

Primer On Chinese Trade Secret Disputes For US Practitioners

By **Andrea Jeffries, Haifeng Huang and Ariana Wilner** (October 4, 2024)

Trade secret misappropriation knows no borders.

With the growing use of trade secrets in today's highly digitized landscape — where cross-border operations are the norm — we see rising disputes between U.S. and Chinese entities on trade secret misappropriations.

Chinese courts, however, will not recognize or enforce a judgment of a U.S. court. Thus, to obtain a trade secret judgment in China, a Chinese action for trade secret misappropriation must be instituted.

Luckily, recent reforms to Chinese trade secret laws have provided more legal certainty for litigation in China. For example, in June, China's Supreme People's Court awarded a record high damages of RMB 640 million (equivalent to \$88 million) in a trade secret misappropriation case.[1] Such high damages are likely to become even more common.

Based on the authors' experience representing clients in China, this article provides insights to U.S. trade secret practitioners on such an action, from the filing of the complaint through trial and appeal.

Preparing and Serving the Complaint

Filing a trade secret action in China involves a significant amount of preparation. While the factual investigation is similar to that required for a U.S. action, preparing a Chinese complaint is more involved.

First, the complaint must contain basic facts and grounds and should be supported by initial evidence. The complaint and initial evidence should include a description of the alleged trade secrets, specifics of the alleged misappropriation and the damages that are claimed.[2]

Second, the complaint must provide specific information about the named defendant. This includes the Chinese identification and Chinese street address for any individuals.[3]

Third, a plaintiff that is a multinational or foreign corporation must provide three procedure documents to its outside counsel before the complaint may be filed:

- A good standing certificate;
- A power of attorney in favor of appointed counsel; and
- A certificate for the identity of the legal representative appointed with the power of attorney.[4]

Once a complaint is filed, the court will docket the case and arrange service of process. This is a significant difference from the U.S., where the plaintiff serves the lawsuit.



Andrea Jeffries



Haifeng Huang



Ariana Wilner

Recent amendments to Chinese Civil Procedure Law allow for additional alternative means for service on foreign parties, which can help avoid time-consuming procedures under the Hague Convention — e.g., by serving a defendant's wholly owned subsidiary instead of the defendant itself.[5]

Which Court Will Hear the Case?

There are two considerations in selecting where to file the complaint: the proper venue and the proper court level.

First, under the civil procedure rules, venue is proper in any judicial district where any defendant is located, or where the alleged misappropriation occurred. If there are multiple defendants, suit can be brought at any place where any one of the defendants is located.[6]

Second, specialized IP courts and tribunals are usually the proper court level for technical trade secret disputes. Nontechnical trade secret cases start at the district level, which is the lowest level.[7]

All cases are typically heard by a panel of three to five judges, depending on the complexity of the case. One of the judges will have primary responsibility to handle interim disputes between the parties.[8] Jurors will not usually decide trade secret cases.

Cases will typically take nine to 18 months in the court of first instance.

Causes of Action

There are three categories of claims that are usually included in a trade secret complaint:

- Trade secret misappropriation;
- Breach of confidentiality; and
- Patent ownership dispute.[9]

The patent ownership cause of action, commonly referred to as the clawback rule, is unique to China. It provides that if a former employee is named as an inventor on a patent that is related to the former employee's job duties, and filed within one year of leaving his former employer, that patent belongs to the former employer.[10]

This can be a very powerful tool against former employees who misappropriate trade secrets.

Fact Discovery and Experts

There is no U.S. style discovery in China. Each party needs to bring its own evidence to prove its claims. But there are limited ways for parties to get information from one another.

For example, a court can issue evidence preservation orders or evidence investigation orders.[11] These are available where, for example, there are concerns that the party possessing the evidence may destroy such evidence.

Additionally, trade secret cases in China often involve technical experts.

Several specialized IP courts, including the Beijing Intellectual Property Court and

Shanghai Intellectual Property Court, have set up a pool of technical investigators who may assist judges in their review of technical matters.[12] The parties are also usually allowed to engage their own experts.

Preliminary and Permanent Injunctions

Obtaining a preliminary injunction for a trade secret matter in China is possible, but rare. To succeed, a plaintiff must show a likelihood of success and irreparable harm.[13]

Once a preliminary injunction is issued, it may be enforced immediately, as in the U.S. Unlike a permanent injunction, preliminary injunctions will not automatically be stayed upon any appeal.

Early Resolution

Summary judgment is not available in China.

Chinese law does allow for an interim judgment, e.g., the judge can decide on the infringement issues first and issue an interim judgment on infringement, which is appealable. This may happen in complex cases, where it may take much longer than average to conclude the entire case.

Judges will usually check with the parties regarding court-conducted mediation. If both parties agree, the judge will schedule it. If not, the parties can choose to engage in private mediation or go to trial without mediation.

Making the Case as a Trade Secret Owner

Chinese trade secret law was amended in 2019, shifting the burden of proof and making it easier for the plaintiff to prove its case.[14]

Under current law, once evidence on trade secret misappropriation is produced, the defendant has the burden to disprove that.[15]

In addition, the plaintiff does not need to prove actual access to the trade secrets. Instead, the plaintiff only needs to show that the accused party had channels or opportunities to access the alleged trade secrets.[16]

Defending the Case as an Accused Misappropriator

There are two typical ways that a defendant will try to show that it is not liable for trade secret misappropriation.

First, the defendant may try to show that the alleged trade secrets were in the public domain. Second, the defendant may seek to prove that it independently developed or reverse engineered the trade secrets.

However, the defense of reverse engineering is not available if the plaintiff shows that the accused party had unauthorized access to the trade secrets before engaging in any reverse engineering.[17]

Remedies

Injunctions and damages are both available remedies in China.

The maximum statutory damages recently increased from RMB 1 million to RMB 5 million. [18] A 2019 amendment also introduced punitive damages up to five times in cases of willful and malicious misappropriation or repeated infringements.[19]

The damages rules are similar to patent cases. Damages are based on the actual loss suffered due to the infringement or the profits gained by the accused party. But because China lacks U.S.-style discovery, it is challenging to gather evidence of damages. As a result, courts award statutory damages in the majority of cases.

The Supreme People's Court has created a new system to address this problem. Under the new procedure, if the plaintiff has provided preliminary evidence of lost profits, the plaintiff may submit an application to order the defendant to provide its accounting books and records. If the defendant refuses to comply, the court may determine the lost profits based on the claims and evidence the plaintiff provided.[20]

This system significantly reduces the burden on the plaintiff, avoiding overreliance on statutory damages.

Indeed, last year, the Supreme People's Court awarded a record high damages award in *Geely v. WM Motor*, about RMB 640 million (\$88 million), in a case related to electric vehicle technology.[21]

And in *Sennics Chemical v. Yuncheng Jinteng*, the Supreme People's Court relied on the plaintiff's actual loss report in a corresponding criminal case to order the defendant to pay over 200 million RMB (about \$28 million USD).

Appeal

Either side can appeal the judgment of the first instance. Domestic parties have 15 days to file an appeal, while foreign parties have 30 days. [22] Appeals usually take between six to twelve months. Unofficial statistics estimate the reversal rate to be less than 15%.

Criminal Proceedings

Trade secret misappropriation can also be a criminal offense in China if the losses suffered by the trade secret owner exceed RMB 300,000 (approximately \$40,000 U.S.).[23]

Criminal enforcement sends a strong message. It has become a preferred enforcement mechanism for victims of trade secret misappropriation because local enforcement authorities have more power to gather evidence and prove the misappropriation. As a result, public prosecutions doubled in 2023 compared to 2022.[24]

Commercial espionage, meaning espionage of trade secrets to the benefit of foreign parties, is a new crime in China.[25] The law bears some similarities to the Economic Espionage Act in the U.S., but there are significant differences.

Whereas economic espionage laws in the U.S. are generally targeted toward the provision of trade secrets to foreign governments, Chinese commercial espionage laws are broader and apply against all foreign parties, regardless of whether they are government entities.

China punishes commercial espionage with up to five years of imprisonment. Criminal trade secret violations, by comparison, are punishable by up to three years in prison.

Conclusion: When to File in China

Every case is different, and strategy depends on the parties involved, the technology involved and the client's goals for trade secret protection.

Damages are generally not as high in China as they might be in the U.S., but there are different burdens of proof and preliminary injunctive relief that may be appealing to a U.S. company seeking to protect its trade secrets in China.

Andrea Jeffries is a partner at Jones Day.

Haifeng Huang is a partner and leader of the greater China intellectual property practice at the firm.

Ariana Wilner is an associate at the firm.

The opinions expressed are those of the author(s) and do not necessarily reflect the views of their employer, its clients, or Portfolio Media Inc., or any of its or their respective affiliates. This article is for general information purposes and is not intended to be and should not be taken as legal advice.

[1] *Geely v. WM Motor*, the Supreme People's Court, case number: (2023) Zui Gao Fa Zhi Min Zhong No. 1590.

[2] Article 124, Civil Procedure Law of the People's Republic of China (2023 Amendment).

[3] Article 124, Civil Procedure Law of the People's Republic of China (2023 Amendment).

[4] Article 62, Civil Procedure Law of the People's Republic of China (2023 Amendment).

[5] Article 283, Civil Procedure Law of the People's Republic of China (2023 Amendment).

[6] Articles 22 and 29, Civil Procedure Law of the People's Republic of China (2023 Amendment).

[7] Articles 18 and 19, Civil Procedure Law of the People's Republic of China (2023 Amendment).

[8] Article 40, Civil Procedure Law of the People's Republic of China (2023 Amendment).

[9] Articles 176, 151 and 160, Provisions on the Causes of Action for Civil Cases (2020).

[10] Article 13, Rules of Implementation (2023).

[11] Article 84, Civil Procedure Law of the People's Republic of China (2023 Amendment).

[12] Article 29, Several Provisions of the Supreme People's Court on Evidence in Civil Procedures Involving Intellectual Property Rights.

[13] Article 15, Provisions of the Supreme People's Court on Several Issues Concerning the Application of Law in the Trial of Civil Cases Involving Infringements upon Trade Secrets.

[14] Article 32, Anti-Unfair Competition Law (amended 2019) (China).

[15] Id.

[16] Id.

[17] Article 14, Provisions of the Supreme People's Court on Several Issues Concerning the Application of Law in the Trial of Civil Cases Involving Infringements upon Trade Secrets.

[18] Article 17, Anti-Unfair Competition Law (amended 2019) (China).

[19] Id.

[20] Articles 24 and 25, Several Provisions of the Supreme People's Court on Evidence in Civil Procedures Involving Intellectual Property Rights.

[21] Geely v. WM Motor, the Supreme People's Court, case number: (2023) Zui Gao Fa Zhi Min Zhong No. 1590.

[22] Articles 171 and 286, Civil Procedure Law of the People's Republic of China (2023 Amendment).

[23] Notice by the Supreme People's Procuratorate and the Ministry of Public Security of Issuing the Decision on Amending the Criteria for Launching Formal Investigation into Criminal Cases of Infringement upon Trade Secrets (2020).

[24] Jerry Xia, Ning Dong, and Yulu Wang, Trade Secrets 2024: China, Chambers and Partners, April 25, 2024, <https://practiceguides.chambers.com/practice-guides/trade-secrets-2024/china/trends-and-developments>.

[25] Criminal Law art. 219-1 (China).