

Plight and Route Design of Trade Secret Judicial Protection *

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I. Overview of disputes over trade secret infringement heard by Beijing Courts¹

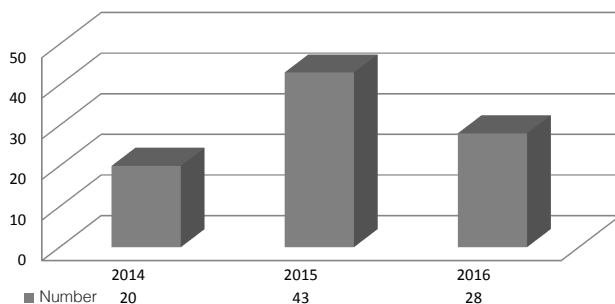


Fig. I Disputes over trade secret infringement accepted at first instance from 2014 to 2016

Fig. I shows the data regarding the number of disputes over trade secret infringement accepted at first instance by Beijing courts from 2014 to 2016, which demonstrates a steady curve in terms of annual number. The cases accepted in 2015 got a 115% increase and those in 2016 got a 40% increase as compared with the cases accepted in 2014; however, the absolute number thereof still accounts for a small portion of all cases involving disputes over unfair competition each year. Meanwhile, by analysing the details of the accepted cases, it is found that more than 70% of the disputes over trade secret infringement are related to business information, and a plaintiff's resigned employee or serving employee may often be sued as a joint defendant, which accords with the characteristic of inaccessibility of a trade secret. A plaintiff's disclosure of a trade secret is, in most cases, closely linked with staff turnover. In addition, in comparison with business information, it is more difficult to access core technical information of an enterprise, and the use thereof, if obtained, is prone to be perceived by the plaintiff. As a result, a defendant tends to access, use or

even disclose business information of a plaintiff by unfair means.

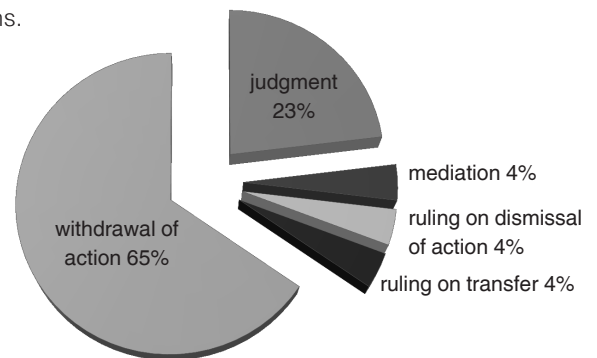


Fig. II Statistics on manners to conclude trade secret cases at the first instance in 2016

Fig. II illustrates the statistics on manners to conclude trade secret cases by Beijing courts at the first instance in 2016. There were altogether twenty-six cases of such kind concluded at the first instance in 2016, wherein seventeen cases were concluded because of a plaintiff's withdrawal of action, accounting for 65%; only one case was concluded by way of mediation; and six cases were concluded with judgments, accounting for 23%. Among all the six cases concluded with judgments, there was only one case in which the plaintiff won, making up of 16.7% of the six cases concluded with judgments, and 4% of all the twenty-six cases concluded in 2016.

Statistically speaking, the ratio of disputes over trade secret infringement concluded by way of mediation is lower than that of other intellectual property civil disputes, which indicates that the plaintiff and defendant are not quite willing to accept mediation. There are two reasons leading to such a situation: one is that due to the uncertainty of the results of disputes over trade secret infringement, a defendant is reluctant to admit the illegality of its own act if unfair competition constituted by the defendant's act cannot be determined easily, in such a case that mediation agreement

cannot be reached; the other is that if an act may constitute trade secret infringement, the plaintiff tends to have a high estimate of commercial value of its own trade secret, and be unwilling to lower predetermined damages, which also increases the difficulty of mediation in such cases. Thus, the mediation rate of such cases is dislocated “by nature”.

By looking into the disputes over trade secret infringement in which the plaintiff’s claims are not supported, I found that the failure to achieve a positive outcome for the plaintiff can mainly be attributed to the fact that business information or technical information alleged by the plaintiff does not constitute a trade secret, most of which result from a plaintiff’s confidentiality measures being lacking in necessity, rationality and adaptability. At the same time, it has been determined in some cases that business information alleged by the plaintiff constituted a trade secret, but the plaintiff’s claims did not gain support from the courts because no evidence can prove that the business information was obtained by the defendant by unfair means. Therefore, whether trade secret is constituted and the constitutive elements thereof, namely, the criteria for determining secrecy, value (including practical applicability) and confidentiality and the internal logical relations therebetween, are still the key factors that decide whether the plaintiff’s claims can be supported by courts. Due to limited knowledge of such an issue, the plaintiff may confuse the information in public domain with its commercially valuable information. Eventually, where those information cannot be distinguished from each other, the plaintiff shall take the unfavourable consequences as a result of its failure to adduce evidence.

In summary, the disputes over trade secret infringement heard by Beijing courts are generally characterized by the smaller number of such cases, close link between employees and trade secret infringement, a large proportion of cases associated with business information, and low win rates.

II. Basic rationale of disputes over trade secret infringement

The basic rationale of disputes over trade secret infringement is recapitulated pursuant to relevant provisions of the Anti - unfair Competition Law (ACL). Although the Standing Committee of the National People’s Congress made a revision to the ACL on 4 November, 2017 (briefly known as the 2017 ACL), the revision had no substantive im-

pact on the judging rationale of such cases in terms of literal interpretation.

Article 9 of the 2017 ACL specifies three clauses related to trade secrets, wherein the first paragraph is directed to acts that directly infringe trade secrets, the second paragraph is directed to the third party, namely, an indirect infringer shall be deemed to have infringed the trade secret where the indirect infringer knows or should know the existence of the infringement, and the third paragraph sets forth the specific definition of trade secret. Judging from the style, structure and contents of Article 9 of that law, the basic rationale of cases involving trade secret infringement in judicial trials is made up of the following five steps:

- (1) The plaintiff should clarify the attribute and contents of the trade secret in suit;
- (2) The court makes a finding according to the constitutive elements of the trade secret specified in law;
- (3) Whether the defendant commits an unfair competition act that infringes the plaintiff’s trade secret;
- (4) Whether the defendant raises a defence on legal grounds; and
- (5) What liabilities should the defendant bear, whether it is necessary to order the defendant to cease the infringement, and how to determine the damages.

Generally speaking, the above rationale is internally logical and self-consistent as a whole. A judge shall conduct investigations and then make a decision on a step-by-step basis, and further conclude whether the plaintiff’s claims can be supported.

It shall also be noted that the plaintiff and the defendant needn’t be in a competitive relationship in a dispute over trade secret infringement. Trade secret, though stipulated under the ACL, is different from unfair competition acts, such as counterfeits, false advertising and commercial defamation, and shall be protected as a “right”, so the competitive relationship between the plaintiff and the defendant is not a prerequisite. “Trade secret is a sharable resource, so a user may reap others’ achievements without paying any costs. Trade secret is extremely diffusive. On account of low diffusion costs, everyone can become an information hitchhiker through leakage of secrets and turn into a potential competitor of the original producer.”² This explains why such cases are tried in a way different from other types of unfair competition acts.

III. Plight of trial of disputes over trade secret infringement

In view of the overall analysis of disputes over trade secret infringement heard by Beijing courts, the plight of trial of disputes over trade secret infringement in current judicial practice is mainly embodied in the following eight aspects:

(I) Determination of constitutive elements of trade secret

Article 9.3 of the 2017 ACL reads: for the purposes of this Law, “trade secret” means technical or business information unknown to the public and of a commercial value for which the right holder has taken corresponding confidentiality measures. In comparison with Article 10.3³ of the ACL that came into effect on 1 December, 1993 (briefly known as the 1993 ACL), Article 9.3 combines “economic interests” and “practical applicability” among the constitutive elements of a trade secret into “a commercial value”, which is more concise and precise in language expression. Therefore, the constitutive elements of a trade secret can be summarized as “secrecy”, “value” and “confidentiality” in the light of Article 9 under the 2017 ACL.

From the perspective of international treaties, “Article 39 of The Agreement on Trade-Related Aspects of Intellectual Property Rights (TRIPS) stipulates that natural and legal persons shall have the possibility of preventing information lawfully within their control from being disclosed to, acquired by, or used by others without their consent in a manner contrary to honest commercial practices so long as such information: (a) is secret in the sense that it is not, as a body or in the precise configuration and assembly of its components, generally known among or readily accessible to persons within the circles that normally deal with the kind of information in question; (b) has commercial value because it is secret; and (c) has been subject to reasonable steps under the circumstances, by the person lawfully in control of the information, to keep it secret.”⁴ The current Chinese legal provisions are also in line with the provisions of the TRIPS.

However, in judicial practice, although the constitutive elements of a trade secret are definite and clear, the failure to constitute a trade secret still accounts for the main reason why a plaintiff loses his lawsuit in which his claims are not supported.

In *Beijing BZGY Information Technology Co., Ltd. (BZ-*

*GY Co.) v. Peak Intellicom (Beijing) Technology Co., Ltd. (Intellicom Co.) and Zhou Zhiyuan*⁵, BZGY Co. alleged in the first instance that six pieces of business information constituted trade secrets. However, the first-instance court held that the first piece of business information (the name of Shanghai Oriental Pearl Mobile TV Co., Ltd. (Pearl Co.)), the second piece (the office and warehouse address of the Pearl Co.), the fourth piece (personal information of Zhang Yi) and the sixth piece (the appearance of return module and the identification number of components) alleged by BZGY Co. are all public information, not confidential. Meanwhile, BZGY Co. explained that the return module in suit is encapsulated in the device and becomes visible by unscrewing without destroying the device. Even maintenance staffs have the chance to see the return module. Thus, the return module *per se* is not in privacy. The third piece of business information alleged by BZGY Co. is related to the bank account information of Pearl Co. BZGY Co. has no right to take measures to keep the bank account of Pearl Co. confidential. In addition, the bank account of Pearl Co. is not the business information of BZGY Co. and does not belong to a trade secret of the latter. The fifth piece of business information alleged by BZGY Co. is related to the contract and supplemental agreement concluded between BZGY Co. and Pearl Co., as well as its affiliate, Shanghai Oriental Public Media Co., Ltd., wherein the contract concluded between BZGY Co. and Pearl Co. did not include the obligation of confidentiality, so BZGY Co. failed to take any effective measures to keep the contract clauses confidential. As a result, the first-instance court determined that the six pieces of business information alleged by the plaintiff, BZGY Co., did not constitute trade secrets on account of lack of secrecy, failure to take confidentiality measures, or relevant information being not in the possession of the plaintiff.

Therefore, how to accurately determine a trade secret plays a crucial role in whether the legitimate rights and interests of a right holder can be supported. To be specific, account shall be taken of the following four issues.

1. How to define the burden of proof on “secrecy”

“Secrecy” of a trade secret means that business information or technical information alleged by the plaintiff is not known among or readily accessible to persons within the relevant circles. It includes specific information that is not disclosed before, and permutations of known information units which are not readily accessible. Attention shall be paid to two things: firstly, the so-called “secrecy” is a rela-

tive concept in a certain field, not an absolute concept, and relevant information is only known among particular persons within that field, rather than in a totally “secret” state; and secondly, relevant information cannot be easily discerned, discovered or cracked. For example, if the connections and combinations of components inside a device can be known by dismantling the device, they have no “secrecy”.

Since “secrecy” is an assessment of a negative factual state, views are divided as to who shall bear the burden of proof in judicial trials. One opinion is that, pursuant to Article 64.1 of the Civil Procedure Law, it is the duty of a party in a trial to produce the evidence that will prove the claims he has made. Since there is no special provision in law stipulating that “the inversion of the burden of proof” applies in the case of “secrecy”, the basic principle that “the burden of proof always lies with him who alleges” should apply, which means the plaintiff shall produce evidence to prove that the trade secret meets the requirements of “secrecy”. The other opinion is that “secrecy” is to prove a negative fact, a plaintiff is unable to produce evidence to prove a non-existent matter, and it is much easier for a defendant to prove that the relevant information is available to the public. Thus, the defendant shall bear the burden of proving that information in dispute has been known to the public in a relevant filed. The third opinion is that the allocation of the burden of proof is not discussed in the written judgment. Instead, a judge decides whether information in dispute constitutes “secrecy” according to the recorded evidence.

In *Tsingtao Jieshi Railway Technology Co., Ltd. (Tsingtao Jieshi Co.) v. Beijing Jieshi Zhongkun Railway Technology Co., Ltd. (Beijing Jieshi Co.)*⁶, the second-instance court held that whether the technical secret in dispute has been disclosed cannot be directly decided by an authentication institution. Instead, a party concerned who alleges should file previously disclosed technical documents, and then a judicial expertise institution decides whether the previously disclosed technical documents and the technical secret in dispute constitute identicalness, in order to draw a conclusion as to whether the technical secret in dispute has been previously disclosed.

In the case, the second-instance court clarified the party who alleges that the information in dispute has been previously disclosed shall bear the burden of proof, that is to say, the defendant shall bear the burden of proving that the information does not constitute “secrecy”.

In *Beijing Wanyantong Software Co., Ltd. (Wanyantong Co.) v. Beijing Qiaxz Technology Co., Ltd. (Qiaxz Co.)*⁷, the second-instance court held that the list of clients which was claimed as a trade secret by Wanyantong Co. indicated the names of particular pipeline corporate clients that have maintained a long-term and stable relationship with Wanyantong Co., including such information as client trading habits, demands, affordable pricing, characters and contact information of project leaders, and addresses. The above information is different from common client information available in the public domain. Although some information of clients, such as names or addresses, can be acquired through public channels, like Internet, project leaders and their contact information are not easy to obtain. Due to the long-term business cooperation between particular pipeline corporate clients and Wanyantong Co., the past trading records can demonstrate the trading habits, transactional inclinations, demands and preferences, as well as affordable pricing to some extent. Meanwhile, pipeline companies belong to a petroleum industry. In view of the marketization degree of such companies, the trading habits, transactional inclinations, demands and preferences, as well as affordable pricing thereof cannot be easily obtained by common enterprises. Hence, the aforesaid information is not commonly known to those skilled in the art. For the above reasons, the list of clients has the trait of “secrecy”.

In the case, the second-instance court directly determined whether the information in dispute has the trait of “secrecy” without allocating the burden of proof.

There has not been so far a consensus reached on how to allocate the burden of proving “secrecy” in judicial trials.

2. Whether objective business operation in market is an essential requirement for “value”

“Value” of a trade secret means the information can help the plaintiff gain an advantage in a market competition or an opportunity in business transactions. However, it is impossible to make a definite judgment on the effect of the commercial value of particular information. There exist two views on the determination of “value”. One view is based on “an actual effect” produced, namely, a plaintiff shall bear the burden of proving that a trade secret he claims has brought about an advantageous competitive effect in actual production and business activities, and the basis for judgment is a positive increase in economic benefits; and the other view is based on “labour costs”, namely, it shall

be presumed that the trade secret in dispute has “value” as long as the plaintiff produces evidence to prove that labour costs have been paid for collection, extraction and formation of the trade secret, and the actual economic growth is not a prerequisite.

Although the first view provides a more intuitive idea for the value of the trade secret, it certainly sets a barrier to incorporation of particular technical information in the R&D phase into the protection scope of trade secret, and unduly narrows down the denotation of objects serving as trade secrets, which is not conducive to the processing and generation of relevant information by business entities, and cannot effectively put intelligent achievements under protection or boost innovations. Thus, the judgment on “value” is not necessarily premised on an incremental competitive effect that has been produced objectively. Generally speaking, the trade secret is presumed to have “value” on condition that the plaintiff is able to prove the specific costs spent in creation of relevant information and makes full explanation on the potential competitive effect that the information brings in the actual production and business activities. There is no need to prove the absolute economic benefits the trade secret actually produced.

3. How to determine the appropriateness of “confidentiality”

Another key issue for establishment of “trade secret” is whether the plaintiff adopts necessary confidentiality measures. In judicial practice, although a plaintiff adopts confidentiality measures in form by concluding a non-disclosure agreement or a competition prohibition agreement, if no substantive confidentiality measures are taken, the “necessary conditions” of “confidentiality” shall not be neglected due to the presence of “agreements”. The appropriateness of confidentiality measures as a whole shall be judged in conjunction with the attribute and value of the trade secret in dispute.

In *Beijing SDI Science & Technology Co., Ltd. (SDI Co.) v. Beijing BDStar Navigation Co., Ltd. (BDStar Co.)*⁸, the court did not find any requirement or agreement on confidentiality in the Project Handover Checklist. Although the Employment Contract submitted by the plaintiff set out terms in relation to the liabilities of the defendant, Zhang Guangxiong, for maintaining confidentiality of trade secrets and technical secrets while he worked for the plaintiff, both parties did not conclude a non-disclosure agreement. The court finally determined based on the current evidence that

the plaintiff failed to take due confidentiality measures for the trade secret he claimed in the present case, and the above information did not satisfy the necessary requirement on “confidentiality” of a trade secret. Therefore, the plaintiff’s claim was not supported.

In addition, views are also divided as to whether confidentiality measures shall be taken to “avoid any possible mistakes”, or just to be “effective against honourable men, not villains”. In consideration of the value and purpose of the confidentiality measures set in the ACL, in order for preventing someone from making use of others’ intelligent achievements free of charge and effortlessly and in view of the current status that no measures are objectively “perfect”, if we are blindly in pursuit of absolute confidentiality, the costs invested by right holders for protection of trade secrets will be too high, which goes against the original intent of establishment of the system. Consideration shall be given to whether a trade secret is “visible, known and protectable” at the time of judging the appropriateness of confidentiality measures, that is to say, the third party is explicitly informed of the presence of a trade secret and the subjective refusal of a right holder to disclose the trade secret, and meanwhile relevant measures can be taken to prevent disclosure of the trade secret to some extent, but there is no need to objectively keep the trade secret absolutely “confidential”.

4. Determination of “link” between “secrecy”, “value” and “confidentiality”

The three constitutive elements of a trade secret, namely “secrecy”, “value” and “confidentiality”, shall not be judged separately, but comprehensively on account of the internal crosslink therebetween. To be specific, the more difficult for the public in the relevant field to know the information, the more valuable the information is, and the higher the degree of confidentiality is, and vice versa. Under particular circumstances, the constitutive elements of a trade secret can be determined through the empirical rules of daily life and then presumed. The three constitutive elements are inter-related and have an intrinsic logical relationship. Independence of the three elements in form cannot negate the essential links therebetween.

(II) Explanation and scope of “a business operator”

“A business operator” is defined as the subject in Article 9.1 of the 2017 ACL. Meanwhile, Article 10⁹ in the revised draft was deleted from the 2017 ACL (Draft for second review), which was explained in the revision notes that

“the subject set forth in the ACL is a business operator. The employees and former employees of the trade secret owner are not business operators. As for their acts violating trade secrets, right owners can seek for remedy through other legal routes. There are provisions in relevant laws regarding the liabilities of professionals such as governmental staff, lawyers and certified public accountants, so repeated regulation shall be avoided in the ACL.” With the clear knowledge of the revision process of Article 9 of the 2017 ACL, it is obviously improper to incorporate such subjects as “employees and former employees” into the scope of regulation of the ACL in the judicial proceedings.

However, where Article 10 of the 1993 ACL is applicable in judicial trials, “employees and former employees” are usually incorporated into the scope of regulation thereof, on which a consensus has been reached. As a result, there certainly exists an issue of effective connection between the old and new laws in regard to whether employees or former employees can be incorporated into the scope of litigants.

In *Shanghai Skytex Corporation (Skytex Co.) v. Chenyuxingda International Trading (Beijing) Co., Ltd. (Chenyuxingda Co.), Chen Ting and Wu Saiyu*¹⁰, the court found that in the Confidentiality and Prohibition Regulations for Skytex Co.’s Staff concluded between Skytex Co., Chen Ting and Wu Saiyu, and the Confidentiality System developed by Skytex Co., Chen Ting and Wu Saiyu were required to maintain the confidentiality of Skytex Co.’s trade secrets and not to disclose them to others. However, Chen Ting and Wu Saiyu disclosed the trade secrets of Skytex Co., which were confidential business information agreed upon in the Confidentiality and Prohibition Regulations for Skytex Co.’s Staff. In view that Chen Ting and Wu Saiyu engage in a conjugal relationship, and are individual shareholders of Chenyuxingda Co. when being accused of infringement, it was apparent that Chen Ting and Wu Saiyu disclosed the list of clients of Skytex Co. to Chenyuxingda Co., which obviously violated the Confidentiality and Prohibition Regulations for Skytex Co.’s Staff, and the mandatory requirements in the Confidentiality System. Hence, the acts of Chen Ting and Wu Saiyu infringed the trade secrets owned by Skytex Co. Finally, the court decided that the three defendants shall jointly bear the civil liabilities for infringement of the plaintiff’s trade secrets.

In the above case, employees and former employees of the plaintiff were not excluded from the scope of subjects

who directly infringe trade secrets, and there are no substantial differences in literal expression between Article 10.1 of the 1993 ACL and Article 9.1 of the 2017 ACL, so that people tend to be puzzled by how to define the scope of subjects. Meanwhile, Article 219 of the Criminal Law of the PRC does not define the subjects who commit acts that infringe trade secrets. Account shall also be taken of how to define the scope of infringers consistently under both civil and criminal laws.

On the other hand, Article 9.2 of the 2017 ACL reads “a third party who knows or should know that the employees and former employees of the trade secret owner, or other work units or individuals conduct the illegal acts listed in the preceding paragraph, but still obtains, discloses, uses or allows others to use the trade secret shall be regarded as violating the trade secret.” According to the literal interpretation of this article, the employees and former employees of the trade secret owner can obviously serve as the subjects in Article 9.1. If a third party who knows or should know the illegal acts is still subject to regulation under Article 9.2, it will surely increase the confusion about law application.

Studies shall be further conducted on how to define a defendant who commits an act infringing a trade secret, whether employees and former employees of the trade secret owner can be litigants, and if they can, what are their positions in litigation and whether they shall bear civil liabilities accordingly.

(III) Whether “factual presumption” is applicable to illegal acts infringing trade secrets

Where Article 9.2 of the 2017 ACL applies to determine a third party’s act that infringe other’s trade secret, since the accused act is usually quite concealed, it is hard for the plaintiff to obtain the evidence in support of the subjective liaison between the defendant and the employees or former employees of the trade secret owner. In judicial trials, judgments of some cases determined that the defendants obtained trade secrets by unfair means by way of “factual presumption”, whereas other cases did not adopt “factual presumption”, but were determined by ordering the plaintiffs to directly adduce evidence to prove the defendants’ acquisition of trade secrets by unfair means.

In *Beijing Fortuna Imatek Chemical Co., Ltd. (Imatek Co.) v. Zhao Wenzhong and Beijing Dexink Technology Innovation Co., Ltd. (Dexink Co.)*¹¹, the court held that Zhao Wenzhong joined Dexink Co. after his resign from Imatek

Co. so that Dexink Co. was able to have access to the information of the client, Aowei Co. The notarized certificate furnished by Imatek Co. also demonstrates that Zhao Wenzhong participates in exhibitions and conducts business as the general manager of Dexink Co. Therefore, the court had good reasons to believe that Dexink Co. established a co-operative relationship with Aowei Co. by taking advantage of the information of Aowei Co. obtained by Zhao Wenzhong during his tenure at Imatek Co. Hence, the two defendants, Zhao Wenzhong and Dexink Co., infringed the trade secret of Imatek Co., and shall cease their acts of unfair competition and bear joint liability.

In the above case, the plaintiff did not produce direct evidence proving that the two defendants jointly committed the unfair acts to obtain the trade secret. Instead, the two defendants were presumed to commit the unfair acts that infringed the plaintiff's trade secrets on account of the "identicalness" of relevant information and the tenure of the employees.

In *EPC Solutions (Beijing) Co., Ltd. (EPC Co.) v. Lu Qingfeng and Beijing Houde Sicheng Technology Co., Ltd. (Houde Co.)*¹², the second-instance court held that EPC Co. shall produce evidence to prove whether Lu Qingfeng and Houde Co. adopted unfair means, i.e., whether they breached the agreement to disclose and use the trade secret of EPC Co. Although Lu Qingfeng can have access to the trade secret as claimed by EPC Co. during his tenure as the project manager of the software technology department at EPC Co. from 1 January 2009 to 26 February 2011, it cannot be determined that there was a causal relationship between Houde Co.'s winning of the bid for the project of Zhanjiang Southsea Western Petroleum Exploration & Design Co., Ltd. (Southsea Co.) and the disclosure and use of the EPC Co.'s trade secret by Lu Qingfeng. Southsea Co. issued a Letter of Presentation (LOP), clarifying that Houde Co. won the bid for the project under invitation, and the information (i.e., Annex I of the LOP), which was alleged to be used by the two defendants, was also issued by Southsea Co. Houde Co. also indicated that Annex I was provided by the bid inviter at the time of bidding and also available to others. In the present case, the statements of the two defendants concerning the use of the information were basically in line with common sense. Where EPC Co. was unable to prove that the information used by the two defendants was substantially identical with its trade secret and the two defendants adopted unfair means, it cannot be determined

that the two defendants infringed the trade secret of EPC Co.

In the above case, the court clarified that the plaintiff should directly prove that the defendants obtained the trade secret in suit by unfair means; otherwise, the plaintiff shall take legal consequences for his failure to produce evidence.

In view of the different opinions in judicial trials, the problem that needs to be solved urgently is how to allocate and determine the burden of proof of plaintiff and defendant, as well as the standard of proof, in the hope of providing sufficient protection for trade secrets, under the basic evidence-producing principle that "the burden of proof always lies with him who alleges".

(IV) Conflict between thinking system protected by trade secrets and pattern of behaviour law

Article 123 of the General Provisions of the Civil Law of the PRC definitely specifies trade secrets, as well as works, inventions and trademarks serving as independent IP objects. There is no single law enacted specially for protection of trade secrets in China, and trade secrets are protected mainly under some branch laws like the ACL, the Contract Law¹³ and the Corporate Law¹⁴. But in view of the literal explanations to provisions on trade secret protection under relevant laws, trade secret protection obviously has the characteristics of "absolute right" protection. For instance, subjects, such as a party to a contract or a corporate shareholder, directly remedy trade secret misappropriation according to specific liabilities directly stipulated in law. Meanwhile, provisions concerning the acts of unfair competition listed in Chapter 2 of the 2017 ACL are not similar to the provisions relating to trade secrets.

However, the ACL as a behaviour law for regulating the market competition order is different from those right-establishing laws, like the Copyright Law, the Trademark Law and the Patent Law. Consideration shall be given to the consequences caused by the accused market competition acts for diversified interested parties, i.e., business operators, consumers and the public. Thus, the attribute of "absolute right" contained in a trade secret by nature might be in conflict with the regulation concept of the ACL as a behaviour law.

In judicial trials, blindly sticking to the rules for judging other types of unfair competition acts may affect the substantive protection of a trade secret, hinder the balance of interests between encouragement of enterprise innovation

and protection of legal competing acts, and even lead to a deviation in the judgment on acts that infringe trade secrets. It is of great practical significance to know how to scientifically design a judicial system that protects “right” under the pattern of a behaviour law.

(V) Elements of preliminary injunction in disputes over trade secret infringement

Article 100.1 of the Civil Procedure Law of the PRC reads: In the cases where the execution of a judgment may become impossible or cause damages to a party concerned because of the acts of either party or for other reasons, the people’s court may, at the application of the other party, order the adoption of measures for property preservation, order the party concerned to do or not to do some acts. In the absence of such application, the people’s court may, when necessary, order the adoption of measures for property preservation. Because of secrecy, a trade secret provides its owner with more trading opportunities or puts its owner at an advantageous position in competition. Once the trade secret is unduly disclosed or published, it may cause incalculable damages to the owner and will deprive the owner of exclusive rights to the trade secret. Thus, in judicial trials, especially for a trade secret that has not been disclosed, the injunction of disclosing a trade secret in suit is more meaningful in practice. For instance, where a former employee of a trade secret owner breaches the contract to disclose a trade secret to a third party who is intended to file a patent application for the trade secret, timely preliminary injunction may prevent further losses of the trade secret owner.

The ACL has the characteristics of a behaviour law, and may lead to different legal assessments on similar competing acts conducted by different subjects on account of multiple factors and in consideration of interests of each party, so a prudent attitude shall be adopted in preliminary injunction in such cases. Due to the special “right” attribute of a trade secret, proper preliminary injunction may generate a more advantageous legal effect in the case of reasonably setting applicable requirements.

So far, there are still divided views on applicable requirements of IP preliminary injunction in judicial trials. At the same time, no consensus is reached on the applicable requirements in consideration of the special attributes of trade secrets and there is still a lot of work to do.

(VI) Balance between protection of trade secrets and labour rights, as well as freedom of job selection

Since most disputes over trade secret are in close association with employees and former employees, and labourers’ rights to select jobs freely are personal rights, the free flow of talents shall not be interfered arbitrarily so as to guarantee the overall activity of participating entities in the market economy. If labourers are restrained from flowing in normal market operations, it is obviously detrimental to the dissemination of their accumulated experience, skills and knowledge to other business operators, and is not conducive to the enhancement of the overall level of business operations. Illegal acts of violating prohibition of business strife and infringing trade secrets should be distinguished from labourers’ freedom of choice of employment. Special attention shall be paid to the fact that “general knowledge, experience and skills that employees gain at work are a part of their personality and constitute their labour and survival capacities, and therefore should not be regarded as trade secrets”¹⁵.

Furthermore, in judicial trials, it cannot simply be determined that the acceptance of an employee who voluntarily changes his or her job by a business entity constitutes unfair competition just because the employee knows the trade secret of his or her former employer. Determination of unfair competition shall be based on whether there exist the circumstances stipulated in Article 9.2 of the 2017 ACL. If a business entity, which an employee of a former business entity works for, uses the trade secret of the former business entity, it can generally be presumed that the later business entity “should know” the trade secret because of the employee’s knowledge of the trade secret and according to logical reasoning and empirical rule. In this case, the burden of proof can be transferred to the later business entity, which shall prove that it has fulfilled ex-ante review obligations or the relevant trade secrets come from legitimate sources, in such a manner to guarantee and balance the interests between the trade secret owner, the employee and the later business entity, and reasonably allocate the burden of proof, on the premise of smooth implementation of the basic evidence-producing rule.

(VII) How to determine the damages caused by trade secret infringement

The economic value of a trade secret results from its confidentiality, and the trade secret owner is also at a long-lasting competitive advantage to maintain an awe-inspiring position in the entire market production and business as a result of the confidentiality of the trade secret. However, it is

just because of the confidentiality of a trade secret, particularly technical information, that the value thereof cannot be easily determined. The function of relevant technical information in beating other competitors in the same industry cannot be determined easily, and how long relevant technology works in maintaining the competition advantage is unable to be known either on account of the technological development and innovations. Therefore, it is really hard in practice to calculate the losses of trade secret owners or profits gained by infringers, and thus statutory damages are opted for in most cases.

Although Article 20.1 of the 1993 ACL only stipulates two ways to calculate damages, namely, according to the losses of trade secret owners or profits gained by infringers, Article 17 of the Interpretation of the Supreme People's Court on Several Issues Concerning the Application of Law in the Trial of Civil Cases Involving Unfair Competition reads: as regards determining the damages for the infringement on trade secrets, it may be performed with reference to the methods of determining damages for patent infringements, which provides a basis for calculation according to statutory damages.¹⁶

Article 17.4 of the 2017 ACL definitely specifies that statutory damages can apply to determine the damages caused by trade secret infringement, i.e., where it is difficult to determine the actual losses suffered by the right owner as a result of the infringement or the benefits obtained by the infringer from the infringement, the people's court shall award the right owner less than RMB 3 million in damages, depending on the seriousness of the infringement. The above provisions set forth the upper limit of statutory damages without specifying particular factors to be considered, so it is quite necessary to further clarify those factors taken into account at the time of calculating damages caused by trade secret infringement. It is suggested that the following factors should be taken into consideration: (1) R&D costs of a trade secret; (2) competitive advantages brought by a trade secret to its owner (including reduction of production costs, and increase in sales, profit rate and market share); (3) utilizable time of the trade secret, degree of market competition, expected time for developing the technology; and (4) costs for taking confidential measures.¹⁷

Meanwhile, in calculation of damages caused by infringement of business information included in a trade secret, the losses suffered by the trade secret owner or the benefits obtained by the infringer should be calculated

carefully, and statutory damages should apply prudently. As far as the value of business information is concerned, business information is usually conducive to completion of business directly and has realistic and expectable values. At the same time, an infringer may either deprive a right owner of business opportunities or conclude the business with the help of the trade secret. The amount of damages can be calculated on the basis of definite transaction amount and predictable profit rate. For instance, an infringer concludes a sales contract by making use of the business information about a buyer owned by a trade secret owner. Thus, an intermediary directly loses intermediation interests for facilitating the conclusion of deals, and the damages an intermediary suffers can be calculated according to the amount of money in the contract and intermediation service rate. It should be noted that the amount of damages should be compensatory damages, and a trade secret owner should not gain extra profits because of the infringing acts.

In *Beijing Crescent Great Wall Investment Management Co., Ltd. (Crescent Co.) v. Zhongman Petroleum and Natural Gas Group Co., Ltd. (Zhongman Co.), Li Chundi and Chen Shaoyun*¹⁸, the second-instance court held that Crescent Co. can gain expectable interests for its intermediation services on the premise that it can not only facilitate the conclusion of the drilling rig purchase contract between Oil Exploration Operations Company (OEOC, Iran) and a Chinese manufacturer, but also further urge OEOC to fulfil the contract. Crescent Co. can gain profits as long as OEOC bought drilling rigs through its intermediation, and should not get more than expected profits from the OEOC's purchase of drilling rigs. Although Chen Shaoyun and Zhongman Co. infringed the trade secret of Crescent Co. in order to get the opportunity to do business with OEOC, since OEOC only bought six drilling rigs, the expected profits gained by Crescent Co. shall only be confined to the commission gained through the sales of six drilling rigs. In addition, since the dispute over the contract concluded between Crescent Co. and Shanghai 3H Petroleum Equipment Co., Ltd. was settled by China International Economic and Trade Arbitration Commission (CIETAC), some of the contractual interests have been realized and Crescent Co. should not gain any profits beyond the obtainable profits. The first-instance court erred in fully supporting the damages claimed by Crescent Co. without taking into account the commission already gained by Crescent Co. The damage

resulting from infringement of IP rights shall be determined by deducting the profits gained by Crescent Co. according to CIETAC's ruling from the expected profits according to the Intermediary Contract of Crescent Co. Finally, the second-instance court rectified the amount of damages determined by the first-instance court.

(VIII) How to effectively prevent “disclosure of secret” due to litigation

In judicial trials, judging from the current system of trial mode and cross-examination, there may occur the circumstances that the plaintiff makes full explanation of undisclosed trade secrets in order to prove the value of its trade secrets, such that the defendant gets to learn more about the trade secrets; and meanwhile, there may also occur the circumstances that due to the unjustified purpose of litigation, the plaintiff may be reversely “informed of” the defendant's legal trade secrets when the defendant proves that its technical information or business information is substantively different from the contents claimed by the plaintiff.

At present, the most common way in judicial trials is to require litigants who may have access to trade secrets in suit to enter into a non-disclosure agreement to ensure that the trade secrets are not “disclosed” due to litigation, and stipulate compensation liabilities to warn litigants not to do things arbitrarily. However, this way cannot fully ease the concerns and burdens on litigants, and there is still much room for improvement of trial modes and cross-examination manners in such disputes.

IV. Measures to solve disputes over trade secret infringement

Judicial trials are based on specific legal norms, and achieve “procedural justice” with the kernel of “norms” and “substantive justice” with the kernel of “order” by making full use of several methods of legal interpretation, such as literal interpretation, purposive interpretation, systematic interpretation and historical interpretation, finally embodying the legislative intent into specific judgments to convey the intrinsic value of justice to the public. Thus, on the basis of a reasonable legal thinking approach, there are provided the following suggestions on the plight of trial of disputes over trade secret infringement in eight aspects:

(I) To reasonably define the burden of proof, properly relieve the burden of producing evidence, and clarify the “reasonable explanation” rule

In judicial trials, a prudent and restrained judicial attitude should be adopted towards those systems and rules that have been explicitly stipulated in law, in order to avoid the arbitrary breaking of current systems, and destruction of the stability of law and predictability of legal consequences. On the premise of the basis system that “the burden of proof always lies with him who alleges” established under the Civil Procedure Law with “the inversion of the burden of proof” as an exception, although “secrecy” as one of the constitutive elements of a trade secret is kind of evidence of absence, the “inversion” of the burden of proof on “secrecy” cannot be established in judicial trials accordingly. The application of law in judicial trials shall abide by “the theory of interpretation”, rather than “the theory of legislation”. In the absence of explicit provisions set forth by the legislature, the so-called “reasonableness” should not replace “legitimacy”. Instead, the relevant issues shall be solved with common sense from the perspective of the standards of proof.

Thus, at the time of allocating the burden of proving whether a trade secret constitutes “secrecy”, the plaintiff shall still bear the burden of proof. But in the process of determination, as long as the plaintiff can make it clear why the information he alleges is different from well-known information accessible through public channels, such as textbooks, reference books, dictionaries and journals, it can be preliminarily determined that the information possesses “secrecy”. The defendant, whoever raises an objection, shall prove the fact that the information has been disclosed. In doing so, the burden of proof on the plaintiff can be moderately alleviated without influencing the current basic burden-of-proof system, in other words, “secrecy” can be preliminarily determined by way of “reasonable explanation”.

(II) To introduce “factual presumption” and establish the protection system of “right”.

The “factual presumption” refers to “an evidence rule under which presumption is established from known facts to unknown facts according to legal provisions or empirical rules by judges, and can be overturned by parties concerned with evidence produced”.¹⁹ In regard to whether the defendant acquires the plaintiff's trade secret by unfair means and whether the third party who clearly knows or should know that his act infringes the plaintiff's trade secret still commits such an act, the determination can be made by logical rules and empirical rules of daily life according to the degree of difference between the trade secret in suit

and well-known information in a relevant field, adopted confidentiality measures, as well as the degree of similarity between the trade secret in suit and the information actually used by the defendant.

To be specific, if there are more differences between the trade secret in suit and information in the public domain, the trade secret has the higher level of “secrecy”; if the plaintiff adopts more strict confidentiality measures and pays higher costs, it is less likely that the trade secret can be acquired from normal channels; and if the information actually used by the defendant is much similar to the trade secret claimed by the plaintiff, it is highly likely that the defendant has access to and uses the plaintiff’s trade secret. At the same time, the defendant, as an employer, will usually get to know the education, background and experience of selected employees according to its basic hiring system, and also as a business operator in a relevant industry, should know the operation of a specific field and development of technical information. Therefore, an employer shall be liable for ex-ante review when utilizing the business information and technical information provided by the employees. To conclude, in view of the particularities of the trade secret in suit, the degree of similarity and the relationships between parties concerned, it can be accurately determined whether the defendant uses “unfair means” and whether the third party “should know” the illegal acts of infringing the trade secret by properly applying the “factual presumption” rule, and direct proof is not the sole choice to determine the facts of a case.

Furthermore, based on the protection system of a “right”, i.e. “trade secret”, it is generally not necessary to evaluate the effect of the accused illegal acts on the competitive effect, social welfare and competition order. As long as the plaintiff’s trade secret is infringed by the defendant without reasonable defence, it can be determined that the defendant shall bear liability.

(III) To interpret litigants in a “broad scope” and explore the way of introducing “a third party”.

In view of the revision process of Article 9 of the 2017 ACL as stated above, it is known that employees and former employees of the trade secret owner are excluded from the scope of regulation under the ACL from the perspective of legislation, so judicial trials based on “the theory of interpretation” shall be in line with the basic value orientation and intrinsic purpose of the “legislative” process, and the contents clearly stipulated in laws should not be “reversed”

by way of judicial application, that is to say, in principle, employees and former employees of the trade secret owner should not be included in the list of “defendants”. However, if the defendant’s acts fall into the circumstances stipulated in Article 9.2 of the 2017 ACL and the defendant acquires the trade secret in suit from employees and former employees of the trade secret owner, the defendant and employees and former employees of the trade secret are both interested parties in law, and it is also possible that the plaintiff may report the illegal acts of infringing the trade secret committed by the employees and former employees as a crime to the police office on the basis of the facts ascertained in a civil case. Hence, it is quite necessary to involve employees and former employees in civil actions against trade secret infringement in terms of both factual finding of a case and potential legal consequences that may incur later.

Legal issues shall be analysed and solved in a “horizontal” legal thinking mode, rather than under a particular law branch. The judicature should not simply confine their functions to “mechanically” apply laws, but establish a scientific interpretation manner among various law branches, in such a way to effectively solve the conflict between disputes in the society and the “law lag” under the current legal framework that not only relies on but also transcends the current laws.

On such a basis, the status of employees and former employees of the trade secret owner can be stipulated pursuant to Article 56.2 of the Civil Procedure Law, namely, “where the outcome of the case will affect a third party’s legal interest, such party, though having no independent claim to the object of action of both parties, may file a request to participate in the proceedings or the people’s court shall notify the third party to participate. A third party that is to bear civil liability in accordance with the judgment of the people’s court shall be entitled to the rights and obligations of a party in litigation.” The employees and former employees in disputes over trade secret infringement are positioned as a “third party having no independent claim”.

The so - called “third party having no independent claim” refers to the party, who has no independent substantive claim to the object of action between others, participates in the proceedings to safeguard its own rights.²⁰ In the application of Article 9.2 of the 2017 ACL, the outcome of the case will affect the legal interest of employees and former employees of the trade secret owner, but they have

no independent substantive claim to the whole or the part of the object of action in such disputes. Hence, positioning employees and former employees as a “third party having no independent claim” is in line with the intrinsic value of the revision of the ACL, effectively solves the problem that the potential interests of employees and former employees may be damaged, complies with the existing laws, and is both legitimate and reasonable.

(IV) To establish a “classified governance” system for preliminary injunction

Generally speaking, when analysing the applicable requirements for preliminary injunction under Article 100 of the Civil Procedure Law, we shall make analysis and judgement on the chance of success of a lawsuit for an applicant, the stability of claims, irreparable damages to an applicant’s legitimate rights and interests if preliminary injunction is rejected, and whether preliminary injunction affects the public interests. However, due to the natural “secrecy” of a trade secret, it is quite uncertain in determining the likelihood of winning a lawsuit and the stability of claims. In such cases, a prudent attitude shall be adopted towards the application of preliminary injunction.

In judicial practice, different judging manners may be adopted according to the category of the trade secret in suit. If the trade secret involves “business information”, it is relatively easy to determine the loss or reduction of trading opportunities for a plaintiff as a result of the infringing act, or the increase or gaining of trading opportunities for a defendant who commits the infringing act, due to the predictability of actual losses caused by the trade secret infringement. The damages are usually predictable where the accused act is found illegal, and it is unlikely to occur that the plaintiff’s losses are irreparable. Hence, the damages caused to the plaintiff’s legitimate rights and interests can be compensated and covered by calculating reasonable damages, so preliminary injunction is not applicable to “business information”.

If the trade secret involves “technical information”, consideration shall be given to whether the accused act may lead to the disclosure of such “technical information”. If the technical information will be disclosed in a bigger scope and to more entities, the accused act may result in the consequences that the plaintiff totally loses the competitive advantage in a certain period of time. Under such circumstances, as long as the plaintiff can prove that “the technical information” he alleges meets the constitutive elements

of a trade secret, the preliminary injunction can be granted to stop disclosing the trade secret. If the accused act does not fall into the above mentioned circumstances, the requirements for application of the preliminary injunction measures shall be considered carefully, and the application thereof shall be treated prudently.

(V) To clarify “information units” and “subjects to which a trade secret is exposed” in order to improve the trial mode for litigation

In order to prevent “secondary disclosure” of the trade secret owned by the parties during the trial of disputes over trade secret infringement, the trial mode for litigation can be scientifically set up in terms of both subjects and objects.

In terms of subjects, the scope of litigants who have access to the trade secret in suit shall be confined. The trade secret is only exposed for demonstration before authorized agents, and the carrier of the trade secret is only used for evidence production and cross-examination in court if necessary, and should not be allowed to be taken outside of the court. Even if both parties apply for expert witnesses, a good attempt is to let the expert witnesses state what they are familiar with, instead of accessing the specific trade secret, in such a way to confine the scope of subjects having access to the trade secret to the minimum extent.

In terms of objects, the entire business information or technical information serving as the object of action can be divided into several “information units”, and then be shown in steps or phases. As long as the plaintiff can sufficiently demonstrate the operability and economic nature of a single “information unit”, the plaintiff fulfils its burden of proof on the “value” of the trade secret. It is not necessary to require the plaintiff to prove other “information units” of the trade secret that are irrelevant to the accused act.

By imposing limitations on both subjects and objects in conjunction with current measures like executing a non-disclosure agreement, the “secondary disclosure” of a trade secret can be prevented to the maximum extent.

V. Conclusion

This article attempts to use precedents as the research basis to explore how to improve the internal thinking rule of the trade secret judicial protection system under the logical framework that formally conforms to the current legal system. Due to the intrinsic characteristics, the trade secret is regulated in a way different from other types of unfair com-

petition acts. If trade secret is protected in essence, efforts should be made to establish an independent framework at the level of legislation so as to thoroughly solve various issues in the trade secret protection. ■

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* This article only represents the author's personal views, not the work unit where he serves.

¹ Relevant judicial data of trade secret infringement cases come from the judicial information inquiry system. Statistics are calculated on the basis of the cause of action of newly accepted and concluded cases. Hence, the data provided herein are approximate numbers.

² Xie Xiaoyao (2005). *Moral Interpretation of Competitive Order* (p.281). The Law Press.

³ Article 10.3 of the 1993 ACL reads: Trade secret, in this Article, means the utilized technical information and business information which is unknown by the public, which may create business interests or profit for its legal owners, and also is maintained secrecy by its legal owners.

⁴ See supra note 2, p. 290.

⁵ See the Civil Judgment No. Jing73minzhong 965/2016.

⁶ See the Civil Judgment No. Jing73minzhong 110/2017.

⁷ See the Civil Judgment No. Jing 73minzhong 1776/2017.

⁸ See the Civil Judgment No. Jingzhiminchuzi 518/2015.

⁹ Article 10 of the ACL (revised draft in 2017) reads: Any of the following acts shall be deemed as acts that infringe upon trade secrets: (1) Where an employee or a former employee of the rights holder of a trade secret commits any of the acts prescribed in Paragraph 1 of Article 9 herein; or (2) Where a third party clearly knows or should have known that the trade secret concerned is derived from an illegal channel provided for in Paragraph 1 of Article 9 herein, but still obtains, discloses, uses or allows others to use the trade secret. Staff members of State organs, lawyers, certified public accountants and other professionals shall keep confidential the trade secrets that come to their knowledge during the performance of duties.

¹⁰ See the Civil Judgment No. Jingminzhong 127/2016.

¹¹ See the Civil Judgment No. Yizhongmin(zhi)zhongzi 2631/2015.

¹² See the Civil Judgment No. Jingminzhong 50/2017.

¹³ Article 43 of the Contract Law reads: A party may not disclose or improperly use any trade secret which it became aware of in the course of negotiating a contract, regardless of whether a contract is formed. If the party disclosed or improperly used such trade secret, thereby caus-

ing loss to the other party, it shall be liable for damages.

¹⁴ Article 11 of the Supreme People's Court's Provision on Several Issues Relating to Application of the Company Law of the People's Republic of China (IV) reads: where a shareholder exercised his right to know and disclosed the company's trade secrets to cause the legitimate interests of the company to be damaged, if the company requested the shareholder to compensate for the relevant losses, the people's court should support it. The people's court shall support the company's claims for damages related to the loss of the legitimate interests of the company resulting from disclosure of the company's business secrets by accountants, lawyers, etc. that assist the shareholders in checking the company's documents in accordance with Article 10 of this provision.

¹⁵ Kong Xiangjun (2001). *Anti-unfair Competition Law (New Theories)* (p.760). The People's Court Press.

¹⁶ Article 65.2 of China's Patent Law reads: If the losses of the patentee, benefits of the infringer, or royalties of the patent are all hard to determine, the people's court may, on the basis of the factors such as the type of patent right, nature of the infringement, and seriousness of the case, determine the amount of compensation within the range from RMB 10,000 to RMB 1,000,000.

¹⁷ Quoted from Investigation of Beijing courts on trial of disputes over trade secret infringement, written by Chen Xi.

¹⁸ See the Civil Infringement No. Gaomin(zhi)zhongzi 22/2015.

¹⁹ Jiang Wei (1999). *Evidence Law* (p. 124). The Law Press.

²⁰ Wang Shengming (editor-in-chief) (2012). *Interpretation of Civil Procedure Law of the People's Republic of China* (p. 117). The Law Press.