
Latest Developments of Trade Secrets Law in China

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■ Major Developments:

□ National People's Congress (NPC):

- The Amendment of The Criminal Law (2020)
- The Anti-unfair Competition Law (2019)

□ SPC :

- Interpretation (III) of the Supreme People's Court and the Supreme People's Procuratorate of Several Issues Concerning the Specific Application of Law in the Handling of Criminal Cases Involving Infringements upon **Intellectual Property Rights** (Sep.12, 2020)
- Provisions of the Supreme People's Court on Several Issues Concerning the Application of Law in the Trial of Civil Cases Involving Infringements on **Trade Secrets** (Sep.12, 2020)

□ SPP & MPS

- Notice by the Supreme People's Procuratorate and the Ministry of Public Security of Issuing the Decision on Amending the Criteria for Launching Formal Investigation into Criminal Cases of Infringement upon Trade Secrets (Sept. 17, 2020)

□ Administrations for Market Regulation:

- Draft Rules for Trade Secret Protection (2020)

- Major Developments:

1. Criminal liability
2. Burden of providing evidence in civil litigations
3. Punitive damages
4. Administrative liabilities
5. Legal Representatives' joint and several liability
6. Draft Administrative Rules

1. Criminal Liability

- Lower threshold
- More acts covered
- Harsher punishments
- Separate treatment of infringement for foreigners
- Military secrets

Article 219 of the Criminal Law (Dec. 26, 2020) :

- Whoever commits any of the following acts of infringing on trade secrets under serious circumstances ~~causing significant losses to a right holder of trade secret~~, shall be sentenced to fixed-term imprisonment of not more than three years ~~or detention (拘役)~~ and a fine, or shall only be fined; if particularly serious circumstances exist, he shall be sentenced to fixed-term imprisonment of not less than three years but not more than ~~seven~~ ten years, and a fine:
 - (1) obtaining a trade secret from the right owner by stealing, ~~luring~~, bribing, fraud, coercion, electronic intrusions or any other improper means;
 - (2) disclosing, using or allowing others to use a trade secret obtained from the right owner by the means mentioned in the preceding paragraph; or
 - (3) disclosing, using, or allowing others to use a trade secret in its possession, in violation of a confidentiality obligation ~~an agreement~~ or the requirements of the right owner for keeping a trade secret confidential.
- Whoever obtains, discloses, uses or allows others to use another's trade secret where he knows ~~or should have known~~ about any act provided in the preceding paragraphs, shall be regarded as an infringement of a trade secret.
- ~~□ For the purpose of this Article, a trade secret refers to technical information and operational information, which is unknown to the public, can bring economic profits to its right holder, is useful and for which the right holder has adopted confidentiality measures.~~
- A right owner for the purpose of this Article refers to the owner of a trade secret or a user of a trade secret as permitted by the owner of the trade secret.

- **The 2020 Amendment of the Criminal Law:**

- **Article 219A**

- “Whoever steals, spies upon or buys trade secrets for or illegally provides trade secrets to **any institutions, organizations or personnel outside the territory of China** shall be sentenced to fixed-term imprisonment of not more than five years and a fine, or shall only be fined; if serious circumstances exist, he shall be sentenced to fixed-term imprisonment of not less than five years and a fine.
 - 为境外的机构、组织、人员窃取、刺探、收买、非法提供商业秘密的，处五年以下有期徒刑，并处或者单处罚金；情节严重的，处五年以上有期徒刑，并处罚金。

- Article 431 of the Criminal Law

- Those who illegally obtain **military secrets** by stealing, spying, or buying such secrets shall be sentenced to not more than five years in prison. If the circumstances are serious, they shall be sentenced to not less than five years and not more than 10 years in prison. If the circumstances are especially serious, they shall be sentenced to not less than 10 years in prison.
- Those who steal, spy, or buy military secrets for, or illegally provide such military secrets to any institutions, organizations or personnel **outside the territory of China**, shall be sentenced to not less than five years but not more than ten years in prison; if serious circumstances exist, not less than 10 years in prison, life imprisonment, or death.

- Lower threshold: “Replace “significant losses” requirement with “serious circumstances” requirement
 - Article 219 , para. 1:
 - “Whoever commits any of the following acts of infringing on trade secrets under serious circumstances ~~causing significant losses to a right holder of trade secret~~, shall be sentenced to fixed-term imprisonment of not more than three years ~~or detention (拘役)~~ and a fine, or shall only be fined; if particularly serious circumstances exist, he shall be sentenced to fixed-term imprisonment of not less than three years but not more than ~~seven~~ ten years, and a fine...”
 - Impact on judicial practice

Notice of the Supreme People's Procuratorate and the Ministry of Public Security on Issuing the Provisions (II) of the Supreme People's Procuratorate and the Ministry of Public Security on the Standards for Filing Criminal Cases under the Jurisdiction of the Public Security Organs for Investigation and Prosecution (2010)

- **Article 73** Case on Infringing upon a Trade Secret (Article 219 of the Criminal Law)
Where anyone infringes upon a trade secret, a case shall be filed for investigation and prosecution under any of the following circumstances:
 1. **Losses** of more than **500,000** yuan are caused to the right holder of the trade secret;
 2. The amount of **illegal gains** from infringing upon the trade secret is more than 500,000 yuan;
 3. As a result, the right holder of the trade secret **goes bankrupt**; or
 4. **Great losses** are otherwise caused to the right holder of the trade secret.

Notice by the Supreme People's Procuratorate and the Ministry of Public Security of Issuing the Decision on Amending the Criteria for Launching Formal Investigation into Criminal Cases of Infringement upon Trade Secrets (Sept. 17, 2020)

- Cases of Infringement upon Trade Secrets (Article 219 of the Criminal Law) Infringement upon a trade secret being suspected of falling under one of the following circumstances shall be subject to formal investigation:
 - (1) The amount of **losses** caused to the right holder of a trade secret is more than **300,000** yuan.
 - (2) The amount of **illegal gains** from infringement of a trade secret is more than 300,000 yuan.
 - (3) **Bankruptcy** and closedown of the right holder of a trade secret due to major operation difficulty which is directly caused by the infringement.
 - (4) Other circumstances causing major losses to the right holders of trade secrets.

- The amount of losses or illegal gains caused as specified in the preceding paragraph may be determined by the following means:
 - (1) Where the trade secret of a right holder is obtained by the violator by inappropriate means, and is **not disclosed, used or allowed to be used by others**, the amount of losses may be determined based on **the reasonable licensing fees** for the trade secret.
 - (2) Where, after the trade secret of a right holder is obtained by the violator by inappropriate means, it is disclosed, used or allowed to be used by others, the amount of losses may be determined based on the losses of the right holder's sales profits caused by the infringement, but **where the amount of losses is lower than the reasonable licensing fees for the trade secret, it shall be determined based on the reasonable licensing fees.**
 - (3) Where a trade secret obtained is disclosed, used or allowed to be used by others in violation of the agreement and the requirements of the right holder for keeping trade secrets, the amount of losses may be determined based on the losses of the **right holder's sales profits** due to the infringement.
 - (4) Where it is known perfectly well that a trade secret is obtained by inappropriate means, or disclosed, used, or allowed to be used in violation of the agreement and the right holder's requirements for the protection of trade secrets, it is still obtained, used or disclosed, the amount of losses may be determined based on **the losses of the right holder's sales profits due to the infringement.**
 - (5) Where a trade secret has been known to the public or has been lost due to infringement upon a trade secret, **the amount of losses may be determined based on the commercial value of the trade secret.** The commercial value of a trade secret may be comprehensively determined based on the research and development costs of the trade secret and the benefits from the implementation of the trade secret.
 - (6) The property or other property benefits obtained by disclosing or allowing others to use trade secrets shall be deemed illegal gains.

Interpretation (III) of the Supreme People's Court and the Supreme People's Procuratorate of Several Issues Concerning the Specific Application of Law in the Handling of Criminal Cases Involving Infringements upon Intellectual Property Rights (Sep.12, 2020)

- **Article 4** Any act prescribed in Article 219 of the Criminal Law committed under any of the following circumstances shall be determined as “causing heavy loss to the right holder of the trade secret”:

(1) The amount of loss caused to the right holder of the trade secret or the amount of illegal income obtained from the infringement upon the trade secret is 300,000 yuan or more.

(2) It directly causes the **bankruptcy or closure** of the right holder of the trade secret due to great difficulty in operation.

(3) Any other heavy loss is caused to the right holder of the trade secret.

Where the amount of loss caused to the right holder of the trade secret or the amount of illegal income obtained from the infringement upon the trade secret is 2.5 million yuan or more, it shall be determined as “**causing particularly serious consequences**” as provided for in Article 219 of the Criminal Law.

Article 5 The amount of loss caused by or the amount of illegal income obtained from committing any of the conduct set forth in Article 219 of the Criminal Law may be determined according to the following methods:

- (1) Where any trade secret of the right holder obtained by improper means has not been disclosed, used or allowed to be used by any other person, **the amount of loss may be determined based on the reasonable royalty of the trade secret.**
- (2) Where the trade secret of the right holder obtained by improper means is disclosed, used or allowed to be used by any other person, the amount of loss may be determined based on the loss of sales profit caused by the right holder due to infringement, but the amount of loss shall be determined based on the reasonable royalty of the trade secret if it is lower than the reasonable royalty.
- (3) Where the possessed trade secret is disclosed, used or allowed to be used by any other person in violation of the agreement or the requirements of the right holder for keeping the trade secret confidential, the amount of loss may be determined based on the loss of the sales profit caused by the right holder due to the infringement.
- (4) Where the trade secret is obtained, used or disclosed with clear knowledge that the trade secret is obtained by improper means or in violation of the agreement or the requirements of the right holder on keeping the trade secret confidential, the amount of loss may be determined based on the loss of the sales profit caused by the right holder due to the infringement.
- (5) Where any trade secret has been known by the public or lost due to the infringement upon the trade secret, the amount of loss may be determined based on the commercial value of the trade secret. The commercial value **of the trade secret may be determined comprehensively based on the research and development cost of the trade secret and the proceeds obtained from the exploitation of the trade secret.**
- (6) Property or any other property interest obtained from disclosing or permitting any other person to use the trade secret shall be determined as illegal income.

Article 219 of the Criminal Law (Dec. 26, 2020) :

- Whoever commits any of the following acts of infringing on trade secrets under serious circumstances ~~causing significant losses to a right holder of trade secret~~, shall be sentenced to fixed-term imprisonment of not more than three years ~~or detention (拘役)~~ and a fine, or shall only be fined; if particularly serious circumstances exist, he shall be sentenced to fixed-term imprisonment of not less than three years but not more than ~~seven~~ ten years, and a fine:
 - (1) obtaining a trade secret from the right owner by stealing, ~~luring~~, bribing, fraud, coercion, electronic intrusions or any other improper means;
 - (2) disclosing, using or allowing others to use a trade secret obtained from the right owner by the means mentioned in the preceding paragraph; or
 - (3) disclosing, using, or allowing others to use a trade secret in its possession, in violation of a confidentiality obligation ~~an agreement~~ or the requirements of the right owner for keeping a trade secret confidential.
- Whoever obtains, discloses, uses or allows others to use another's trade secret where he knows ~~or should have known~~ about any act provided in the preceding paragraphs, shall be regarded as an infringement of a trade secret.
- ~~□ For the purpose of this Article, a trade secret refers to technical information and operational information, which is unknown to the public, can bring economic profits to its right holder, is useful and for which the right holder has adopted confidentiality measures.~~
- A right owner for the purpose of this Article refers to the owner of a trade secret or a user of a trade secret as permitted by the owner of the trade secret.

2. Burden of providing evidence

- **Article 32 of the Anti-Unfair Competition Law (2019):**

In the civil trial procedure for infringement of a trade secret, if the right holder of the trade secret provides **prima facie evidence** that it has **taken confidentiality measures** for the claimed trade secret and **reasonably indicates that the trade secret has been infringed upon**, the alleged tortfeasor shall prove that the trade secret claimed by the right holder is **not a trade secret** as described in this Law.

If the right holder of a trade secret provides prima facie evidence to reasonably indicate that the trade secret has been infringed upon, **and** provide any of the following evidence, the alleged tortfeasor shall prove the absence of such infringement:

- (1) **Evidence that the alleged tortfeasor has a channel or an opportunity to access the trade secret and that the information it uses is substantially the same as the trade secret.**
- (2) Evidence that the trade secret has been disclosed or used, or is at risk of disclosure or use, by the alleged tortfeasor.
- (3) Evidence that the trade secret is otherwise infringed upon by the alleged tortfeasor.

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- Who should bear the burden of proving secrecy?
 - Seemly being shifted to the defendant.
 - The China-US Phase One Agreement
 - Uncertainty:
 - The judicial interpretation avoids answering this hard question.
 - US-alike “Prima facie standard” should govern?

- Who shall bear the burden of proving misappropriation?

Article 32

“If the right holder of a trade secret provides prima facie evidence to reasonably indicate that the trade secret has been infringed upon, **and** provide any of the following evidence, the alleged tortfeasor shall prove the absence of such infringement:

Evidence that the alleged tortfeasor has a channel or an opportunity to access the trade secret and that the information it uses is substantially the same as the trade secret.

...

- Uncertainty:

- “Access +similarity” make a prima facie claim?
- The judicial interpretation avoids answering it again.

Economic and Trade Agreement between the Government of the United States of America and the Government of the People's Republic of China

Article 1.5: Burden-Shifting in a Civil Proceeding

1. The Parties shall provide that **the burden of production of evidence or burden of proof, as appropriate**, shifts to the accused party in a civil judicial proceeding for trade secret misappropriation where the holder of a trade secret has produced prima facie evidence, including circumstantial evidence, of a reasonable indication of trade secret misappropriation by the accused party.

2. China shall provide that:

...

(b) under the circumstance that the right holder provides **preliminary evidence** that **measures were taken to keep the claimed trade secret confidential**, the burden of proof or burden of production of evidence, **as appropriate**, shifts to the accused party to show that a trade secret identified by a holder is generally known among persons within the circles that normally deal with the kind of information in question or is readily accessible, and therefore is **not a trade secret**.

2. China shall provide that:

(a) the burden of proof or burden of production of evidence, as appropriate, shifts to the accused party to show that **it did not misappropriate a trade secret** once a holder of a trade secret produces:

(i) evidence that the accused party had **access or opportunity to obtain a trade secret** and **the information used by the accused party is materially the same** as that trade secret;

(ii) evidence that a trade secret has been or risks being disclosed or used by the accused party; or

(iii) other evidence that its trade secret(s) were misappropriated by the accused party; and

3. The United States affirms that existing U.S. measures afford treatment **equivalent to that provided for in this Article.**

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- Under the UTSA and most states' case law, a prima facie claim for misappropriation of trade secrets requires the plaintiff to demonstrate:
 - (1) the plaintiff owned a trade secret,
 - (2) The defendant acquired, disclosed, or used the plaintiff's trade secret through improper means, and
 - (3) The defendant's actions damaged the plaintiff.

 - Moore v. Kulicke Soffa Industries Inc.
 - 318 F. 3d 561 (3rd Cir. 2003)
 - “At the outset of a trial, the plaintiff has both the burden of production and the burden of persuasion for each element of the prima facie case.”

It is clear under the US law:

The burden of proof could not be shifted.

The burden of production of evidence could switch.

3. Damages: Punitive & Statutory

Article 17 of the Unfair Competition Law (2019):

A business causing any damage to another person in violation of this Law shall assume civil liability according to the law.

A business whose lawful rights and interests are damaged by any act of unfair competition may institute an action in a people's court.

The amount of compensation for the damage caused to a business by any act of unfair competition shall be determined as per the actual loss of the business incurred for the infringement or if it is difficult to calculate the actual loss, as per the benefits acquired by the tortfeasor from the infringement. If a business infringes upon a trade secret in bad faith with serious circumstances, the amount of compensation may be determined to be more than one time but not more than five times the amount determined by the aforesaid method. The amount of compensation shall also include reasonable disbursements made by the business to prevent the infringement.

Where a business violates Article 6 or **Article 9** of this Law, and it is difficult to determine the actual loss suffered by the right holder due to the infringement or the benefits acquired by the tortfeasor from the infringement, a people's court may, based on the circumstances of the infringement, render a judgment to award compensation in the amount of not more than ~~three~~ **five** million yuan to the right holder.

4. Enhanced Administrative Liabilities

- **Article 21 of the Unfair Competition Law (2019)**
 - Where a business or any other natural person, legal person or unincorporated organization infringes upon a trade secret in violation of Article 9 of this Law, the supervisory inspection department shall order the violator to cease the illegal act, shall confiscate any illegal income, and impose a fine of not less than 100,000 yuan nor more than 0.5 1 million yuan, or, if the circumstances are serious, a fine of not less than 500,000 yuan nor more than 3 5 million yuan.

5. Legal Representatives' Liabilities

- **Jiaxing Zhonghua Chemical Co., Ltd. et al v. Wang Long Group., et al**
 - (2020) SPC Zhi Min Zhong 1667

 - The SPC IP Court's decision on Feb. 19, 2021;
 - Relating to a manufacturing method of vanillin, a food flavoring;
 - Compensatory damages: 159 million RMB (~\$24.5 million USD) ;
 - Famous for its largest ever award of damages in trade secret cases in China.

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- The plaintiffs developed a new method for producing vanillin, and protected it as a trade secret. Before the trade secret theft, Zhonghua was the world's largest vanillin manufacturer, occupying approximately 60% of the global vanillin market.
 - In 2010, Fu Xianggen, the former employee of Zhonghua disclosed the trade secret to the supervisor of Wanglong Group and Ningbo Wanglong Technology Co., Ltd..
 - Since June 2011, Wanglong began to produce vanillin, becoming the third largest vanillin manufacturer in the world within a short period of time.
 - As a result, the global vanillin market share of Zhonghua fell from 60% to 50%.

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- WANG Guojun's Role (chairman of the board of directors) in this case:
 - In this case, Wang Long Group is established mainly for manufacturing vanillin.
 - Wang Guojun, as the legal representative of Wang Long Group, knowingly lured the plaintiffs' employee to disclose the trade secrets.
 - Wang Guojun received the USB disc containing the trade secrets in person.
 - Wang Guojun actively participated the companies' infringing activities.

- **Legal Representative's Joint and Several Liability:**

- If a corporation is especially established by its legal representative or the person in charge for the purpose of engaging in infringing activities, its operation is mainly to commit infringement, and the legal representative actively participates in the infringing activities, the infringing act not only embodies the will of the legal person but also the will of its legal representative.
- The legal person has in fact become a tool of infringement for its legal representative.
- Under this circumstance, the legal representative can be viewed as having jointly committed the tort with the corporation, and shall bear corresponding legal liabilities in accordance with the law.

PMC, Inc. v. Kadisha, 78 Cal. App. 4th 1380-81 (2000)

- The legal fiction of the corporation as an independent entity was never intended to insulate officers and directors from liability for their own tortious conduct. (Frances T., supra, 42 Cal.3d at pp. 507-508...) The Supreme Court has held: "The legal fiction of the corporation as an independent entity and the special benefit of limited liability permitted thereby is intended to insulate stockholders from personal liability for corporate acts and to insulate officers from liability for corporate contracts; ..." (Frances T., supra, 42 Cal.3d at pp. 507-508.) **A corporate officer or director, like any other person, owes a duty to refrain from injuring others.**
- If a corporate officer or director were not liable for his or her own tortious conduct, he or she "could inflict injuries upon others and then escape liability behind the shield of his or her representative character, even though the corporation might be insolvent or irresponsible." (Frances T., supra, 42 Cal.3d at p. 505.)

6. Draft Administrative Rules

- Draft Rules for Trade Secret Protection (2020)
- Published by the Administrations for Market Regulation on Sept.4 , 2020.
- To replace the old *Several Provisions on Prohibiting Infringements on Trade Secrets* (Issued in 1995, Amended in 1998 by the State Administration of Industry and Commerce) .
- This Draft Rules might pave the way for enacting a specific statute on trade secrets.

■ Article 5 【Trade Secrets】

- The term “trade secret(s)” used in the Rules refers to technical, operational or other commercial information unknown to the public and is of commercial values for which the right holder has taken corresponding confidentiality measures.
- The term “technical information” used in the Rules refers to technical plans obtained through utilizing knowledge of science and technology, information and experience. Technical information includes but is not limited to designs, programs, formulas, product ingredients, production processes, production methods, records of R&D, lab data, technical know-how, technical drawings, coding styles, source codes of computer software and relevant documents and other information.
- The term “business information” used in the Rules refers to all kinds of information related to the business activities of its respective right holders, including but not limited to, management know-how, customer lists, employee information, information about supply of goods, strategies for production and sales, financial data, inventory data, strategic planning, procurement prices, profit models, pre-tender estimates and contents in bidding documents, etc.
- The term “**commercial information**” used in the Rules refers to **any type or form of information** related to commercial activities, including but not limited to technical information and business information.

■ Article 9 【Right Holders】

- The term “right holders” used in the Rules refers to a natural person, a legal person or an unincorporated organization who owns or has the right to use a trade secret according to law.

■ Article 10 【Ownership】

- A trade secret worked out or developed by a natural person for the purpose of completing the work tasks of a legal person or an unincorporated organization shall belong to the legal person or the unincorporated organization. However, if the parties involved agree otherwise, such agreement shall prevail. A trade secret worked out or developed by a natural person outside the work tasks of a legal person or an unincorporated organization shall belong to the natural person. However, if a trade secret is obtained using **the material and technical conditions or experience of a legal person or an unincorporated organization**, the legal person or unincorporated organization shall have the right to use such trade secret within the scope of its business after paying reasonable remuneration.
- The ownership of a trade secret worked out or developed by the entrusted party shall be agreed by the principal and the entrusted party through a contract. If such agreement is not made or is not clear, the trade secret belong to the entrusted party. However, the principle shall have the right to use such trade secret within the scope of its business.
- If the parties involved have reached an agreement on the ownership of a trade secret jointly researched or developed by two or more persons, such agreement shall prevail; In the absence of such agreement, it shall be jointly owned by the collaborators involved. If a trade secret is jointly owned by the collaborators involved and there is no agreement on the use or disposal of such trade secret, the consent of all the co-owners shall be obtained. Each co-owner shall not refuse to consent the use or disposal of such trade secret without justifiable reasons.

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- Article 18 [A consumer list]
 - Article 19 [Exceptions to trade secret infringement]
 - Chapter IV Investigation and Punishment against the Suspected Trade Secret Infringement
 - Chapter V Legal Liabilities

 - Might need a chapter on licensing.