

Keeping a Trade Secret Part II

Nearly all businesses in all industries and sectors possess trade secrets. Trade secrets are a valuable and highly useful form of intellectual property right (IPR). As the name suggests however, trade secrets are a non-registrable form of intellectual property; they only enjoy legal protection as long as they are not disclosed publically. It is therefore crucial to prevent your trade secrets from being divulged in the first place. Once out, there is usually very little you can do about it. This concluding piece of a two-part article describes measures you can take to help ensure trade secrets aren't lost through employees and third parties as well as options available to you should your secrets be disclosed. Check the last issue of Eurobiz for part I of this series which outlined how to identify a trade secret and the physical, technical and contractual barriers you can put in place to protect them.

Don't Forget Your Employees

Most theft of trade secrets cases involves current or former employees, disgruntled or otherwise. A typical theft of trade secrets case generally involves an employee leaving the company for a competitor and the company discovering shortly after that its competitor is selling a product that looks suspiciously familiar.

The best way to avoid such a situation is to have an employment agreement with non-disclosure provisions. In addition, you should periodically remind your employees about their confidentiality obligations. For employees who are leaving the company, be sure to hold exit-interviews, have them return documents, materials, computers, and files. For new employees, you should ask them whether they have a non-disclosure agreement with their former employer and to take appropriate steps to make sure you do not misappropriate their former employer's trade secrets. For an important or senior-level employee who is intimately knowledgeable about your business, you may want to consider also having a non-compete agreement of a reasonable duration that complies with China's Labour Contract Law.

Trade secrets may also be inadvertently disclosed by employees. For example, an overzealous engineer may give away too much technical information when giving a conference presentation. Also, in particular for China, your employees may not have the same understanding of IP rights and proprietary information or expectations about protecting such information as you do. For example, your employees may not immediately understand that a project proposal or marketing proposal may contain valuable sensitive information.

Dealing with Third Parties

Another common way trade secrets are disclosed is during business dealings or negotiations with potential partners, suppliers, contractors, licensees, customers, etc. Generally, you should insist that both parties sign a mutual non-disclosure agreement before any discussions begin or documents are

transferred. After the negotiations have reached a certain stage, both parties should enter into a Memorandum of Understanding (MOU) outlining the structure of the deal, what information will be shared, and the respective non-disclosure obligations of both parties. Finally, once an agreement has been reached, the final agreement should identify who owns what information, what information was exchanged, and the respective non-disclosure obligations of both parties. Explaining that it is your policy to have a non-disclosure agreement in place before negotiations begin is a good way to demonstrate your professionalism and respect for your counterpart's IPR. Having the agreement already drafted also helps to minimise the issue so that you can move forward with your negotiations.

Many foreign small and medium-sized enterprises (SMEs) operating in China find it difficult to insist on a pre-negotiation non-disclosure agreement when dealing with Chinese parties who often claim that such requests are "hostile" or "unnecessary". The prospect of losing a potential business opportunity often leads many SMEs to move forward with negotiations without an agreement. However, this may prove costly when the other party starts using the information to compete against you. Therefore it is important to know before you enter negotiations 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. Finally, being business savvy is also important. For example, if the Chinese party requests to see your designs, you can request that they view them at your business premises or send only rough sketches.

Even after an agreement is signed, it is important to make sure you continue to monitor your partners, suppliers or licensees. You may wish to negotiate the right to make unannounced visits and to conduct periodic audits in your agreement.

What to Do When Your Secret is Out

The key to protecting your trade secrets is *prevention*, but if you find that your trade secrets may have been stolen, the first step is to conduct an internal investigation and to preserve as much evidence as possible, including documents and E-mails. It may be necessary to engage the services of an external investigator to gather all the information, after which you and your lawyer can decide the best course of action.

Litigation is the primary means to pursue a remedy for the misappropriation of trade secrets in China. If you are successful, the court can require the infringer to pay you damages and order them to stop using the trade secret. In order to be successful in a theft of trade secrets case, you need to prove with sufficient evidence that:

- (a) You have and own the trade secret in question, including that it is tangible, has commercial value, and you have taken measures to protect it.
- (b) The defendant possess information that is identical or substantially identical to your trade secret.
- (c) The defendant used improper means to obtain it.

The court will place a heavy burden on you to prove these three elements with direct evidence, which in a Chinese litigation scenario is almost exclusively in the form of documents as a court will usually not permit witnesses to testify. Although you can request the court to go to the defendant's business premises to obtain evidence, there is no guarantee that the court will find the evidence you need. Because of these reasons, it is very important to have a sufficient record and proper documentation already in your possession.

In addition to litigation through the court system, unlike in many other countries, China provides for administrative enforcement in trade secret cases. Through the local Administration for Industry and Commerce (AIC) it is possible to stop the sale of products manufactured using your trade secret and to obtain administrative penalties against the infringer ranging from RMB 10,000 to RMB 100,000. However, in practice, it can be difficult to get the AIC to accept your case, particularly if complex technology is involved.

Theft of trade secrets is also a crime in China where the loss to the injured party is more than RMB 500,000. If the Public Security Bureau conducts a criminal investigation, infringers may be fined and/or imprisoned for up to three years, or in very serious cases, such as those involving a loss of more than RMB 2.5 million, for up to seven years.

Take-away Messages

- As with most IP, the best way to protect trade secrets is a *prevention strategy* that ensures your employees have a clear understanding of what constitutes a trade secret and know their role in protecting it. Your business should also take extra steps to create clear contractual clauses to prevent leakage via employees and business partners.
- Whilst a prevention strategy is the best way to protect your trade secrets, if you find your trade secrets have been stolen then the first step is to conduct an internal investigation while preserving as much information as possible. It also may be necessary to consider hiring an external investigator.
- It is important to remember that in China, litigation is the main way to pursue a remedy for the misappropriation of your trade secrets. However, you must ensure that enough evidence has been collected for your case or else it can be very difficult for you to prove trade secret infringement.

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