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# HELPDESK UPDATE

## Issue 8 - Focus on Trade Secrets

### Helpdesk News

Newest E-learning module on copyrights now available on the online portal

### About Trade Secrets in China

Learn about what trade secrets are and what steps you can take to best protect them

### Case Study

Read about a successful judicial enforcement of trade secrets stolen by a former employee

## Helpdesk News

The copyrights E-learning module, the fourth in a series of E-learning modules from the Helpdesk is now available. Written by Helpdesk experts, the 30-minute online training assists SMEs in learning about copyright in China and why it is relevant to all businesses, not just content producers.

## About Trade Secrets in China

Nearly all businesses in all industries and sectors possess trade secrets, which are valuable and highly useful form of IPR. Unlike registrable IP that have a finite term, trade secrets can theoretically enjoy an infinite term of protection as long as the trade secret remains just that – a secret. However, once the information becomes public, it no longer enjoys any legal protection. Prevention is the golden rule when it comes to trade secrets. Consider the following steps to protect your trade secrets in China.

### Step 1: Know Your Secrets

A trade secret is any non-public information with commercial value and that is guarded by confidentiality measures. Examples of trade secrets include: business model, new online concept, design techniques, formulas, work flow processes, customer lists, contract terms, marketing strategy, and any other information with potential commercial value. It is important to catalogue what trade secrets you may have, rank them and regularly update the list.

### Step 2: Keep It Secret, Keep It Safe

It is important to remember that once trade secrets become publicly known, they can no longer be protected as trade secrets.

Keeping trade secrets safe involves using a combination of physical, technical and contractual barriers and implementing a trade secrets protection policy. Any business can and should take simple, sensible precautions. You could simply mark documents as "CONFIDENTIAL" or lock files away after business hours (physical barriers); you can also use passwords on documents and log-in features (technical barriers). Finally, you can also use contractual barriers such as non-disclosure or confidentiality agreements, which are considered one of the best ways to protect trade secrets.

### Step 3: Don't Forget Your Employees

A typical theft of trade secrets generally involves a former employee leaving the company for a competitor and leaking secrets to the new employer. The best way to avoid such a situation is to include a non-disclosure agreement in employment contracts. Consider holding exit interviews and have leaving employees return documents and other potentially sensitive materials, and remind the employee of the non-disclosure agreement.

Trade secrets may also be inadvertently disclosed by employees. In China in particular, your employees may not have the same understanding of IP rights as you do. Periodically remind your employees what kind of information is proprietary, how it should be kept confidential, and what your expectations are.

### Step 4: Dealing with Third Parties

Another common way trade secrets are disclosed is during business dealings or negotiations with business partners. Your trade secret protection policy should address the protocol to be followed when dealing with third parties.

Many foreign companies in China find it difficult to insist on a pre-negotiation non-disclosure agreement with Chinese parties, who often claim a handshake

If you have an IPR issue, or any questions about IPR in China, please contact: [enquiries@china-iprhelphdesk.eu](mailto:enquiries@china-iprhelphdesk.eu)

between two friends should be enough. When confronted with such a scenario, it is important to know when to walk away. The party that refuses a reasonable request for a mutual non-disclosure agreement is also the party that is most likely to misappropriate your trade secrets.

Even after an agreement is signed, make sure you continue to monitor your partners, suppliers or licensees to make sure they are complying with your trade secrets protection policy.

### **Step 5: What to Do When Your Secret is Out**

The key to protecting your trade secrets is prevention. China provides for administrative, civil and criminal protection for trade secrets, but by the time you have to consider legal action through any one of these channels, your trade secret and commercial advantage may already be lost.

Litigation is the primary channel for pursuing a remedy for the misappropriation of your trade secrets in China. If you are successful, the court can require the infringer to pay you damages and stop using the trade secret.

In addition to litigation, unlike in many other countries, China provides an option of administrative enforcement for simple trade secret cases. In serious cases where your losses total more than RMB 500,000, your infringer may be fined and/or imprisoned for up to three years.

## **Case Study**

### **Background**

Company A was engaged in the development and sale of integrated circuit cards (IC cards). While still employed by Company A, an employee contacted a rival IC card manufacturer Company B and helped it to establish a competing IC card manufacturing operation. Several months later, the employee quit. Almost immediately after the employee's departure, Company A discovered that Company B was selling an identical IC card system using nearly identical technology.

### **Action Taken**

Company A requested the court to preserve evidence from Company B's business premises and obtained the two computers containing Company A's software, Company A's design diagrams, customer lists, marketing materials, technical documents, and note from the employee containing technical specifications for modifying Company B's IC card software.

Company A then sued Company B and the former employee.

### **Outcome**

The People's Court ruled in favour of Company A and awarded damages of RMB 136,450 (approximately EUR 14,800), acknowledging the fact that the IC card technology was indeed a trade secret with commercial value, and the employment contract with confidentiality provisions demonstrated Company A's efforts to keep the information a secret.

### **IP Lessons**

- **Prevention is the key to protection.** More often than not, once a trade secret is disclosed, the damage is already done and it is often very difficult to recover its value, even if you succeed in litigation.
- **Establish an internal management system for trade secrets.** As your employees in China may not have the same understanding of proprietary information and intellectual property rights as you, it is important to educate them on what can or cannot be disclosed. Adopt appropriate measures to mark and store confidential documents.
- **Require all employees to sign an employment agreement with strict confidentiality provisions.** When a current or former employee steals your trade secrets, having an employment agreement with confidentiality provisions is essential to show that you took measures to keep it secret.