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China Business Update: China's Evolving Legal Landscape for Trade Secret Protection

2013 will be remembered as a watershed year for trade secret protection in China.

In January 2013, China's Amended Civil Procedure Law came into force, giving courts discretion to issue interlocutory injunctions (1) whenever there is a risk that a party's conduct will make judgment more difficult to enforce or (2) to prevent the petitioner from suffering "irreparable damage." Previously, courts in China would more often than not claim that, prior to commencement of formal proceedings, they had no authority to issue injunctions to stop infringement of trade secrets.

Within months, multinationals with trade secrets and operations in China began using the new civil procedure rules to obtain preliminary injunctions. On August 2, 2013, Eli Lilly & Co. and its Chinese subsidiary were granted an interlocutory injunction over a former employee who had downloaded confidential documents and then resigned. Eli Lilly was able to show that (1) the documents contained trade secrets, (2) the employee had wrongfully downloaded them, and (3) subsequent disclosure or use of the documents would result in significant losses for Eli Lilly.

Courts in China now appear to be accepting more applications for preliminary evidence preservation orders and other interlocutory injunctions, and these are helping in the fight against trade secret infringement.

New inter-agency cooperation rules, introduced by China's State Council in 2012 (and their impact on evidence-gathering in China), was another positive development in 2013. In China, IP rights holders must overcome enormous evidentiary thresholds to prevail in trade secret cases, and it is both difficult and expensive to gather evidence that is admissible. The 2012 rules are primarily aimed at improving coordination in evidence-gathering between China's

administrative enforcement agencies (especially the AICs and the police) in IP enforcement matters. Since this evidence is often made available to IP rights holders when administrative and/or civil remedies are sought, the 2012 rules could be a huge benefit to trade secret holders.

Related Data Privacy Considerations

Meanwhile, multinationals need to be aware of China's new personal data privacy laws and the effect these could have on maintaining security within the workplace. China does not yet have comprehensive national legislation regulating data privacy. However, some provinces, including Jiangsu Province, have promulgated mandatory regulations that restrict collection and use of employee personal data. Under some provincial regulations, monitoring of employee communications or Internet use is restricted or prohibited.

There were actually several employment law cases in 2013 that illustrate these data privacy hurdles. In the most widely cited case, *Guangdong Taike Electronic Co.Ltdl v. Wang Xiaowei*, a court in Guangdong Province held that an employee's data privacy rights trump the employer's right to protect itself from theft of proprietary information and other wrongdoing. The former employee signed an employment contract and company code of ethics that included a well-drafted non-disclosure undertaking and an acknowledgement that all computers and Internet access were the property of Taike. Taike also reserved the right to monitor all employee communications. The employee was dismissed for using Taike's email system to send "business secrets" to another company and for sending pornographic images to colleagues. At first instance, the court ruled that the employee had been wrongfully dismissed: Taike's monitoring of the employee's emails violated his data privacy rights so all evidence of his wrongdoing was inadmissible.

This decision was upheld on appeal, but the appeal court did not address the privacy issue and ruled only on the wrongful dismissal, so it is limited to its unique facts. Although the decision is unlikely to influence subsequent cases, it serves as a reminder that multinationals need to ensure that their IP security measures are properly aligned with HR policies and applicable PRC laws.

Summary & Recommendations

The new civil procedure rules make it easier to obtain injunctive relief in trade secret cases, and the prospect of China's investigative authorities helping with evidence-gathering is certainly welcome.

However, multinationals still face enormous difficulties in enforcing their trade secrets in China, either because the information in question does not meet China's statutory definition for trade secrets or because the company cannot prove that the alleged infringer ever had access to the information. Given these enforcement challenges, it makes sense for multinationals to focus on proactively protecting their trade secrets not only in China but across supplier networks globally.

It is critical for multinationals doing business in China to have a comprehensive trade secret management program in place. Ideally, the program should adhere to international best practices, but at a minimum the program should deal with:

- The development of processes for first identifying all business and technical information that has the characteristics of trade secrets, and then documenting and protecting this information to ensure that it will meet the definition of trade secrets under PRC laws.
- The formulation and implementation of appropriate trade secret policies and procedures, including detailed security measures, which dovetail with HR policies and practices involving third parties (e.g., vendors, agents and joint venture partners).
- The training of all employees about company trade secret policies and procedures, and the laws the company will invoke to protect proprietary information, to ensure that employees understand their rights and obligations as well as the company's.
- The signing of robust confidentiality agreements and restrictive covenants with everyone (employees, contractors, consultants, partners, etc.) who may come into contact with trade secrets to ensure they understand that trade secrets are being maintained in confidence.
- The formulation and execution of effective enforcement protocols in case of known leaks or cases of theft.

Trade secret management programs need to be developed within the context of the company's global patenting program and IP management policies generally, as some know-how may be better protected under a patent.

Documentation is critical for two reasons. First, companies alleging misappropriation of trade secrets in China must show that they have taken reasonable efforts to protect the information as a trade secret in order to claim protection. Second, they must be able to prove that misappropriation has actually taken place. Proper documentation can overcome both of these challenges. In these key respects, China's trade secret regime mirrors U.S. trade secret laws.

Proactively building good relationships with government agencies like the AIC and the police (both play a key role in trade secret enforcement) should be a part of every company's enforcement protocol. Building these relationships is valuable because local enforcement officials must be persuaded to allocate limited resources to investigate cases and because experience dictates that officials will usually be more forthcoming in sharing evidence gathered during investigations if a relationship has been formed before their help is needed.

The risk of trade secret infringement will grow as competition within China intensifies. How well prepared is your company to deal with this risk? The best time to implement a trade secret management program is prior to entry into the market. For multinationals that are already in China, the "next best time" to do so, or to update an existing program, is now.

Additional Information

If you require advice about trade secret protection in China, please contact your relationship attorney at Benesch, or an attorney in our Innovations, Information Technology & Intellectual Property (3iP) Practice Group or China Practice Group.

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