

# New Judicial Interpretation in China Strengthens Protection of Trade Secrets

China's Supreme People's Court recently issued a judicial interpretation regarding the adjudication of civil suits for trade secret theft (the **Judicial Interpretation**). Effective September 12, 2020, this Interpretation adds another dimension of considerations for private rights-holders seeking to enforce trade secrets in mainland China. Key takeaways include the following:

## Clarification of the Scope of Trade Secrets

Parties in China turn to the Anti-Unfair Competition Law (most recently amended in April 2019) (the **AUCL**) to protect trade secrets. To qualify as a trade secret under the AUCL, information must satisfy four elements, which will be familiar to those who have an understanding of trade secret laws in other jurisdictions: (i) it must be unknown to the public; (ii) it must have business value; (iii) its proprietor must have taken measures to maintain secrecy; and (iv) it is business information, such as information relating to technology or business operations. Historically, what constitutes "business information" has been a contentious issue due to the lack of a clear definition.

The *Judicial Interpretation* provides clearer guidance and lists in detail what operational or technical information comprises, specifically:

- Technical information can include structures, raw materials, components, formulas, materials, samples, patterns, propagation materials of new plant varieties, techniques, methods or steps, algorithms, data, computer programs, and relevant documents in connection with such technologies.
- Operational information can include information regarding business ideas, management, sales, financial

affairs, plans, samples, bidding materials, customer information, and business activities data.

Whether and to what extent “customer information” qualifies as a trade secret is a commonly disputed legal point. According to the Judicial Interpretation, the name, address, contact details and customary practices of customers, as well as information on their transactions, can constitute potential trade secrets, with two exceptions. First, merely having a long-term business relationship with a specific customer does not automatically make such customer information a “trade secret.” Second, if a former employee can demonstrate that the customer transacts with the employee’s new employer as a result of personal trust placed in the employee by the customer, then the court will not deem the employee as having improperly obtained a trade secret (the customer information) from the previous employer.

#### Guidance to Companies on Appropriate Measures for Preserving Secrecy

The *Judicial Interpretation* also provides helpful guidance as to what precautions can be taken by companies to safeguard their trade secrets, one of the four key elements for establishing trade secret misappropriation. In other jurisdictions, such considerations are typically referred to as “reasonable measures.” In China, so long as the employer has at least one of the following measures in place—of course, the more the better—an alleged infringer will have difficulty prevailing on the “failure to keep secret” affirmative defense:

1. Have signed a confidentiality agreement or confidentiality provision;
2. Use methods such as corporate articles of association, training, rules and protocols, written notices, etc., to require confidentiality from employees, former employees, suppliers, clients, and visitors, etc., who may have access to or the ability to obtain the company’s trade secrets;
3. Limit access by visitors to classified factory buildings, workshops or other production sites, or conduct segregated management;
4. Differentiate and manage trade secrets by such means as marking, classification, isolation, encryption, sealing for safekeeping and otherwise limiting access;

5. Prohibit or restrict the use of—or the storing or reproducing by—computers, electronics, network equipment, storage equipment, and software, etc., that risk being conduits for improper access of trade secrets; and
6. Require departing employees to register, return, delete or destroy the trade secrets that they accessed or acquired, and to extend their confidentiality obligations beyond termination.

Importantly, the above measures must have been prophylactically implemented prior to the alleged misdeed, rather than remedial. Hence, companies doing business in mainland China are encouraged to adopt one or more of the above measures and follow the guidelines as soon as practicable to better prevent theft and, should it occur anyway, better position themselves to enforce their rights.

### Evidentiary Considerations

As a result of recent amendments to the AUCL, Chinese courts now employ a rebuttable presumption of a violation of trade secret rights in situations in which the corporate plaintiff provides prima facie evidence that the alleged infringer had “an opportunity to obtain” the trade secret, and the relevant business information is “substantially similar” to the plaintiff’s trade secret. According to the *Judicial Interpretation*, the court considers the following factors in evaluating whether a former employee has had an “opportunity to obtain” trade secrets:

1. title, duties, and authority of the employee in question;
2. duties performed by the employee or tasks assigned;
3. the employee’s participation in the trade secret-related business activities;
4. whether the employee keeps, uses, stores, reproduces, controls or otherwise accesses or obtains the trade secret; and
5. other factors that need to be considered.


The *Judicial Interpretation* also provides that once the company can show preliminary evidence regarding the alleged infringer’s illicit gains, it can ask the court to order the defendant to produce its books and records of all business activities that allegedly involve trade secret infringement. And if the infringer refuses to produce these records



without justification, the court may determine the damages based solely on the evidence presented by the plaintiff.

### Practical Considerations

While the *Judicial Interpretation* provides much clarification on the scope of trade secrets, measures for privacy and evidentiary considerations, there are still several key takeaways and immediate actions a company can take, based on the vast experience Winston & Strawn and Yuanda has had in handling trade secret cases in China for decades. In our recent cases, we saw a common issue that harms companies, namely the lack of marking documents intended as trade secrets. The lack of marking increases the company's burden of proof, making it more difficult to differentiate trade secret information from normal information. The simple act of marking your documents with "confidential" or "secret" can mitigate trade secret theft risks, decrease the difficulty in proving information is in fact a "trade secret" and ensure that your technical and operational information meets the appropriate standard for secrecy protection under PRC law and the *Judicial Interpretation*.



Additionally, evidentiary considerations on the “opportunity to obtain” evidence is critical, and can be done through technical means and email preservation. However, another evidentiary consideration in our experience that warrants attention is the commercial value of the trade secret. The *Judicial Interpretation* follows the definition of “trade secret” in the PRC Anti-Unfair Competition Law, meaning that there must be a showing that the trade secret possessed commercial value for the company. Moreover, the *Judicial Interpretation* Article 19 states that the court will consider that commercial value in determining compensation for trade secret theft. Finally, with changes to the PRC Criminal Law, companies may consider filing criminal reports should they be able to demonstrate that the “trade secret” theft caused more than RMB 500,000 in damages or could lead to the same amount or more in improper benefits for the culprit. Quantifying the value of a “trade secret” is difficult, so from our experience, it is crucial for companies to document or have records of possible value ascribed to specific “trade secret” information such as sales records, profit records, media articles or other documentation that shows the “trade secret” brought certain value to the company. Having such documentation will once again ease the burden on the company in proving a trade secret case should the need arise.

This Interpretation is an example of yet another step forward as Chinese courts provide greater remedies, clarity and means to enforce trade secret rights in China. Winston & Strawn LLP and Yuanda work closely with clients in China, and multinationals with trade secret concerns in China, to both protect against trade secret theft and to enforce trade secret rights when they have been violated through Chinese, U.S. or cross-jurisdictional avenues.

Contact the authors to learn more about trade secrets protection in China.

