



Australian Government

IP Australia

Commercial Secrets

Introduction

As the scope of manufacturing and production in China increases in sophistication and technological advancement, companies are under increasing pressure to protect their commercial secrets. As is the law in most countries, commercial secret protection in China depends largely on the owner keeping the 'secret' confidential. Protection can last forever provided the proper safeguards have been established and are well maintained. Conversely, if the commercial secret is somehow leaked to the public or a particular industry, then it loses all protection.

What are "commercial secrets"?

The term "commercial secrets" is defined in the Anti-Unfair Competition Law of the People's Republic of China ("**Anti-Unfair Competition Law**") as technology or business information which:

- is not available to the public;
- is beneficial to the owner of the commercial secret; and
- is protected by some measures employed by its owner to keep it confidential.

Commercial secrets include formulas, business methods, recipes, technical specifications, inventions, marketing strategies, client lists, manufacturing techniques, computer algorithms, etc.

How does the law protect commercial secrets?

In China, there are normally three possible approaches to enforcing your commercial secrets:

- Violation of the Labour Law of the People's Republic of China ("**Labour Law**");
- Violation of the Anti-Unfair Competition Law and its Judicial Interpretation;

- Violation of the Regulation Prohibiting Commercial Secret Infringement (the "**Commercial Secret Regulation**"); and
- Violation of the Criminal Law of the People's Republic of China ("**Criminal Law**").

Violation of the Labour Law

Standard employee contracts usually impose confidentiality provisions on employees. The Labour Law specifically provides that the parties to an employment contract may reach an agreement regarding the keeping of commercial secrets. However, confidentiality need not be specifically set out in the employee contract as it is implied in law (in the provisions of the Commercial Secret Regulation, and the Anti-Unfair Competition Law read in conjunction with its Judicial Interpretation).

Violation of the Anti-Unfair Competition Law

The Anti-Unfair Competition Law prohibits businesses from engaging in any of the following acts:

- Obtaining the commercial secrets of any rightful party by theft, inducement, duress, or other illegal means;
- Disclosing, using or allowing others to use the commercial secrets of any rightful party obtained by illegal means; or
- Disclosing, using or allowing others to use commercial secrets in breach of an agreement or the confidentiality requirements imposed by any rightful party.

Furthermore, third parties (e.g. employers) who obtain, use, or disclose business secrets that they knew or should have known have been infringed; will be deemed to have infringed the commercial secrets of the owner. However, there have not been many cases ruling on third party infringement to date.



Australian Government

IP Australia

Violation of the Commercial Secret Regulation

The provisions of the Commercial Secret Regulation are closely similar to those contained in the Anti-Unfair Competition Law.

What does a Plaintiff have to prove?

1. The information must be commercial secrets, which means they are:
 - Valuable;
 - Definite and specific;
 - Not publicly available; and
 - Protected by reasonable measures.
2. The Defendant knowingly used such "stolen" information. The Defendant is normally the individual who stole or without authorisation disclosed the commercial secrets. However, as mentioned above, liability may extend to the employer if it can be proven that it had knowledge of the confidential nature of the information.
3. The Plaintiff has suffered damage – an employer need not prove any monetary damages, but only that the employee has stolen or without authorisation disclosed the commercial secret.
4. The damage was *caused* by the Defendant's actions.

What defences are available to the Defendant?

If the Defendant can prove that he or she acquired knowledge of the business process through a process of reverse engineering rather than improper use or disclosure of commercial secrets, he or she will not be liable. Where the Defendant had access to the commercial secrets, the burden to prove that his or her knowledge was a result of reverse engineering and not improper disclosure of commercial secrets will be on the Defendant.

Violation of the Criminal Law

Under China's Criminal Law, disclosure of commercial secrets may be criminally punishable if the damage caused amounts to RMB 500,000 (i.e. approximately AUD 80,000) or more.

What remedies are available?

Administrative Enforcement

If wrongdoing is found, the Administration for Industry and Commerce ("AIC") may order the infringer to cease its infringing acts and impose a civil fine of between RMB 10,000 and 200,000 (approximately AUD 1,700 – 33,000). If the infringer does not comply with this order, a fine of more than twice and less than three times the amount of the value of goods sold will be imposed. All decisions of the AIC may be appealed to the People's courts.

Filing a civil claim in the People's Courts

The owner of the commercial secret can file a civil claim against the Defendant in the People's Courts. Judgments normally include a fine and damages, and an order preventing further use of the secret. Where the damage to the owner of the commercial secret cannot be reliably calculated, the amount of profit obtained by the Defendant can be used as the basis for the compensation claim, or there are provisions for 'statutory' damages

On available figures, it appears that, in 2005 alone, over 200 civil claims were filed in China relating to commercial secret infringement. This suggests that the Chinese courts are showing a tendency in recent years to protect commercial secrets although, of course, this figure does not indicate the outcome of the litigation in each case.

Criminal Prosecution

Where the damage caused meets the criminal threshold, it is possible to seek relief through the Public Security Bureau (PSB). If the PSB's investigation reveals criminal culpability, it will pass the case on to the Public Prosecutor's office for review, and the Public Prosecutor's may either conduct further inquiries or decide to indict based on the PSB recommendation.

Additionally, once a Plaintiff has filed a civil claim against a Defendant in the People's Courts, the case can be transferred to criminal prosecution if enough evidence is found against the infringer (e.g. if the Plaintiff obtains an order from the court to access the financial records of the Defendant or other involved parties and the sales revenue is found to be high enough to reach the criminal threshold).



Australian Government

IP Australia

From available figures, it appears that in both 2003 and 2004 approximately 50 criminal prosecutions were instigated in each year in China on the basis of commercial secret infringement.

Practical steps for protecting your commercial secrets

It is better to try and prevent infringement of your commercial secrets in the first place than to try to enforce your rights after an infringement has occurred. We recommend implementing the following practices in the workplace:

Establish a confidentiality policy

- Define what information the company deems confidential and how employees should handle such information.
- Clearly spell out the consequences of any unauthorized, improper use or disclosure of confidential information (eg that this would be grounds for termination).

Enforce the confidentiality policy

- All key personnel should sign Confidentiality/Non-Disclosure Agreements.
- Implement a formal policy regarding the ownership of any Intellectual Property (IP) rights subsisting in any artistic or literary works, designs or inventions created by the employee during his/her employment.
- Ensure that each employee has received a copy of the confidentiality policy and signs a statement acknowledging that they have read, understand and will comply with it as a condition of their employment.
- Provide regular training to employees on your company's confidentiality policy.
- Keep confidential information in a restricted area and clearly marked as "Classified", "Restricted", "Do Not Disclose", "Do Not Copy" etc.

- Ensure that all employees confirm with designated personnel prior to disclosing any company information.
- Conduct exit interviews of departing employees to ensure that they are not taking to their new job any information that you would not want to disclose to a competitor.
- Give immediate notice to a new employer of your departing employee's continuing obligation to not disclose your commercial secrets (e.g. by sending a registered letter to the new employer) – this will ensure that you have a cause of action against the new employer in the event that confidentiality is violated.

Register what you can

Registration is generally the strongest form of protection and we would advise you to have as many of your intellectual property rights as possible registered with the relevant authorities. However, that is not to say that rights owners must always choose between registering a patent and protecting its commercial secret. Often, what is suitable for commercial secret protection is unsuitable for registration as an intellectual property right. Furthermore, some business processes are no longer patentable because they are not new, but are still very valuable. Therefore, registration of intellectual property rights and protection of commercial secrets should be seen as complementary parts of an integral strategy for protecting your rights in your business processes.

Disclaimer: This information is intended to help the reader gain a basic understanding of the application of commercial secrets in China. It is not designed to provide legal, business or other relevant professional advice. IP Australia recommends that you seek independent legal, business or other relevant specialist advice as necessary.

This fact sheet has been developed for IP Australia by Rouse & Co. International. Further information about the protection of IP in China can be obtained from their website www.iprights.com.

© IP Australia 2007