

MAX PLANCK SERIES ON ASIAN INTELLECTUAL PROPERTY LAW

THE PROTECTION OF TRADE SECRETS IN CHINA

SECOND EDITION

By
SHAN HALLING



Max Planck Institute
for Foreign and International
Patent, Copyright and Competition Law



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The Protection of Trade Secrets in China

Second Edition

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Foreword

by

Prof. Dr Johan Erauw

It is a pleasure to be associated with this work by Professor Shan Hailing. She is a scholar of private international law relationships and in that capacity has published international work before this book, namely a book on tort law in China. In China she is a well-established author and commentator of conflicts-of-law. Her work on the topic of intellectual property rights and on the protection of trade secrets or know-how in particular goes back some time. She dutifully collected all the materials on the subject of know-how in employment relationships and over a period of five years has gone through all the phases of a doctoral dissertation, which she deposited at the Gent University in September of 2006 and which brought her the doctoral title in January 2007 after a spirited and most highly acclaimed oral defence in Gent.

This book is indeed a by-product of the dissertation effort and it brings the practical elements thereof together in a concentrated version. She worked through this self-imposed task besides her regular and heavy teaching-load at the East China University of Political Science and Law (Shanghai), where she is a much-liked professor who drives young students to enthusiastic work, while she transfers to them her strong interest and her great energy. She makes the study of international law a pleasure for them and shows them the way to respect for the rule of law and respect for the practical business orientation of university training in the law.

This book is commendable for several reasons: it is well-researched and well-written; it is insightful and offers views of intriguing developments in China – linked as this topic is, to the labour organization and its rapid and profound changes. Chinese law has sought to find a new balance between the social aspects of providing protection of acquired knowledge and experience of the worker and giving increasing value to intangible assets for the employer, such as for trade secrets. Indeed we saw the increasing acceptance of innovation as a market value taken into account, as the law became more often confronted with challenges caused by quick technological progress (home-grown as well as licensed-in). The increased sensibility in regard to intellectual property rights is illustrated throughout this development. Ms Shan reports on the changed perceptions and places this in the context of the broader Chinese law on contracts and on torts and the administrative law plus the criminal law. She also reflects regularly on international standards as she compares the legal developments of

her country with the theories and practise of others countries. That gives the foreign reader a useful frame of reference.

Shan Hailing has written a book that enriches the law of intellectual property for China and that places the new legislation (with so many facets to it) in those matters of trade secret protection, next to the search for remedies in either civil law, administrative law or in criminal law, in order to draw her conclusions for a better protection of know-how in Chinese labour relationships. Within the civil law her focus is on the traditional worker-employer relationship and on how this was permeated by views on the protection of the assets of the employer – thus on private property and on compensation for damage done. She describes changes that will attract the attention of any scholar and practitioner of the Chinese legal scene as well as of the social scene in general. In her own preface she claims those changes to be no less than dramatic within the given timeframe. Her having been a ‘child’ of the Maoist revolution (or young student then), whereby students were sent out to do the communal work; she is one in touch with the fundamental nature of the changes in the new China and she is one to convince others of the legal nature of this new perspective. She has in the meantime become a legal scholar with a broad view and exemplary knowledge of many sectors of the law. She depicts the sectors of civil law, torts and contracts and the theories and opinions imbedded there; she describes administrative remedies and other sanctions under the law; she is also knowledgeable of the aspects of procedural law and of labour arbitration boards. She ends up showing to practitioners how to obtain protection or how to provide it; depending on the viewpoint. She wrote an inspired proposal for a new and improved synthesis of the rules on trade secret protection.

Her new book will be helpful in consultation practice as well as in litigation. I trust it will be useful to those who seek insight and who may want to put the described developments into perspective. It will also be a help for the entrepreneurs and their advisors who seek the more precise indications to assure a suitable protection of their know-how and who want to make the fitting arrangements with their employees or who might be placed before litigation over issues of this nature.

This book is based on rich information sources that are: in the first place the laws and regulations of China, of its many hierarchical rule-makers – including through the court system; and that further are the doctrinal sources flowing from a quickly developing world of bountiful academic and practical commentary. Ms Shan has furthermore obtained useful information on the court practise and that also commends this work.

During her work on this treatise on labour law and trades secrets, we organized together, late in 2004, at the East China University of Shanghai, a conference on Intellectual property and TRIPS compliance in China, with the collaboration of the President of that university. In those days Shan Hailing brought a first report on her topic¹ and I remember her spirited talk in front of such dignitaries as of the Supreme

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1. H. Shan, ‘Protection of know-how in Chinese enterprises and employment relationships’, in: *Intellectual property and TRIPS Compliance in China – Chinese and European perspectives* (P. Torremans, H. Shan and J. Erauw, editors), Series: New horizons in intellectual property, Cheltenham (UK) and Northampton (USA), Edward Elgar, 2007, 153–174.

Court of the People's Republic and I remember how she firmly held the attention of those present and how she whipped the simultaneous translator into an excellent performance. It is with fond memories of that day that I can safely say this author will keep you, reader and user, focussed and well-informed.

Professor Shan's book on trade secret protection in China should find praise and success as a further step in the steady development of a qualitative, academic legal commentary for China and even as one further step in the development of the law of China itself.

Prof. Dr Johan Erauw
Director of the Institute for Private International Law –
University of Gent and Adjunct professor at the Washington College of Law,
American University, Washington DC.

Foreword

by

Prof. Willy van Eeckhoutte

The title of this book, which is the revised commercial edition of a PhD thesis Professor Shan Hailing defended with great success at the Ghent University, doesn't immediately disclose the very important part the book devotes to employment law. As a matter of fact, Part IV of the book comprises almost a work on its own on the very topical matter of the interaction between trade secret protection and the protection of workers in employment relationships.

I want to focus on the qualities of this part of the book, which are many and substantial.

First and most important there is the comprehensive approach of the subject.

The legal treatment of the issue of protection of trade secrets in the context of an employment relationship is of course determined by the way in which the status of workers is conceived in society and more specifically under the law. Hence Professor Shan Hailing judiciously spends an introductory chapter on the evolution of Chinese law with respect to employment relations. Following on from that she demonstrates the topic is not merely a legal question, but also one with ethical, economic and political dimensions.

The main item, viz. the actual discussion of how Chinese employment law deals with the protection of trade secrets, is the subject of two consistently written chapters on the different situations of the time employment is still going on and the period after employment came to an end. This part of the book concludes with a chapter on a topic of utmost importance, being the settlement of disputes concerning trade secrets in employment relations with a cross-border element.

As the other parts of the book, Part IV contains a lot of comparative material and an accurately selected scientific apparatus. It is fluently written and, as has been shown above, well structured.

The work is balanced, but also critical. The author certainly cannot be accused of being noncommittal. She does not just discuss carefully the pros and cons of every topic she deals with, but always gives us her own opinion, based on solid arguments.

I had the privilege and the pleasure to be the author's copromoter when she prepared the doctoral thesis from which this book originates. I must say I am very

satisfied with this ultimate result. Professor Shan Hailing has done a wonderful job for which she deserves esteem and admiration.

The many personal conclusions of this promising scholar and her concrete, creative and innovative proposals for the adaptation of the law will prove to be for a longer time and for many people a copious source of inspiration.

Willy van Eeckhoutte
Professor of Employment and Labour Law
University of Ghent, Belgium
Member of the Bar of the Supreme Court of Belgium

Preface to the First Edition

When the world entered the Information Age, the strength and potential for the development of a nation's economy came to be measured by the capability of its industrial economy to protect trade secrets. The industrial capability of an economy is supported by knowledge and by intellectual property, among which secret knowledge and confidential information play an important role. Along with economic development, trade has broken the constraints of territorial boundaries and has expanded beyond the limits of time and space. In particular, now that information has become a kind of commodity, it has become a common phenomenon that the protection and the battle for possession of information have evolved into heated international competition within industries.

The right to trade secrets is a civil right in law. Trade secrets are important intangible assets and resources within an economy and are powerful competitive tools within markets. Trade secrets are highly valued by many international organizations including those that are members of the World Trade Organization. The World Trade Organization Agreement on Trade-Related Aspects of Intellectual Property Rights (the TRIPS Agreement) defines trade secrets as 'undisclosed information,' a term which illustrates the high level and broad scope of protection of information in the domain of modern economies. Currently, trade secret protection is an important legislative issue in many countries. Under the regulations contained in the TRIPS Agreement, there has been a trend toward unifying the definition of trade secrets, their constitutive requirements, and their scope of protection under the law in different countries and more and more countries have promulgated new law or have improved their current laws in order to better protect trade secrets. Traditional civil remedies seek to protect trade secrets from infringement, and criminal punishment is sometimes meted out for serious acts of infringement as well. These measures are implemented for the purpose of maintaining basic commercial ethics and for protecting property rights as well as for encouraging research and innovation on the part of enterprises and individuals.

In China, promulgation of trade secret legislation and research on the legal science of trade secrets began in the 1990s. Progress toward the establishment and development of a trade secret protection system in China has maintained a momentum similar to that of its economic growth and social reform. With unexpected speed and on

an impressive scale, China has gone through a process of 'marketization', urbanization, diversification of economic ownership, and globalization, achieving results that have attracted the attention of the world. However, with a booming private economy and the improvement of technology and scientific research as well as of the labour market in China, the number of trade secret disputes occurring has increased to the highest level in Chinese history. In addition, with more and more Chinese employees frequently changing jobs, the relationship between employees and employers has become very fragile. Trade secret disputes involving employment relationships now account for a large proportion of causes of action involving trade secrets which are heard by the courts in China.

According to statistics published on the China IPR Judgment and Decisions website² regarding various categories of disputes heard between 2001 and 2005, a high percentage (32.93%) involved the infringement of operating confidential information while cases involving co-existence of infringement of trade secrets and a duty of non-competition comprised 25.61% of the total. Infringement of technical confidential information comprised 21.95% and causes of action involving infringement due to disclosure by employees accounted for 34.15%. The greatest percentage of disputes, however, entailed misappropriation by third parties acting alone or in league with employees of plaintiffs (40.24%).

In a span of only twenty years, a legal system has been created in China for the protection of trade secrets using international treaties as its foundation, the Law against Unfair Competition at its centre, and the Contract Law, the Labour Law, and the Criminal Law as component provisions, a feat which is unique in the history of the development of contemporary legal systems. In recent years, discussion and study of legislative and judicial issues regarding trade secret protection have continued within Chinese academic and judicial circles. The majority of this activity has focused on the introduction into the Chinese legal system of specific provisions found in the law of various other countries and the review of the current situation in China regarding trade secret protection. In recent years as well, the courts in China have conducted research into trial practice regarding trade secrets and related policies and legal issues. At the annual National Conference on Intellectual Property Right Trials, the resolution of disputes involving trade secrets is always an important issue. In addition, the Supreme People's Court has drafted a judicial interpretation of the Law against Unfair Competition that includes guidelines for the hearing of trade secret lawsuits and in November 2005 it published a draft at www.Chinacourt.org to solicit public opinion. In March 2006, the Supreme People's Court opened the China IPR Judgments and Decisions website and plans to eventually publish all of its decisions, some of which concern disputes regarding intellectual property rights, on the Internet. While actively cooperating with strategic research on intellectual property rights being conducted at the state level for improving the national intellectual property right system, the Supreme People's Court is also conducting research into improving the judicial protection

2. <<http://ipr.chinacourt.org>>, 10 January 2007. The data used to compile the Statistics of Trade Secrets Cases originated from 82 cases heard in courts in Beijing, Shanghai, and Jiangsu Provinces from 2001 to 2005.

system for intellectual property rights, which includes remedial judicial systems. The measures so far taken by the courts and the legislature in China have created an environment for the continuing improvement of trade secret protection.

This book consists of five parts. Part I, History and Development of Trade Secret Law in China, contains an overview of the historical evolution of trade secret protection in China, describes the present situation and the future trend in the science of trade secret law in China, and draws a clear picture of the development track and of the basic framework of China's current trade secret laws by summarizing present research achievements within academic circles.

Part II, Legislation on the Protection of Trade Secrets in Chinese Law, is a general introduction to current Chinese trade secret law vis-à-vis a comparison with legal provisions contained in international and regional treaties and in the law of certain foreign countries. This section looks at the legal framework for the protection of trade secrets, and addresses core issues such as legal definitions and constitutive elements of trade secrets, as well as differences between trade secrets and other forms of intellectual property in Chinese Law.

Part III, titled Remedies for Infringement and Administrative Protection of Trade Secrets, is devoted to determining what constitutes infringement of a trade secret, classifies types of infringement, and looks at elements of infringement in terms of Chinese law. It also contains an introduction to the theoretical foundation for a system of legal protection in the view of Chinese scholars of jurisprudence. Civil remedies, criminal punishment, and administrative penalties for the enforcement of the protection of trade secrets are examined with a focus on a comparison between China and certain other countries regarding the characteristics of civil remedies and criminal penalties for trade secret infringement within their respective jurisdictions. Trade secret protection mechanisms currently in place in China are compared with the legal provisions contained in international treaties as well as in the legal systems of certain other countries.

In Part IV, Employment Relations and Trade Secret Protection, the main factors that affect the protection of trade secrets in employment relationships in China are analysed with regard to the ongoing transformation of the Chinese employment system. This includes labour force allocation and the marketization of labour forces, and the conflict between rights and private interests and the public interest in trade secret protection. Finally, issues of confidentiality agreements, non-competition agreements, and applicable laws are examined.

In Part Five, developing trends in global trade secret protection legislation and judicial practice are taken into consideration in an effort to propose an effective means for raising the level of trade secret protection and for perfecting mechanisms for the implementation of trade secret law in China. More specifically, with reference to the situation on the ground in China, proposals for improving several specific aspects of the Chinese legal system regarding employment relationships are put forth.

Preface to the Second Edition

Almost five years have passed since the first edition of this book was published. It is obviously pleasing to sign off this second edition.

In the past five years, there have been three major trends worth highlighted.

First, some legislation has been promulgated or amended with respect to trade secret protection in China. For instance, in 2010, the Law on Protecting State Secrets of the People's Republic of China was amended and was adopted at the 14th meeting of the Standing Committee of the 11th National People's Congress on April 29, 2010. It has come into force since October 1, 2010. This amendment is still applicable to all secret matters in the area of scientific technology related to national security and interests, but some provisions of this law are somewhat different from the past law in the area of state secret protection. For example, it firstly provides a secrecy period of a state secret. In accordance to this amendment, the secrecy period of a state secret shall not exceed 30 years at the top-secret level, 20 years at the secret level or 10 years at the confidential level. A state secret shall be automatically declassified at the expiry of its secrecy period. If it is necessary to extend the secrecy period of a state secret, its secrecy period shall be re-determined before the expiry of the original secrecy period. The early declassification or the extension of secrecy period of a state secret shall be decided by the organ or entity which originally determined the state secret or by its superior.

Confidentiality agreement and non-competition agreement are two important measures to protect trade secrets of Chinese corporations, which are firstly expressly stipulated in Chinese Labour Contract law, which was adopted at the 28th Session of the Standing Committee of the Tenth National People's Congress of the People's Republic of China on June 29, 2007, and has already come into force since January 1, 2008. According to China Labor Contract Law, an employer may enter an agreement with his employees in the labor contract to require his employees to keep the business secrets and intellectual property of the employer confidential. For an employee who has the obligation of keeping confidential, the employer and the employee may stipulate non-competition clauses in the labor contract or in the confidentiality agreement and come to an agreement that, when the labor contract is dissolved or terminated, the employee shall be given economic compensations within the non-competition period. If the employee violates the stipulation of non-competition,

he/she) shall pay the employer a penalty for breaching the contract. In addition, the persons who should be subject to non-competition shall be limited to the senior managers, senior technicians, and the other employees, who have the obligation to keep secrets of employers. The scope, geographical range and time limit for non-competition shall be stipulated by the employer and the employee. The stipulation on non-competition shall not be contrary to any laws or regulations. After the dissolution or termination of a labor contract, the non-competition period for any of the persons to work in any other employer producing or engaging in products of the same category or engaging in business of the same category as this employer shall not exceed two years.

Second, as the national adjudication authorities, China courts have become more experienced in trials of trade secret disputes and improved the quality and efficiency of adjudication and increased public confidence in trade secret adjudication. Since 2009, Supreme Court has released the White Paper entitled Intellectual Property Protection by Chinese Courts (Chinese and English versions), which includes some information about trials of trade secret disputes. In addition, in 2010, the China Intellectual Property Rights Judgements and Decisions website was upgraded to ensure that intellectual property judgments and decisions are promptly uploaded on the website and to improve the website's function. By the end of 2011, 40,175 judgments and decisions were published on the website. Supreme Court also improved upon the content and upgraded the Intellectual Property Protection website, a sub-website under its official website. As the same time, the Shanghai High Court launched the Intellectual Property Protection by Shanghai Courts website. The courts of Jiangsu Province launched a province-wide initiative called 'Real-time Court Reporting' (which includes real-time videotaping, real-time transcribing and real-time display of transcript). Under the initiative, all judgments and decisions were posted online, and court proceedings were shown on live webcast. The High Courts of Beijing, Tianjin, Chongqing, Shandong, Guangdong, Guangxi, Sichuan, Gansu, Hebei, Jiangsu, Hainan and Xinjiang issued white or blue papers on judicial protection of intellectual property for 2010.

Since 2009, the Supreme Court has studied the pilot projects initiated by the local Courts on the centralized adjudication of civil, administrative and criminal cases involving intellectual property ('Three-in-One' adjudication') by intellectual property divisions. In 2009, approval for the 'Three-in-One' adjudication was given by the Supreme Court to the High Court of Jiangsu Province, the courts of Inner Mongolia Autonomous Region, the High Court of Henan Province and two Intermediate People's Courts under its jurisdiction (in Zhengzhou and Luoyang), and the Court of Heping District, Tianjin Municipality. At the end of 2011, the pilot programme was launched in five High Courts, fifty intermediate courts and fifty-two grassroots courts in China. The High Courts in Jiangsu, Zhejiang and Inner Mongolia have worked more closely with the local prosecutor's office and police, and have provided guiding opinions on criminal protection issues under the pilot project on 'three-in-one adjudication'. The Jiangsu High People's Court and the provincial public security and prosecution departments have jointly issued the Opinions on Procedural Issues Relating to Adjudicating Criminal Cases Involving Intellectual Property. The Opinions included comprehensive provisions on review of rights, collection and perpetuation of evidence, and determination of technological secrets relating to the handling of criminal cases

involving intellectual property matters. Also, the introduction of 'publicly known technique' defence for criminal cases involving trade secrets was effective in unifying the standard of judgment for enforcing the law in criminal cases involving intellectual property, and was instrumental in increasing the level of criminal judicial protection.

Third, in recent years, certain researches have been conducted on the legislative and judicial issues concerning the protection of trade secrets in Chinese academic circle and judicial circle, which have brought about some theoretical achievements and judicial experiences. Research topics include judicial protection of trade secrets, pre-trial provisional measures for trade secret cases, imposition of heavier sanctions, reducing the cost of rights protection, setting down the principles and standards for calculation of damages for trade secret cases, and improving the rationale and reasonableness of damages calculation. These researches will provide high quality legislation recommendations.

Despite all the developments, the fundamentals and legal system of trade secret protection in China have remained stable and witness gradual change. For this reason, I adopt a structure same as the original for the new edition and make small changes as following:

- (1) Updated statistics in Part II, Chapter 1, material in Appendix I and list of statutes
- (2) Revised some sections on legal principles of confidentiality agreement and non-competition agreement in terms of China Labour Contract Law.
- (3) Added one section on protection of trade secrets during litigation in Part III, *Chapter 2*.
- (4) Added two new Chapters in Part III: *Chapter 6* Control of trade secrets, *Chapter 7* Licensing trade secrets.

Since 2008, I have been working in the Shanghai University of Finance and Economics teaching the course of the International and Trade Secret Law and Practice at the Law School using the material and some opinions of this book. The reaction from the Students was very favourable.

And finally, I am most grateful to Prof. Johan Erauw of the University of Gent and to Prof. Jonathan K. Ocko of the North Carolina State University for their encouragements. During the past five years, they sent me a lot of new court decisions and information on trade secrets disputes which they found on foreign press. Some of these disputes were related to China. These information and documents helps me deep thinking of trade secrets protection, especially of the protection of trade secrets in China. I would also like to thank the Publisher of Wolters Kluwer Law & Business as well as their editors, for publishing my book. For this second edition, I received many emails from Mrs Christine Robben, an Acquisition Editor. Her patience, understanding and supportive attitude encouraged me to accomplish this second edition work under some difficult circumstance.

I hope you will enjoy reading this new edition, and benefit from this book.

Acknowledgements

A word of sincere thanks is more than due. I would like to thank Professor Johan Erauw, Professor Willy van Eeckhoutte and Professor Paul Torremans of Gent University in Belgium. All of them encouraged and supported me to do profound comparative research on the issue of trade secret protection in employment relationships, which forms the main content of this book. They also carefully read my original manuscript and provided highly valuable suggestions, which were of great importance in improving the quality of the book. Equally, I wish to thank Professor Cao Jianming for his guidance and advice in my research and in the preparation of this book. In the preparation and editing of the English-language edition of the book, Mr Guy Bernfeld was of great help in formulating and improving the text. In this regard, I would also like to thank my friend Ms Lu Lihua. Lastly, my heartfelt thanks to my family, who have always encouraged and supported me in my studies, my work and my aspirations.

Summary of Contents

About the Author	v
Foreword by Prof. Dr Johan Erauw	xv
Foreword by Prof. Willy van Eeckhoutte	xix
Preface to the First Edition	xxi
Preface to the Second Edition	xxv
Acknowledgements	xxix
CHAPTER 1	
Historical Evolution of the Science of Law on Trade Secrets in China	1
CHAPTER 2	
Present Situation and Trends in the Science of Law on Trade Secrets in China	13
CHAPTER 3	
The Legal Framework for the Protection of Trade Secrets in China	27
CHAPTER 4	
Legal Definition and Elements of Trade Secrets	47
CHAPTER 5	
Differences between Trade Secrets and Traditional IPR	65
CHAPTER 6	
The Theoretical Foundations for a System of Legal Protection in China	71

CHAPTER 7	
Civil Law Remedies for Infringement of Trade Secrets	85
CHAPTER 8	
Criminal Law Remedies for Trade Secret Infringement	115
CHAPTER 9	
Administrative Protection of Trade Secrets	131
CHAPTER 10	
Arbitration Proceedings in Labour Law	143
CHAPTER 11	
Control of Trade Secrets	149
CHAPTER 12	
Licensing Trade Secrets	153
CHAPTER 13	
Transformation of the Chinese Planned-Economy System and the Market Reform of Its Labour Force	161
CHAPTER 14	
Key Issues of Trade Secret Protection in Employment Relationships: Conflict and Balance of Interests	191
CHAPTER 15	
Duty of Confidentiality and Non-competition during the Term of Employment	207
CHAPTER 16	
The Duties of Confidentiality and Non-competition Following Termination of Employment	223
CHAPTER 17	
Settlement of Trade Secret Disputes in Employment Relationships with Foreign Elements	259
Post script	277
Appendix I	293
Appendix II	297
Bibliography	301
Table of Statutes	307
Index	313