict) in applying the law, and therefore somewhat at odds with prevailing practice in China.

2.8. How the law could be improved

Overall view

Reflecting on the amendments to the law, the issued JIs, the survey results, the interview and the case law, we can see there is a marked improvement in the perception of the trade secret system and, in some cases, a marked improvement in the performance of the system in practice, even in the short time since the 2019 AUCL came into effect. In short, both practitioners and in-house IP counsel are more confident that the system can protect these important business assets.

However that improvement came from a very low base, with both businesses/trade secret owners and practitioners having very serious reservations about the trade secret system before the amendment. And the confidence that does now exist is far from complete. In no areas surveyed was there any strong confidence and, overall, 75-80% of those surveyed are at best neutral, with significant proportions continuing to hold significant concerns. As such there are notable areas where the law and practice are still underdeveloped, incomplete or inconsistently applied.

Below we run through each of the key points arising from the research and analysis.

2.8.1 Protection of trade secrets in judicial enforcement proceedings

Definition of trade secrets

There is clear improvement in the definition *itself* with its extension to include more commercial information as well as technical information. But challenges remain with the interpretation and application of the definition. This is reflected in remaining concern amongst stakeholders.

While only a relatively small sample of cases under the new law were published at the time of the analysis, in most of the cases since the application of the new law, the plaintiff lost the case and the most common reason is because the court did not agree that there was a protectable trade secret at issue. Many cases involve customer information.

In particular, there are inconsistent approaches from the court regarding information that may – to some degree at least - be publicly available. Some information about customers is often in the public domain and is not in itself secret. Notwithstanding the substantial effort of businesses that is required to develop a rich, complete and valuable set of customer information, some courts have regarded this apparent public availability as a fatal flaw in the claim. Others have required the plaintiff to demonstrate that there is deep or special information involved or that they have processed or analysed the information to distinguish it from generally publicly available information.

The newly issued SPC Civil Trade Secret JI improves clarity around this issue, in particular Articles 3 and 4. The JI makes clear that public availability is not a problem in itself, if the information is not widely known and easily accessible to those relevant in the field or the

plaintiff has made substantial efforts to increase the value, e.g. through editing and sorting the information.

It is hoped that the JI will improve clarity in the law and therefore improve consistency in the application of the law across Chinese courts.

Definition of acts that constitute trade secret misappropriate and the persons that can be liable

The new provisions on paper look good – extending the scope of acts that constitute wrongs and the persons that can be liable, including former employees and third parties. But concerns remain regarding the challenge of proving the misappropriation, which becomes more a matter of evidence, as discussed next.

Legal pre-requisites and the measures applied to protect the secrecy

Again there is inconsistency in the requirements from the court as to the measures required. Some courts are satisfied that NDA or confidentiality agreements in place with employees are sufficient; others require plaintiffs to demonstrate that specific measures, such as specific password protected files, are required.

It is hoped that guidance provided by the SPC Civil Trade Secret JI will improve clarity in the law and therefore improve consistency in the application of the law across Chinese courts.

Legal pre-requisites and evidential burdens to demonstrate that information is a trade secret and that it has been misappropriated

There remains more concern about the burden of demonstrating that a trade secret has been misappropriated than showing that a trade secret meets the requirements and so is protectable. That is not surprising given that the latter should, in principle, be within the plaintiff's control.

The shift in the evidential burden that the court can make from the plaintiff to the defendant is however handled inconsistently by the courts, whether relating to evidence of the qualification as a protectable trade secret or evidence of misappropriation. This is also reflected in the feedback from European businesses in the EUCCC Position Paper for 2020/21.

Regarding the former, we have seen defendants claim that the information is publicly available (as mentioned above, particularly with customer lists). However, once plaintiffs have shown that on the face of it the information is not publicly available, courts do not necessarily shift the burden onto the defendant to demonstrate that it is indeed publicly available, rather concluding themselves that it is or finding that the plaintiff has not met the required standard.

Regarding misappropriation, we are similarly seeing inconsistent application of evidential burdens. There are often challenges in showing the information was appropriated by improper means, particularly, say, where information may have been photographed with a

phone, rather than copied in an IT system (where a trail may be left). In some cases, the court still holds the plaintiff to a high standard in proving that the information was appropriated improperly, without shifting the burden onto the defendant, even when the objective similarity of the information and the opportunity to misappropriate it are there, meaning that a burden shift would be appropriate.

Against both of these issues, the new SPC Civil Trade Secret JI should have a positive impact. The SPC Unfair Competition JI in 2007 required the plaintiff to prove that the defendant has taken improper measures to obtain the trade secret. It has been recognised that was unreasonable or impractical and court practice has improved since then, moving away from this requirement. The requirement has now been formally superseded by the in the new SPC Civil Trade Secret JI.

It is hoped that the SPC Civil Trade Secret JI will improve consistency in the fair application of the law across Chinese. But concerns remain that more is required in terms of the detailed interpretation of these clauses, given that they can be very powerful provisions for plaintiffs to succeed in civil claims.

Adequate and effective civil remedies

Although there are improvements in confidence from companies and practitioners alike, material concerns remain amongst stakeholders in this regard. In most cases, compensation levels are still quite low. Courts have been increasing levels but only slowly. The compensation does not seem to make up for the loss of competitive advantage that the plaintiff has suffered, nor does the deterrence seem to be there for defendants.

Part of the concern regarding insufficient compensation is the fact that, in most situations the plaintiff's R&D costs - which are embodied in the commercial value of the trade secret - are not considered. The new SPC Civil Trade Secret JI addresses this issue but only partially. Article 19 provides that where a trade secret has become known to the public as a result of an infringing act, then the commercial value of the trade secret may be taken into account when determining compensation levels. But that is too narrow. Becoming known to the public is often not what occurs; rather it may only be known to the defendant but that is likely to be a key competitor, devaluing the trade secret significantly. As such, those costs should be taken into account when looking at compensation in all cases.

Insufficient compensation is compounded by challenges in enforcing injunctions. While final injunctions are generally granted – and were granted in all the winning cases that we analysed – there is a concern that the defendants may still be using some or all of the information (particularly if it is customer information) and it is difficult for the plaintiff to prove that they are still using it.

Finally, there is no concept of 'infringing products' associated with trade secrets, as there is with other intellectual property right such as patents, trade marks and copyright. As such, where trade secrets have been embodied in products, there is no remedy for the trade secret owner regarding products still in the hands of the defendant (such as destruction) and no remedies against the subsequent trade in those products, for instance to prevent a distributor trading in the goods. This is therefore both a legal and a practical issue.

Preliminary injunctions

None of the cases decided since the amendments that we analysed apparently involved preliminary injunctions. But their availability – as with the availability of preliminary injunctions in IP cases generally – remains a serious concern. The longer a defendant has to learn and use alleged trade secrets, the harder it is for the court to remedy situation by requiring the ‘unlearning’ of that information: its value will have been diluted to some extent by absorption by the defendant, even if a final injunction follows.

The new SPC Civil Trade Secret JI includes no new provisions in this regard. Article 15 provides that the court may grant a preliminary injunction where: “it will become difficult to enforce the judgment, other damage will be caused to the party concerned or the legitimate interests of the right holder will suffer irreparable damage if the [preliminary injunction] measures are not taken”. This scope is an improvement on the position historically which only allowed for a preliminary injunction where there would be irreparable harm. That was broadened by the SPC Unfair Competition JI in 2007 and made a little broader by the new Civil Procedural Law in 2019. The new JI reflects the scope of the Civil Procedural Law in this regard.

2.8.2 Requirements for criminal prosecution

The requirements for criminal prosecution has not been a focus of this study, given the primary purpose of updating the perspective following the 2019 amendments to the AUCL. The Criminal Law amendment process is still in draft at the date of this report, but the SPC/SPP Criminal IP JI covers important issues concerning the criminal prosecution of trade secret theft. Given its recent issuance, we have not seen any express application of this JI, but our analysis and feedback from the stakeholder consultation process gives us indications of positive developments and remaining concerns.

While the reduction of the monetary threshold for criminal prosecution to RMB300,000 from RMB500,000 is positive, the fact that it remains higher than for other IP crimes is a concern. Lobbying to reduce this further would be a valuable step. The ability to include the costs of remedial measures to mitigate loss or restore systems is helpful in making the monetary threshold more accessible, but a lower threshold would still be preferable.

The non-proprietary nature of trade secrets (notwithstanding the reference in the new Civil Code) means that once leaked or stolen, they may lose ALL of their value. This is in contrast to other proprietary IP rights. Therefore strong enforcement powers both civil and criminal are needed to protect trade secret owners and to create true deterrent in the market.

2.8.3 Protection of trade secrets in employment relation and conflict of rights

Conflicts with other rights: the balance between employers/trade secret owners and employees

From the case law, it can be seen that the balance between these two conflicting interests - of the employer and trade secret owner to maintain control of the information that gives

them a competitive advantage; and of the departing employee and their freedom to use their tacit knowledge and experience for another employer – is not always struck appropriately. The SPC model case published in 2019 (Case no. 18, referred to above) seems to be unhelpful and creates concern that its restrictive reasoning from a trade secret owner's point of view may still be applied, notwithstanding the provisions in the new SPC Civil Trade Secret II.

2.9. What can be learnt from Europe

2.9.1. Protection of trade secrets in judicial enforcement proceedings

Definition of trade secrets (art. 2 of the Trade Secrets Directive 943/2016)

Article 2 of the Directive sets the definitions of “trade secret” (as well as “trade secret holder”, “infringer” and “infringing goods”).

Since the Directive is a minimum harmonization measure, the Member States are able to broaden their scope as long as the definition of ‘*trade secret*’ *excludes trivial information and the experience and skills gained by employees in the normal course of their employment, and also excludes information which is generally known among, or is readily accessible to, persons within the circles that normally deal with the kind of information in question*^[1].

New case law directly applying the directive (e.g. transposed national law) is still limited.

For example, already before the TS Directive entered into force, a broader definition of ‘trade secret’ had been applied in commercial law cases in Belgium. When the courts are requested to rule on whether the misappropriation and use of confidential information of a competitor constitutes unfair trade practice in the sense of Article VI.104 of the Code of Economic Law 26, such broader definition includes, for instance, customer lists, confidential email, price lists.

In Germany, the Regional Labour Court of Rhineland-Palatinate 144 defined ‘trade secrets’ as technicalities in the broadest sense including, for instance, financial information (e.g. turnover), internal books, customer lists, supply sources, market strategies, documentation on creditworthiness, calculation documents, patent applications (before filing) and other development and research projects having a significant impact on a company’s business.

From reviewing the European law, we can see the value in defining matters that are *excluded* from the definition of trade secrets. The European approach is helpful in that it provides a negative definition that would complement the positive definition in the Chinese law.

Also, by expressly excluding “*the experience and skills gained by employees in the normal course of their employment*” the definition also has value in helping to define the border and therefore the balance between what is controllable by the employer as a trade secret and what is not controllable because it constitutes the tacit knowledge of the employee.

[1] Directive (EU) 2016/943, Recital 14, last sentence.

Legal pre-requisites and the measures applied to protect the secrecy

In Europe, the provision relating to measures applied to protect the secrecy (i.e. reasonable steps to keep it secret, taken by the person lawfully in control of the information) are set out in Art. 2.1(c) of the Trade Secrets Directive.

The Directive requires the person lawfully in control of the information to have taken reasonable steps, under the circumstances, to keep it secret. The interpretation of “reasonable steps” by courts will arguably have a serious implication on the way the law is applied across the EU as the Directive itself does not shed light on what constitutes “reasonable steps” for these purposes.

Given the recent transposition by Member States, there is very limited new case law on the interpretation of “reasonable steps”. However, national courts had already addressed this requirement before the Directive was in force. For example, the following two national cases, which predate the entry into force of the Directive, provide some guidance.

- The Austrian Supreme Court has ruled in Decision No 4 Ob 165/16t of 25 October 2016 that, under national law, the trade secret holder had adequately demonstrated the intention to keep the information secret. This had been done by maintaining a logging system with a username and password and ensuring that only a limited number of identified people knew the information (in its reasoning, the court referred to the Directive).
- The Spanish case of Civil Judgment No 441/2016, Provincial Court of Madrid, Section 28, Rec 11/2015 of 19 December 2016. The court held that, to be considered adequate and reasonable, the steps to avoid disclosure should be taken both externally and internally. The external steps should prevent third parties from accessing the information and the internal steps should limit access to “employees and collaborators” who know or handle the information.

Ultimately, what is reasonable will depend very much on the nature of the specifics of the situation, including what the trade secret is, its form, the people who have access to it, how it is used, how it is accessed, etc etc. Providing guidance is therefore difficult. However, the Spanish case here is more instructive and introducing the perspective of both internal and external steps being needed is a helpful one that could be introduced in China.

Legal pre-requisites and evidential burdens to demonstrate that information is a trade secret and that it has been misappropriated

The Trade Secret Directive does not address the shift of the burden of proof.

The general rule on evidence is art. 11.1 which makes reference to preliminary injunctions but can be considered the general rule also for decisions on the merits. The fundamental pre-requisite is that the plaintiff has to provide evidence - that may reasonably be considered available - in order to demonstrate with a sufficient degree of certainty that:

1. the trade secret exists;

2. the applicant is the trade secret holder; and,
3. it has been acquired/disclosed/used unlawfully (or that this is imminent).

Analysis of relevant national practices may reveal situations where the application of these requirements can be analysed.

Adequate and effective civil remedies

Enforcement of injunctions and compensation orders are outside the Directive's scope of application.

Preliminary injunctions

While the Directive provides for minimum harmonisation rules also on provisional and precautionary measures (Art. 10-11), national practices might vary in terms of actual availability or timeframes.

For example, in the Netherlands interim injunctions might be granted and are typically swift (14 days).

Gathering data on the actual grant of preliminary injunctions across Europe, to allow for comparison with China, is challenging as it is not readily available in many member states.

3. CONCLUSIONS

Our conclusions can be summarised as follow.

3.1. **There are several individual positive improvements in trade secret protection and stakeholder confidence has improved, but from a very low base.**

- **The new civil laws – AUCL, Civil Code and SPC Civil Trade Secret JI - together are positive.** Trade secret owner and their advisers agree that the developments in the civil law are positive and materially improve the protection of trade secrets in China. The SPC Civil Trade Secret JI, issued following the stakeholder engagement process, in our analysis provides reason and greater foundation for that increased confidence in the system.
- **The broader scope of acts of trade secret misappropriation and the actors that may be liable is welcomed.** The extension to electronic intrusion is a key development, as is the extension beyond the primary acts of misappropriation to instigating, inducing or assisting others to misappropriate. Similarly the extension of potentially liable actors to include natural persons, legal persons and non-legal persons other than business operators are welcomed.

- **The new civil laws provide a better balance of the burden between plaintiff and defendant.** Historically, it has been very challenging for plaintiffs to meet all the requirements to succeed in claims to a sufficient evidential standard. Practices in court had been improving in recent years, but the changes in the law solidify recent developments and present new developments which together provide a better, more realistic view on what can constitute reasonable protective measures from the plaintiff to protect trade secrets, and a better, more realistic view on the appropriate balance between plaintiff and defendant in showing that a trade secret has/has not been unlawfully misappropriated.
- **The increase in statutory compensation levels and the addition of the possibility of punitive compensation awards are very positive.** These developments are in line with the improvements across the IP rights in China and are important in improving the remedies available to compensate for trade secret misappropriation.

3.2. **There remain substantial concerns about the law. Significant improvement is still required to achieve broad confidence in the system as a whole**

- **The provisions regarding the shift in burden are essential but require more detail to be fully effective.** These are central provisions in getting the balance right between plaintiff and defendant, given the nature of trade secrets as protectable objects and given the nature of misappropriation. The developments are welcomed, but more detail as to the operation of the shift could be added.
- **The availability of preliminary injunctions remains a material concern.** Preliminary injunctions are an important tool. Once trade secrets are learned and become the tacit knowledge of people, they become very difficult to control further. Early control measures are important.
- **There is no notion of infringing products.** Trade secret owners have no measure of control over products that incorporate their trade secrets in the way that they do for patented inventions. This limits the extent of the effectiveness of the law where technical trade secrets are involved in particular.
- **When assessing compensation, the plaintiff's R&D costs should be considered.** R&D costs should always be something that can be taken into account, not only when a trade secret has become known to the public.
- **Criminal monetary thresholds remain too high.** While the reduction of the monetary threshold for criminal prosecution to RMB300,000 from RMB500,000 is positive, the fact that it remains higher than for other IP crimes is a concern.

3.3. **Application of the law has been inconsistent**

The SPC Civil Trade Secret Judgment should be beneficial in improving consistency going forward, but to date there has been inconsistency in application which should be monitored.

- **Differing interpretation of the meaning of ‘not known to the public’.** Judicial interpretation since the 2019 amendments has varied, creating uncertainty for plaintiffs, particularly where some aspects of the information are or were publicly known, but where the information has been processed, improved or added to.
- **Differing interpretation of reasonable protective measures.** Whether general confidentiality measures – such as in employment contracts, standard NDAs and employee handbooks – are sufficient, or specific measures related to the particular trade secret are required has not been even applied.
- **Balance between trade secret owners and employees may not favour trade secret owners.** Confusing messaging from the SPC with the model case published in 2019 may mean that the provisions in the new SPC Civil Trade Secret II continued to receive different interpretations in lower courts
- **Regional variation in interpretation.** The interpretation of the law in Guangdong courts was notably consistently narrower and more conservative than other parts of the country, in particular as to what constitutes a trade secret and when the burden should be shifted.
- **Confidence in enforcement lags behind perceived improvements in the law itself.** The intentions of the Chinese legislature to improve the trade secret system overall are not yet fully realised in the application and enforcement of the law, which remains somewhat weak, reflected in relatively low confidence from trade secret owners and their advisers.

3.4. Recommendations

Three high level recommendations follow.

1. **Supporting the development in China of a discrete trade secret code.** The protection of trade secrets through laws on unfair competition mean an incomplete form of protection. The express recognition of trade secrets as a discrete form of intellectual property constituting the proprietary rights of the rights holder in the Civil Code is an indication of the maturing of the understanding and protection. As China moves ever further towards a knowledge and innovation economy, a full, comprehensive and robust understanding and protection of trade secrets is warranted. This should be reflected in a discrete trade secret code, reflecting the status of trade secrets alongside other IP rights and offering comprehensive protection in primary legislation to drive greater sophistication and consistency in the law’s application.
2. **Expanding the scope of cases heard by IP Courts/IP Tribunals and allowing all trade secret cases to be heard by IP Courts/IP Tribunals.** Currently only technical trade secret cases fall within the jurisdiction of specialist IP Court and IP Tribunals; business/commercial cases do not. Trade secret cases are complex, given the very

nature of trade secrets. Whether relating to technical trade secrets or not, cases should be heard by specialist courts to improve quality and consistency.

3. **Further study (not before 2022) should be conducted to review the application of the law.** The 2019 amendments themselves are new. The issued JIs are extremely new. The law and practice requires time to settle down. We recommend a further review three years after implementation of the 2019 amendments and at least 18 months after the issuance of the JIs, H2 2022.

Several detailed recommendations also follow:

1. **Further detail and guidance is required on the application of the shift in the burden of proof.** The SPC and Higher People's Courts should issue judicial guidance and guiding cases on the application of the shift in the burden of proof, to drive consistency in its application to ensure trade secret owners derive full benefit. This should include clear guidance as to the interpretation of the prima facie evidence required to effect the shift in burden.
2. **Courts should provide greater transparency and guidance on the issuance of preliminary injunctions.** The SPC and Higher People's Courts should publish more clear and transparent data regarding the numbers of preliminary injunctions applied for and awarded. There is also a key need for more detailed guidance on the circumstances in which preliminary injunctions should be granted taking a broad view of the damage that trade secret owners can suffer and the unfair advantage that trade secret owners obtain from trade secret theft.
3. **The law should be amended to introduce the notion of infringing products in the context of trade secret infringement.** Trade secret owners, particularly technical trade secret owners, will not derive full protection and benefit from the law unless products that incorporate misappropriated trade secrets can be removed from the market. Provisions should mirror those already in place for other IP rights.
4. **Courts should provide guidance and publish guiding cases to allow R&D costs to be considered when assessing compensation.** Trade secrets, once leaked, can be very difficult to control. The loss of competitive advantage for the trade secret owner from leakage should be reflected by directing that R&D costs to develop trade secrets can be considered in compensation assessments as part of the loss to the plaintiff.
5. **Courts should provide further guidance and publish guiding cases regarding the interpretation of 'not known to the public'.** Consistency in the interpretation is key to provide confidence to trade secret owners as to what constitutes a trade secret where investment has been made to process, develop, augment or otherwise improve information that may be available to the public in some way.
6. **Courts should provide further guidance and publish guiding cases regarding the interpretation of 'reasonable protective measures'.** Consistency in the interpretation of reasonable protective measures is important in itself but will also

inform the day to day protection practices that trade secret owners need to implement as a minimum in order to enjoy protection.

7. **The SPC should publish more guiding cases to drive consistency in interpretation nationally** . Full benefit from the law should not depend on where misappropriation takes place or the court before which the matter is heard. Leadership from the top is required to drive consistency.
8. **The SPC should publish more guiding cases to drive consistency in interpretation of the balance between trade secret owners and employees**. Given confusing messaging in 2019, more SPC guiding cases are required to ensure true and consistent application of the new SPC Civil Trade Secret JI as regards the balance between trade secret owners and employees.
9. **Criminal thresholds should be reduced further**. The monetary threshold for criminal prosecution of RMB300,000 remains higher than for other IP crimes. It should be reduced to be in line with other IP crimes.
10. **SPP and MPS should publish guidance and guiding cases on the assessment of ‘serious loss’ as the threshold for criminal cases**. Guidance making clear that not only direct or actual loss but also R&D costs, anticipated illegal income from infringers and reasonable royalties can be consider when assessing ‘serious loss’.

ANNEXES

Annex I: Amendments To The Anti-Unfair Competition Law

Annex II: Company/Trade Secret Owner Questionnaire Results

Annex III: Practitioner Questionnaire Results

Annex IV: Company Interview

Annex V: Details of the 19 cases analysed

Annex VI: Translations of the seven highlighted cases