

Implied Obligation of Confidentiality in China's Laws

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There are various provisions in relation to the protection of trade secrets in China's current laws, among which Article 9 of the Anti-Unfair Competition Law is the most important. In the 2019 amendment thereto, the phrase "in violation of agreement" in item (3) of Article 9.1 was revised to "in violation of the obligation of confidentiality", which means that the obligation of confidentiality does not arise from contracts only. Obviously, laws can set obligation of confidentiality for certain types of subjects. This article will discuss whether a trade secret owner can claim that other party or person is under an implied obligation of confidentiality where no specific provision is set forth in a contract or laws.

I. Concept and characteristics

1. General obligation of confidentiality

The general obligation of confidentiality is subject to specific provisions in contracts or laws. These provisions are usually expressed as that a certain type of subjects are under the obligation to keep confidential the trade secrets that they acquire in the course of a particular activity.¹ It can be seen that a provision relating to the general obligation of confidentiality encompasses clear and specific constituent elements. Therefore, judges have less discretionary power in determining whether such an obligation exists. Where said provisions are valid and enforceable, it generally can be concluded that a party has the legal obligation of confidentiality as long as the party is of certain legal status

and knows the trade secret.

There are pros and cons to the above manners to creating obligation of confidentiality. On the one hand, it clearly affirms the existence of obligations, which is conducive to dispute reduction; and on the other hand, it is criticized as too simple and rigid. To be specific, the types of subjects as prescribed in laws are too limited to cope with the complicated social life; and although contracts can make up for such a deficiency under normal circumstances, they may be absent or malfunction sometimes for various reasons. For instance, a non-disclosure agreement with a validity defect cannot serve as the basis for the parties' obligation.² Another example is that the more detailedly the scope of confidentiality obligations is described in a contract, the more likely something is left out. A dispute may easily occur once any information beyond the scope as agreed by the parties is involved.

Since it is inevitable that contracts and laws are missing, it is impossible to evade the problem of whether an implied obligation of confidentiality exists. Just like in other areas of the civil and commercial law, implied obligations will always play a role in closing loopholes in laws and contracts.

2. Implied obligation of confidentiality

In civil law, "implied", as a concept opposite to "explicit", refers to a declaration of intent in the form of acts from which it can be inferred.³ In intellectual property laws, "implied license" refers to the way of licensing, in which the grant of license is presumed from the parties' acts.⁴ Simi-

號民事判決書。兩個案件的裁判依據都是《勞動法》第3條和《勞動合同法》第3條。儘管在論證過程中提到了“附隨義務”的概念，但法院並沒有引用《合同法》的相關規定（即在後頒行的《民法典》第501、509、558條）。

¹⁵ (2008)一中行初字第293號行政判決書。

¹⁶ 參見(2014)鄂民三終字第00409號民事判決書。法院認為：“牙刷產品製造完成後，其包裝卡的外觀即已固定的呈現並容易為人所感知，不能苛求樂金公司對該產品的外觀擔負默示的保密義務”。

¹⁷ (2015)合民三初字第00176號民事判決書。

¹⁸ (2011)民監字第414號民事裁定書。

larly, “implied obligation of confidentiality” in legal provisions related to trade secrets can be defined as the obligation of confidentiality that a party should undertake based on its prior acts from which the obligation can be inferred in the absence of specific provisions in a contract or laws.

The uncertainty of the implied obligation of confidentiality is inherent. This concept is mainly used in two situations: one is where it is stipulated in a contract that one party shall undertake the “explicit or implied obligation of confidentiality”, which serves as a miscellaneous provision;⁵ and the other is where it is claimed in litigation that one party shall be under the implied obligation of confidentiality according to the principle of good faith if there is no agreement in the contract. No matter as a miscellaneous provision of a contract or a provision on a legal principle, this concept lacks specific constituent elements such as the subject and the scope of obligation. Whether a party’s acts create the implied obligation of confidentiality depend on the facts of individual cases, and judges have greater discretionary power. As for the interpreters of laws, such uncertainty is both a challenge and an opportunity.

Although the obligation of confidentiality is divided into two types, there is no clear-cut distinction therebetween in many situations. For instance, a party sometimes requests an interested party to undertake the obligation of confidentiality verbally; however, said request is usually made unilaterally with no agreement reached and the scope of obligation is not clearly specified. Therefore, said obligation of confidentiality, though being formally explicit, essentially falls within the implied category.

3. Special issues

There are cases in judicial practice where the implied obligation of confidentiality has been applied. At present, in the absence of contract stipulations and specific legal provisions, only a few courts will further delve into whether a party is under the implied obligation of confidentiality, and most courts will directly draw a negative conclusion. Among the studied cases, the following issues are particularly noteworthy:

First, whether the existence of the implied obligation of confidentiality can prove that a party has taken confidentiality measures? According to Article 9.4 of the Anti-Unfair Competition Law, confidentiality measure is one of the constituent elements of a trade secret. Article 6 of the Provisions of the Supreme People’s Court on Several Issues Concerning the Application of Law in the Trial of Civil Cases

Involving Infringement upon Trade Secret (No. Fa Shi 7/2020, hereinafter referred to as “the Provisions on Trade Secrets”) enumerates the confidentiality measures including the execution of a confidentiality agreement, and does not include the implied obligation of confidentiality. As a result, controversies arise in practice. In this regard, the Supreme People’s Court gave a negative answer in a ruling: “any obligation collateral to a contract as derived from the principle of good faith is a subordinate obligation attached to the principal obligations and performed according to the nature and purpose of the contract and the course of dealing. It is different from the active acts required in the ‘confidentiality’, which is one of the constituent elements of a trade secret. It neither shows the subjective intent of the trade secret owner to take measures to keep information confidential, nor belongs to objective measures that have been taken.”⁶

Second, does the disclosure of a trade secret to a person who may be under an implied obligation of confidentiality constitute disclosure through use, thereby leading to the loss of novelty of a technology? The Supreme People’s Court gave a negative answer in a precedent: “after the delivery of a product, if a confidentiality agreement has been executed for the technology of the product between the buyer and the seller, or the buyer is under the implied obligation of confidentiality, it cannot be deemed that the product has been disclosed to the non-specific public unless there is evidence proving that the buyer has violated the obligation of confidentiality.”⁷ The former Patent Reexamination Board also held the same view: “(the staff of a company) belong to specific persons having an implied obligation of confidentiality, and their acts could not render the products of Longcheng Co. under the state of being available to the public in China”.⁸ In addition, according to Article 24 of the China’s Patent Law, any invention for which a patent is applied does not lose its novelty where, within six months before the date of filing, it was disclosed by any person without the consent of the applicant. Such disclosure also includes a breach of an implied obligation of confidentiality.⁹

II. Legal basis

1. Collateral obligations in the Civil Code

Collateral obligations refer to the obligations of one party to attend to the rights and interests of the other party ac-

cording to the principle of good faith, in addition to those stipulated in the contract and laws.¹⁰ The Civil Code promulgated in 2020 stipulates three types of collateral obligations of confidentiality: pre-contractual obligations in Articles 500 and 501, collateral obligations in the performance of the contract in Article 509.2, and post-contractual obligations in Article 558.

Article 500 of the Civil Code stipulates that “during the course of concluding a contract, the party that falls under any of the following circumstances and causes loss to the other party shall bear the liability for compensation: …… (3) conducting any other acts contrary to the principle of good faith”. Article 509.2 thereof sets forth the provision that “the parties shall comply with the principle of good faith, and perform such obligations as sending notices, rendering assistance, and keeping confidentiality in accordance with the nature and purpose of the contract and the course of dealing”. Article 558 thereof requires that “after the parties’ claims and obligations are terminated, the parties shall, in compliance with the principle of good faith and the like, perform such obligations as sending notices, rendering assistance, keeping confidentiality, and retrieving the used items according to the course of dealing”. It can be seen that collateral obligations are the embodiment of the principle of good faith, but the latter is not thoroughly embodied. Although these provisions can be used as the basis, whether the confidentiality obligations are established shall be determined with reference to case-specific facts and in consideration of various factors. Therefore, these provisions are the legal basis for the implied obligation of confidentiality.

Article 501 of the Civil Code stipulates that “the parties shall not disclose or improperly use the trade secrets or other confidential information that is obtained in the course of concluding a contract, regardless of whether the contract is formed or not; ……” It can be seen that said provision does not adopt the wordings with the tint of uncertainty, such as “in compliance with the principle of good faith” and “in accordance with the nature and purpose of the contract and the course of dealing”. According to said statement, the parties shall undertake the obligation of confidentiality as long as they get to know the trade secret in the course of conclusion of a contract. In this sense, Article 501 has clearly listed constituent elements and is a specific provision on the general obligation of confidentiality.¹¹ In addition, since Article 501 covers all the circumstances relating to the confidentiality obligations in the course of conclusion

of a contract, thereby further specifying the situations under item (3) of Article 500, the latter is usually not cited any longer though it is formally the legal basis of the implied obligation of confidentiality.

There have been cases in judicial practice where theories and provisions relating to collateral obligations were applied to the determination of the parties’ obligations of confidentiality or non-competition. For instance, in a labor dispute between Beijing Weituo International Investment Consultancy Co., Ltd. and Zhang Yang, the court held that “non-competition during the employee tenure is the premise and foundation for the establishment of employment relationship between the employee and the employer, belongs to the obligation collateral or ancillary to the employment contract in the light of the principle of good faith, and does not need to be specified separately.”¹² Since non-competition is one of the means to protect the employer’s trade secrets, the above reasoning also applies to the confidentiality obligations. For instance, in a non-competition dispute between Gao Haibin and Shanghai Weiqian Hydraulic Automation System Co., Ltd., the employee claimed that the clauses on confidentiality obligations in the employment contract are not binding because the employer failed to pay compensation. But the court opined that “the obligation of confidentiality during the employee tenure is the duty of loyalty that he should perform, and is not premised on compensation payment”.¹³

2. Anti-Unfair Competition Law and its Judicial Interpretation

Item (3) of Article 9.1 of the Anti - Unfair Competition Law is the legal basis for the implied obligation of confidentiality. In the light of said provision, where a trade secret is acquired by legal means, the subsequent use of the trade secret is considered as unjustified only when the parties “violate the obligation of confidentiality or the right holder’s requirements for keeping a trade secret confidential”. Therefore, the scope of the concept “obligation of confidentiality” is a vital prerequisite.

In this regard, Article 10.1 of the Provisions on Trade Secrets indicates that confidentiality obligations can arise from legal provisions or contractual agreements; and Article 10.2 is related to the implied obligation of confidentiality, which is premised on the fact that “the parties did not agree on the obligation of confidentiality in the contract”, and should be judged “according to the principle of good faith, as well as the nature and purpose of the contract, the con-

tracting process and the course of dealing”. The above expression is similar to that of the provision on collateral obligations, and judges have greater discretionary power in its application. From the perspective of function, the aforesaid Article 10 serves as a prompt that associates the concept of confidentiality obligations in the Anti-Unfair Competition Law with the concept of collateral obligations in the Civil Code. It also functions as an independent supplement, because the provisions on collateral obligations are stipulated under the contract section of the Civil Code, while the provisions on confidentiality obligations of the Anti-Unfair Competition Law are not confined to the field of contracts but applicable in a wider range, thereby providing a basis for the implied obligation of confidentiality in other legal relationships.

3. Provisions on principles

As stated above, collateral obligations are specific embodiments of the principle of good faith. Thus, Article 7 of the Civil Code is also the legal basis for the implied obligation of confidentiality. In judicial practice, articles on principles which are often invoked include, among other things, Article 2 of the Anti-Unfair Competition Law, Article 3 of the Employment Law and Article 3 of the Employment Contract Law.

Compared with specific rules, principles are highly generic and should be applied by judges prudently. It is interesting that some courts choose to directly use the articles on basic principles, instead of more specific ones on collateral obligations, as the basis for determining whether a party shall be under an implied obligation of confidentiality.¹⁴ As a matter of fact, specific provisions should generally be applied with preference. Where the circumstances of a case cannot be covered by specific provisions, principles serving as the basis for judgment can play a supplementary role.

III. Constituent elements

1. Article 10.2 of the Provisions on Trade Secrets

Article 10.2 of the Provisions on Trade Secrets is related to the constituent elements of the implied obligation of confidentiality. According to this Article, the obligation of confidentiality is established as long as “the accused infringer knows or should know that the acquired information belongs to the trade secret of the right holder”, which is however open for discussion.

First, according to item (3) of Article 9.1 of the Anti-Unfair Competition Law, the disclosure or use of the trade secret constitutes infringement only when it is in violation of the obligation of confidentiality or the requirement for confidentiality. It means that not all the persons knowing the trade secret shall undertake the obligation of confidentiality. Generally speaking, the knower has the legal status of trade secret holder as long as it acquires the trade secret lawfully, and does not need to keep the trade secret confidential for others. If said Article is interpreted as that the obligation of confidentiality exists as long as a person knows that the information belongs to a trade secret, it will render the premise of “violation of the obligation of confidentiality” in vain. Second, the implied obligation of confidentiality is only a supplement to the general obligation of confidentiality, and should not be widely applied in place of the specific provisions in contracts or laws. If the undertaking of the obligation of confidentiality is only premised on the fact that the party knows that the information belongs to a trade secret, the non-disclosure agreement will lose most of its significance.

Therefore, in our opinion, two requirements must be met for the creation of the implied obligation of confidentiality: one is that the information discloser has reasonable reliance on the receiver; and the other is that the receiver knows or should know that the information is a trade secret.

2. Reasonable reliance of the information discloser

The receiver should undertake the obligation of confidentiality only when the discloser has good reason to believe, inferred from the acts of the parties, that the receiver will definitely keep the acquired information confidential even though the receiver is not explicitly required to do so. The provisions on collateral obligations and the Provisions on Trade Secrets both require that judgments should be made under the principle of good faith and according to the purpose and process of contract conclusion, the nature of the contract and the course of dealing, which are aimed to examine whether there is reliance built between the parties.

Reasonable reliance is attributable to many factors. For instance, the employment relationship is a typical reliance relationship. As long as an employment contract is concluded, the two parties have formed a community of shared interests to some extent, and the employer has reason to believe that the employee will conscientiously and dutifully safeguard its interests, including keeping trade secrets confidential. On the other hand, not all legal relationships imply

such reliance. Take a common sales contract for example. In *Jiangxi Jianshi Zisha Technology Development Co., Ltd. v. Patent Reexamination Board (PRB)*, the PRB decided that the implied obligation of confidentiality should be presumed to exist according to the fact that the two parties jointly manufactured the product and the business practices. However, the court held that the contract executed by the two parties was about the transfer of equipment, which only involved the ownership of the property, and the assignee “has no way to know which equipment belongs to a trade secret” and therefore has no obligation of confidentiality.¹⁵

3. The receiver’s knowledge of the confidentiality of information

When judging whether a party knows or should know that the information disclosed to it by others has the attribute of confidentiality, it is necessary to find out whether there are sufficient factors to convey said attribute according to the facts of individual cases, wherein the common factors include the followings:

First, factors related to the object, including how detailed the information is, whether it is new or outdated, whether it is difficult to obtain, how importance it is in technical application or negotiations, and the like. For instance, information that is easily perceived directly by others, such as the product appearance, can hardly render the parties to realize that they are obliged to keep such information confidential.¹⁶ Another example is that documents that record specific experimental data, precise drawings with detailed figures and instructions, and letters of intent with clear quotations and cooperation plans are more likely to arouse people’s attention and vigilance. In a trade secret dispute between Hefei Dinglan Trading Co., Ltd. and others, and Anhui University of Traditional Chinese Medicine, the plaintiffs asserted that the defendant violated the collateral obligation of confidentiality. However, the plaintiffs’ drawings did not fully demonstrate the product structure and lacked detailed parameters. Further, others could acquire relevant information through simply observing the purchased product. The court denied the plaintiff’s claim that said information could not render people to be “immediately and obviously aware that said information should be kept confidential”.¹⁷

Second, factors related to the subject, including the professional identity and position of a party, knowledge and experience, the degree of association between a party’s occupation and the involved information, and the like. Ex-

perts who have been working in related fields for a long time and accumulated lots of professional knowledge and practical experience are easier to identify the information as a trade secret than new hands. For instance, in a trade secret dispute between Beijing Yidege Ink Co., Ltd. and Gao Xinmao *et al.*, the defendant (Gao Xinmao) had long served as the Yidege’s deputy technology director and vice leader of Yidege’s confidentiality committee. Although Gao Xinmao did not sign a confidentiality contract with Yidege, the court still determined that he should undertake the obligation of confidentiality.¹⁸

Third, other environmental factors, including how seriously the information is treated by others, where and when the information is delivered, and the like. For instance, although a trade secret holder does not set forth explicit requirements, he or she evades unrelated persons on purpose and delivers information to specific subjects in hidden places. There is another example. A party may say “I only told you this news” as a prompt message during communication, which is sufficient to make the other party realize that the acquired information is confidential. In addition, if a visitor knows that the places like workshops or factories he or she visited are subject to severe zoning administration measures and access policies, or the visitor is required to undergo identity verification and security inspection and especially prohibited from taking recording and photographic equipment, he or she should be aware that he or she is about to be exposed to sensitive information.

Conclusion

An implied obligation of confidentiality is a vital supplement to the explicit clauses in contracts and laws. The primary position of specific provisions in contracts and laws is unshakable in the protection of trade secrets. Where both are absent, the implied obligation of confidentiality can play a role to make up for the deficiency of explicit clauses.

The implied obligation of confidentiality should be applied properly, rather than completely abandoned. Some oppose that it will blur the boundaries of trade secret protection and the parties will have difficulty in predicting the results of their acts. However, grey areas always exist on the boundaries of rights no matter whether the boundaries are defined in words or not. In this sense, the abandonment of the concept of implied obligation of confidentiality will not make the resulting problems vanish. Nevertheless, judges

should be more careful when judging whether a party should undertake an implied obligation of confidentiality, in order to avoid the imbalance of interests. The brief analysis in this article has sufficiently demonstrated that the theories and practice concerning the implied obligation of confidentiality are valuable for observing the evolution of China's intellectual property laws. ■

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¹ For example, Article 19 of the China's Trademark Law, Article 41 of the Anti-Unfair Competition Law, and Article 30 of the Law on Promoting the Transformation of Scientific and Technological Achievements.

² For example, the Civil Judgment No. Su0205minchu 4563/2017. The non-disclosure agreement provided by the plaintiff in this case was only signed by the employee and not sealed by the company. The court determined that the contract was not formed and was not binding on the employee.

³ Article 140.1 of the Civil Code stipulates that "a person ... may make a declaration of will either explicitly or implicitly".

Liang Huixing (2017). *General Introduction to Civil Law* (5th edition, p177). Law Press•China.

Dieter Medicus [DE] (2013). Shao Jiandong (translator). *Overview of the Civil Law of Germany* (p252). Law Press•China.

⁴ Zhang Jin and Chen Qianting (2012). On legislative practice of implied copyright license. *Law Science Magazine*, 2, 71.

Yuan Zhenfu (2010). Research on implied patent license based on infringement defense. *Law Science*, 12, 109.

⁵ The Civil Judgment No. Hu0115minchu 7343/2019. Similarly, in some legal provisions, the word "others" is added after the enumerated specific circumstances to form miscellaneous provisions, which is also the basis for the implied obligation having no constituent elements.

⁶ The Civil Ruling No. Minjianzi 253/2012.

⁷ The Civil Judgment No. Zuigaofazhiminzhong 999/2020.

⁸ The Civil Judgment No. Yizhongxingchuzi 333/2009.

⁹ For instance, the Civil Judgment No. Jing73xingchu 3909/2018. The court held that "the disclosure by any person without the consent of the applicant includes the disclosure of the invention by any person in violation of an explicit or implied reliance or agreement of confidentiality".

¹⁰ As for the definition of collateral obligations, reference can be made to the following:

Shi Shangkuan (2000). *Overview of the Law of Obligations* (p341).

China University of Political Science and Law Press.

Zhang Chi and Bao Zhi (1999). On collateral obligations. *ECUPL Journal*, 6, 23.

The provisions on collateral obligations in foreign laws can be found in Section 241.2 and Section 242 of the German Civil Code.

Chen Weizuo (translator). *German Civil Code* (5th edition, p92). Law Press•China.

¹¹ It should be noted that Article 501 and Article 509.2 of the Civil Code partially overlap with each other. After the establishment of the contract, the obligation to keep confidential the trade secret known during the conclusion of the contract as undertaken by the parties will be transformed into the confidentiality obligation in the performance of contract. Where a party violates the obligation, he or it will be liable for culpa in contrahend if the contract has not been formed and will be liable for breach of contract if the contract has been established.

¹² The Civil Judgment No. Jing03minzhong 955/2018.

¹³ The Civil Judgment No. Hu02minzhong 7553/2019.

¹⁴ For instance, the Civil Judgment No. Su0508minchu 7715/2020, and the Civil Judgment No. Jing03minzhong 955/2018. The two cases were both judged in the light of Article 3 of the Employment Law and Article 3 of the Employment Contract Law. Although the concept of "collateral obligations" was mentioned in the reasoning, the courts did not cite any relevant provisions of the Contract Law (namely, Articles 501, 509 and 558 of the later promulgated Civil Code).

¹⁵ The Administrative Judgment No. Yizhongxingchuzi 293/2008.

¹⁶ The Civil Judgment No. Eminsanzhongzi 00409/2014. The court held that "after the toothbrush is manufactured, the appearance of its packaging card is fixed and easy to be perceived. LG Corporation should not be demanded to undertake an implied obligation of confidentiality for the appearance of the product."

¹⁷ The Civil Judgment No. Heminsanchuzi 00176/2015.

¹⁸ The Civil Ruling No. Minjianzi 414/2011.