

## Protecting Trade Secrets, Confidential Information and NDAs in China

Maintaining Confidential Information, Preventing Infringement, and Enforcing Trade Secret Rights

TUESDAY, MAY 2, 2017

1pm Eastern | 12pm Central | 11am Mountain | 10am Pacific

Today's faculty features:

Helen Tang, Esq., Herbert Smith Freehills, Shanghai, China

Richard K. Wagner, Partner, Steptoe & Johnson, Beijing and Chicago

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# PROTECTING TRADE SECRETS IN CHINA-RELATED BUSINESS

May 2, 2017

Helen Tang, Herbert Smith Freehills

Richard Wagner, Steptoe & Johnson



HERBERT  
SMITH  
FREEHILLS

**Steptoe**  
STEPTOE & JOHNSON LLP

# TRADE SECRET PROTECTION UNDER CHINESE LAW

- Various statutory provisions, for example:
  - Criminal Law
  - Unfair Competition Law
  - Contract Law
  - Labor Contract Law
- Administrative Regulations and Ministry Rules
- Judicial interpretations
- Cases playing a greater role in enforcement
  - Guiding Cases
  - Supreme Court Cases
  - Various case collections
- Trade secret law is part of an emerging “information law” in China (state secrets, sovereign information, data privacy, trade secrets, cyber, etc.), protecting the flow of information in our information age.
- But technically a subspecies of intellectual property law



# TRADE SECRET DEFINITION & PROHIBITED INFRINGING ACTIVITIES

- **Definition (Art. 219 Criminal Law / Art. 10 Anti-unfair Competition Law):**
  - “Technical information and operational information that are unknown to the public, can bring economic benefits to the right owner, are functional, and about which the right owner has adopted secret-keeping measures”
  - SASAC Regulations (applicable to PRC state-owned enterprises) suggests broader protection for certain types of information held by an SOE
  
- **Prohibited Infringing Activities:**
  - Obtain others’ trade secrets via improper means such as theft, lure and intimidation
  - Disclose, use or allow others to use trade secrets obtained via such improper means
  - In violation of agreement or confidentiality requirement, disclose, use or allow others to use trade secret that one knows
  - A third party’s obtaining, using or disclosing another’s trade secrets while he/she knows or should know the aforementioned unlawful conducts



# ENFORCEMENT OF TRADE SECRETS IN CHINA

- Tracks the “Three Litigations” (三种诉讼) concept in Chinese law:
  - Criminal
  - Administrative
  - Civil



# SPECIAL FEATURES OF PRC LITIGATION

- PRC Court System (Post 1949 to Present)  
Litigation – Unified court system
- Both very formal and very informal
- Control, supervision, and performance reviews
- Virtually no discovery, but some indications that may be changing
- Limited motion practice
- Seemingly very simplistic
- Exit restrictions may be employed
- Non transparent
- No juries, collegial panel instead
- Ex parte communication
- Heavy workload
- Rhythms of the Courts
- Navigating civil litigation



# PHASES OF CHINESE LITIGATION

- Collecting evidence
- Choosing your cause of action
- Docketing
- Paying the filing fee
- Service of process
- Objections to jurisdiction
- Evidence exchange
- Mediation
- Opening of trial
- Decision
- Appeal
- Trial Supervision (Retrial)
- Enforcement



## INCREASING ROLE OF CASES IN PRC LITIGATION

- Supreme People's Court "Cases"
  - Cases in the Form of Judicial Interpretations (司法解释)
  - Guiding/Directed Cases (中国指导性案例)
    - Model Cases (典型案例)
    - Selected Judicial Judgments and Rulings (裁判文书)
    - Cases Published in the SPC Gazette (案例)



# ENFORCEMENT OF TRADE SECRETS IN COURT

- Prima Facie Elements:
  - Definition of trade secrets
  - Infringing activities
  - Damages
  
- Burden of Proof
  - Can be very difficult to meet for foreign party
  - Generally no discovery in Chinese litigation
    - But situation may be changing
      - Evidence collection orders?
  - Self-collection and electronic evidence?



## ENFORCEMENT OF TRADE SECRETS IN COURT

- Availability of preliminary injunctive relief?
  - Now available in trade secret cases



# PRELIMINARY INJUNCTIVE RELIEF

- Used to only be allowed in the trademark, patent, and copyright context
- **Now theoretically available for all sorts of business tort cases, including trade secret cases**
- Article 100 of the 2012 amendments to the CPL (Old Article 92)

*In the cases where the execution of a judgment may become impossible or difficult or otherwise harmful to the parties concerned because of the acts of one party or for other reasons, the people's **court may**, at the application of the other party, make a ruling to preserve the assets of the other party or **order the other party to perform certain acts or to prohibit the other party from committing certain acts** (责令其作出一定行为或者禁止其作出一定行为); where no application is filed by either party, the people's court may also rule to take preservation measures when it deems necessary.*

*In adopting property preservation measures, the people's court may order the applicant to provide security; if the applicant fails to provide security, his application shall be rejected.*

*In case of emergency, the people's court shall make a ruling within 48 hours after receiving the application. Where the people's court rules to take preservative measures, the ruling shall be enforced immediately.*



# Preliminary Injunction Model Case in Trade Secret Context

## 最高人民法院 发布知识产权司法保护典型案例

案例 1

### 申请人美国礼来公司、礼来（中国）研发有限公司 与被申请人黄孟炜行为保全申请案

#### （一）基本案情

被申请人于2012年5月入职礼来中国公司，双方签订了《保密协议》。2013年1月，被申请人从礼来中国公司的服务器上下载了48个申请人所拥有的文件（申请人宣称其中21个为其核心机密商业文件），并将上述文件私自存储至被申请人所拥有的设备中。经交涉，被申请人签署同意函，承认下载了33个属于公司的保密文件，并承诺允许申请人指定的人员检查和删除上述文件。此后，申请人曾数次派员联系被申请人，但被申请人拒绝履行同意函约定的事项。申请人于2013年2月27日致信被申请人宣布解除双方劳动关系。2013年7月，美国礼来公司、礼来中国公司以黄孟炜侵害技术秘密为由诉至上海市第一中级人民法院，同时提出行为保全的申请，请求法院责令被申请人黄孟炜不得披露、使用或者允许他人使用从申请人处盗取的21个商业秘密文件。为此，申请人向法院提供了涉案21个商业秘密文件的名称及内容、承诺书等证据材料，并就上述申请提供了担保金。

#### （二）裁判结果

上海市第一中级人民法院审查认为，申请人提交的证据能够初步证明被申请人获取并掌握了申请人的商业秘密文件，由于被申请人未履行允许检查和删除上述文件的承诺，致使申请人所主张的商业秘密存在被披露、使用或者外泄的危险，可能对申请人造成无法弥补的损害，符合行为保全的条件。2013年7月31日，该院作出民事裁定，禁止被申请人黄孟炜披露、使用或允许他人使用申请人美国礼来公司、礼来中国公司主张作为商业秘密保护的21个文件。

#### （三）典型意义

修改后的民事诉讼法增加规定了行为保全制度，将其适用范围扩大到全部民事案件领域。行为保全措施是权利人在紧急情况下保护其权利的有效手段。人民法院根据当事人申请积极合理采取知识产权保全措施，可以充分利用保全制度的时效性，提高知识产权司法救济的及时性、便利性和有效性，对于加大知识产权保护力度具有重要促进意义。本案系我国首例依据修改后的民事诉讼法在商业秘密侵权诉讼中适用行为保全措施的案件，凸显了人民法院顺应社会需求，依法加强知识产权司法保护的实践努力。

- *Eli Lilly and Company and Lilly (China) Co. Ltd. v. Mengwei Huang*, the No.1 case of Supreme People's Court Publication of Typical Case of Intellectual Judicial Protection, 2014.
  - Case concerned company's application for a preliminary injunction against a former employee over trade secrets.
    - Defendant downloaded 48 documents belonging to the applicant (21 of which the applicant claimed to be the core confidential business documents) and stored them privately.
    - After negotiations between the parties, the defendant signed a letter of consent, acknowledged that it had downloaded 33 confidential documents belonging to the applicant, and promised to allow the applicant to check and to remove the documents. Later, however, the defendant refused to perform its promises under the consent.
    - Applicant subsequently filed an action against the defendant based on trade secret infringement together with an application for constricting the behavior (行为保全) of the defendant--asking the Court to prohibit the defendant from disclosing, using or letting others use the 21 core confidential business documents.



# Preliminary Injunction Model Case (cont'd)

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## ■ Preliminary injunction granted

Court found the evidence submitted 1) could prove that the defendant had obtained and controlled applicant's trade secrets and that 2) since the defendant refused to perform its promises of allowing the applicant to check and to remove the documents, a danger of disclosure and leakage of applicant's trade secrets existed and 3) such would cause irreparable damages to the applicant.

## ■ Significance

Case was the first trade secret case applying the preliminary injunction under the revised CPL (2012).



# ALTERNATIVE PLEADING

- Generally, no pleading in the alternative in China
- But consider adding an Article 2 (general unfair competition count) in trade secret cases



# SOME SCENARIOS WHERE TRADE SECRET ISSUES ARISE IN CHINA-RELATED MATTERS

1. **Rogue business partners**
2. **Employer-employee**
3. **Cross-border**
4. **Economic espionage**
5. **Transactional considerations**



# 1. ROGUE BUSINESS PARTNERS

- **Chinese seller sells China-based business to US buyer**
- **After transaction closes, US buyer finds that customer lists and other trade secrets have been copied by “inside” people connected to seller**
- **US buyer later determines that shortly after selling the company, Chinese seller had set up a clone of the company it had just sold, seeking to take all the value that was to have been part of the transaction**
- **US buyer brings post-indemnification action in the US against the sellers**
- **And brings China-based action against the clone company in a Chinese court**
  - **Article 10 – trade secret infringement**
  - **Article 2 – unfair competition**
- **After four years of litigation, succeeds on the Article 2 count**
  - **Article 2 emerging as a potentially powerful weapon in trade secret cases**



## 2. EMPLOYER-EMPLOYEE

- **Confidentiality Agreement:**

- Employees who violate such agreement are liable for the damages incurred by employers (Art. 90 of the Labor Contract Law)

- **Non-Compete Agreement:**

- Restricted to senior management, senior technical personnel and other personnel that are subject to confidentiality obligations. (Art. 24)
- Employer may stipulate to make monthly economic compensation to employees for the duration of non-compete obligation. (Art. 23)
- Employees who violate the non-compete agreement should pay the stipulated penalty to the employer (Art. 23); liable for any damages to employers (Art. 90)
- Duration: not exceeding two years for working for others' or own company that is a competitor and manufactures or sells similar products or conducts similar business. (Art. 24)



## 2. EMPLOYER-EMPLOYEE (cont'd)

### ■ Enforcement

- Arbitration at labor dispute arbitration commission
  - ❖ Under the Labor Dispute Mediation and Arbitration Law, jurisdiction of the arbitration commission with respect to trade secret disputes is potentially limited to “dispute arising from...performance of a labor contract, ...and...from economic compensation...”
  - ❖ Arbitration award may be appealed to court
  - ❖ Challenge: A very employee friendly process
  - ❖ Strategically, the action could be used to exert additional pressure to the employee(s) in question



### 3. CROSS-BORDER

#### ❑ US laws on Trade Secrets Protection:

- federal level: Defend Trade Secrets Act, 18 U.S.C. § 1836 (2016).
- state level: Uniform Trade Secrets Act as adopted by states

#### ❑ Some Recent Examples of China-related US Trade Secret Cases:

- *RF Micro Devices, Inc. v. Xiang*, 2016 WL 3892416 (M.D.N.C. July 14, 2016)
- *Global Material Technologies, Inc. v. Dazheng Metal Fibre Co. Ltd.*, 2016 WL 4765689 (N.D. Ill Sep. 13, 2016)
- *Lakoda, Inc. v. OMH Proscreen USA, Inc.*, 2016 WL 4727421 (Cal. Ct. App. Sep. 8, 2016)
- *Nucap Indus., Inc. v. Robert Bosch LLC*, 2017 WL 1197104 (N.D. Ill Mar. 31, 2017)



# CROSS-BORDER (cont'd)

- UK licensor to a Chinese licensee
- When the license expired, Chinese licensee developed their “own technology”
- Seemingly built on the licensor’s technology
- Chinese licensee argued that it was their own development built on “common industry knowledge”
- Arbitration in Singapore
- Getting the right tribunal
- Finding the suitable expert witness



## 4. ALLEGATIONS OF ECONOMIC ESPIONAGE

- ❑ China: Criminal Law does not expressly provide a crime of economic espionage. However, relevant crimes that could be used for prosecution include:
  - Crime of stealing, secretly gathering, purchasing, or illegally providing state secrets or intelligence to an organization, institution, or person outside the country
  - Crimes of illegally obtaining state secret and of intentionally or negligently revealing state secret
  - Crime of infringement of trade secrets
- ❑ US: Economic Espionage Act, 18 U.S.C. § 1831 *et seq.*
- ❑ Recent years saw some high profile US criminal cases concerning Chinese citizens
  - Ex-IBM Chinese employee indicted in NY for theft of trade secret and economic espionage in 2015
  - Five former PLA officers charged with economic espionage in 2014



## 5. TRANSACTIONAL CONSIDERATIONS

- NDA vs. NNN
  - NDA: restrict contract parties from disclosing trade secrets to others
  - NNN (Non-use, Non-disclosure, Non-circumvention): prevent unauthorized use and disclosure, as well as selling directly to end customers bypassing the US contract party.
- Make sure to sign confidentiality agreement prior to providing any potential trade secrets information and signing business contracts
- Make sure that all entities that would have access to your trade secrets on the chain of the transaction are subject to confidentiality requirement
  - In the context of manufacturing contract, subcontractors, suppliers and etc



# DRAFTING AN NDA

- ❖ Clearly mark or provide clear mechanisms for identifying and marking trade secrets
- ❖ Provide requirements for measures to be taken by Chinese contract parties to safeguard trade secrets, such as, mandating confidentiality agreement with employees and etc.
- ❖ Enforceability of a confidentiality agreement:
  - Language: Chinese-language version as the official version
  - Contract Damages
  - Forum: PRC or US; Court or Arbitration
    - speed
    - interim measures
    - enforceability of judgment/award
    - cross-border data transfer
  - Governing law



## EMERGING PRC INFORMATION LAW LEGAL REGIME

- **States Secrets**
  - Expressly marked classified
  - Unmarked, but know or should know
- **Sovereign Information**
  - Audit work papers, banking information, business archives
- **Personal Data Privacy**
- **Trade/Business Secrets**
- **Cyber Security and encryption**



# NEW CYBER SECURITY LAW

- Passed on November 7, 2016 and will take effect on June 1, 2017
  
- Highlights of Contents:
  - Legislative purposes include securing network safety, safeguarding cyberspace sovereignty, national security, social public interests, interests of citizens, legal persons and etc.
  - imposes specific cybersecurity obligations on network operators, as well as on providers of network products and services.
  - Imposes certain data protection obligations with respect to personal information on network operators.
  - Requires enhanced protection of Critical Information Infrastructure (CII)
  - Provides certain penalties of freezing of assets and other sanctions that would apply to foreign organizations and individuals that attack CII in China



# NEW CYBER SECURITY LAW (cont'd)

- Highlights of Contents:
  - Cross-Border Transfer of Data:
    - requires “important data” collected and generated by operators of CII to be stored in China. Only when it is “indeed necessary” for “business reasons” to provide abroad, security assessment must be conducted to determine whether the data could be transferred abroad.
    - “important data”, “indeed necessary” and “business reasons” are not defined while CII is defined broadly
  - \* On April 11, 2017, the Cyberspace Administration of China published a draft of Measures for the Security Assessment of Outbound Transmission of Personal Information and Critical Data for public comments.



# Thank You

Helen Tang

Herbert Smith Freehills

[helen.tang@hsf.com](mailto:helen.tang@hsf.com)

Richard Wagner

Partner, Steptoe & Johnson

[rwagner@steptoe.com](mailto:rwagner@steptoe.com)



HERBERT  
SMITH  
FREEHILLS