

# Patent Enforcement in China

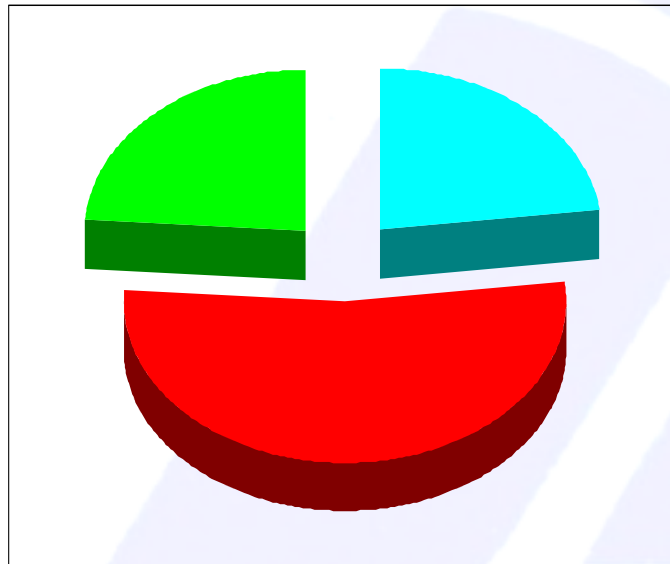
Christopher Shaowei

NTD Intellectual Property Attorneys

Prepared for China IP Road Show

# Statutory Subject Matters Protected by Patent Laws

Percentage of Three Types of Patents Granted in 2017



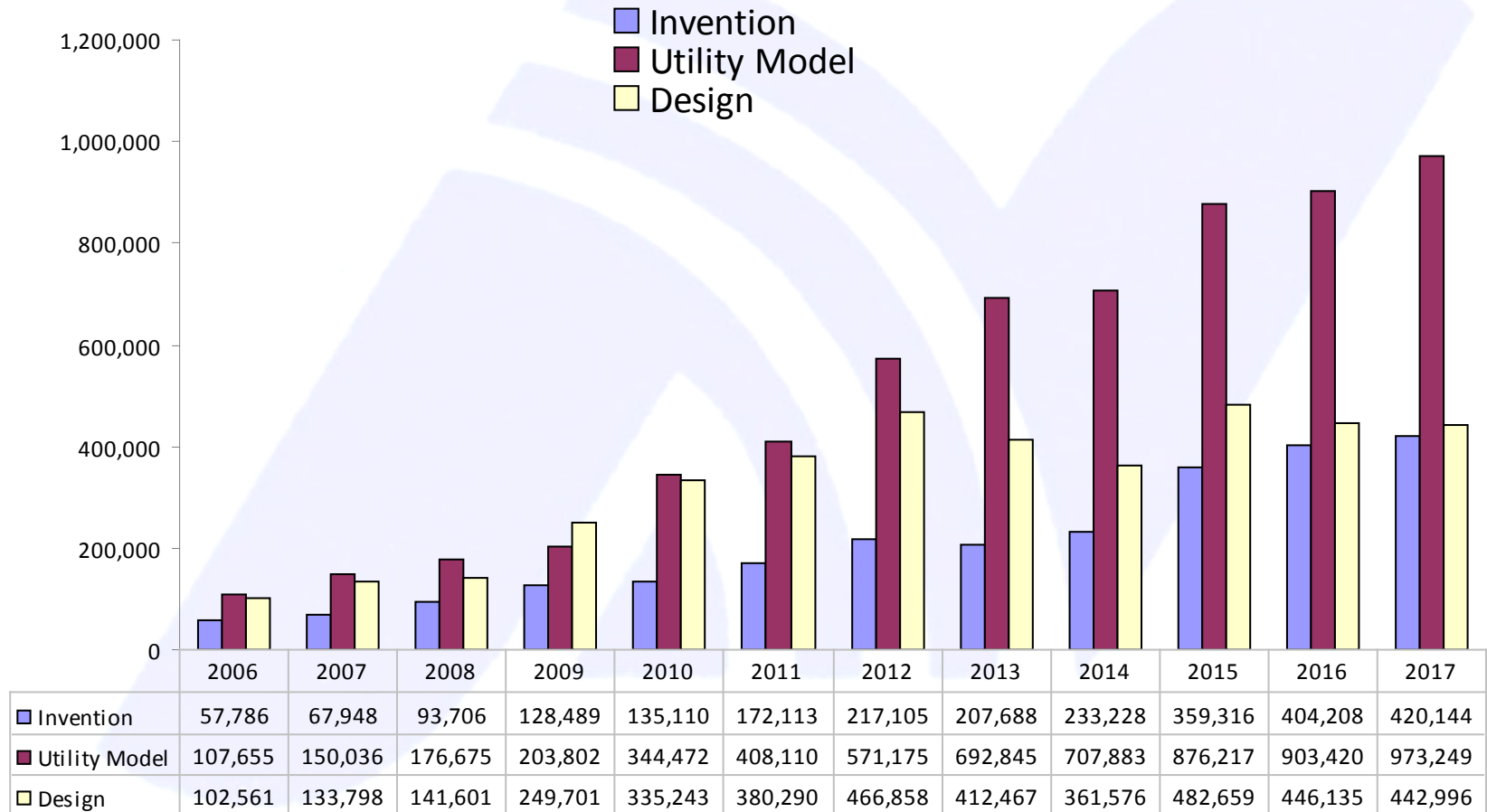
- Utility Models: 53%
- Invention Patents : 23%
- Design Patents : 24%

- Invention Patents: 20 years
  - Manufactures
  - Machines
  - Processes
    - Computer-related Invention and Business Method
  - Compositions
- Utility Models ( comparing with “Gebrauchsmuster”) : 10 years
  - Manufactures (Products)
  - Machines
- Design Patents: 10 years
  - Shapes
  - Patterns
  - Colors with the combination of shape and/or pattern

# Case Study: Chint vs. Schneider Electric

- July 2006, Chint accused Schneider Electric of infringement of its one of utility models.
- April 2007, Chint's utility model was confirmed valid by Reexamination Board of Chinese Patent Office
- September 2007, Schneider Electric lost the infringement lawsuit and was ordered to pay **\$48 million** in damages.
- April 16, 2009, Schneider settled the case by the payment of **\$22 Million**

# Overviews of Patents in China



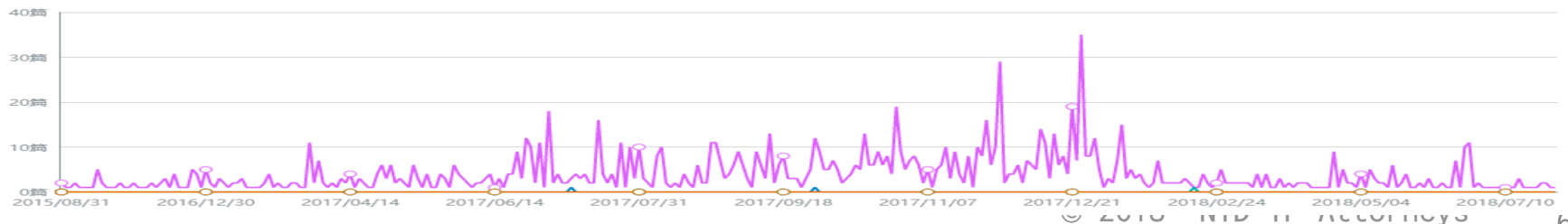
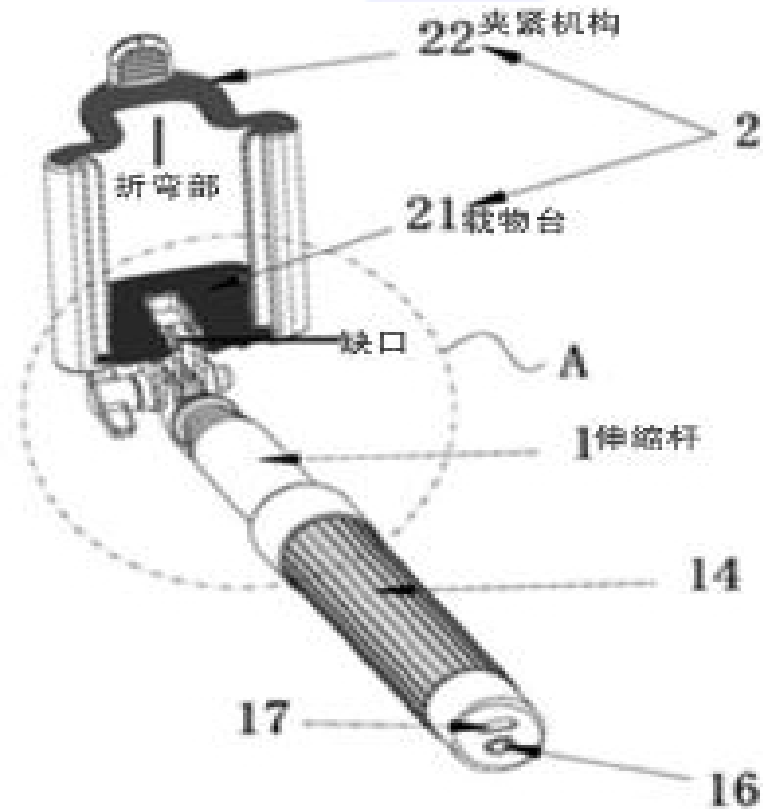
Sources : <http://www.sipo.gov.cn/tjxx/>

# Case Study: Longcheng Co. vs. Tongba Co.



- Patent In Dispute :
  - No. ZL01242571.0
  - Front wheel positioning device
- Damages awarded and affirmed by Hubei Ct.: CNY 140K(about \$22K)
- Supreme Court: CNY 1M (about \$150K )

# Case Study: A Local UM Related to a Selfie Stick

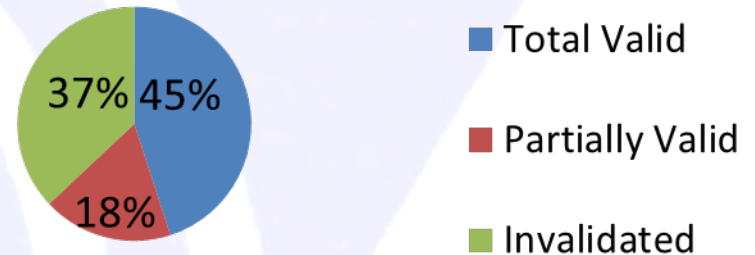


# Statistics of Invention Patents vs. Utility Models

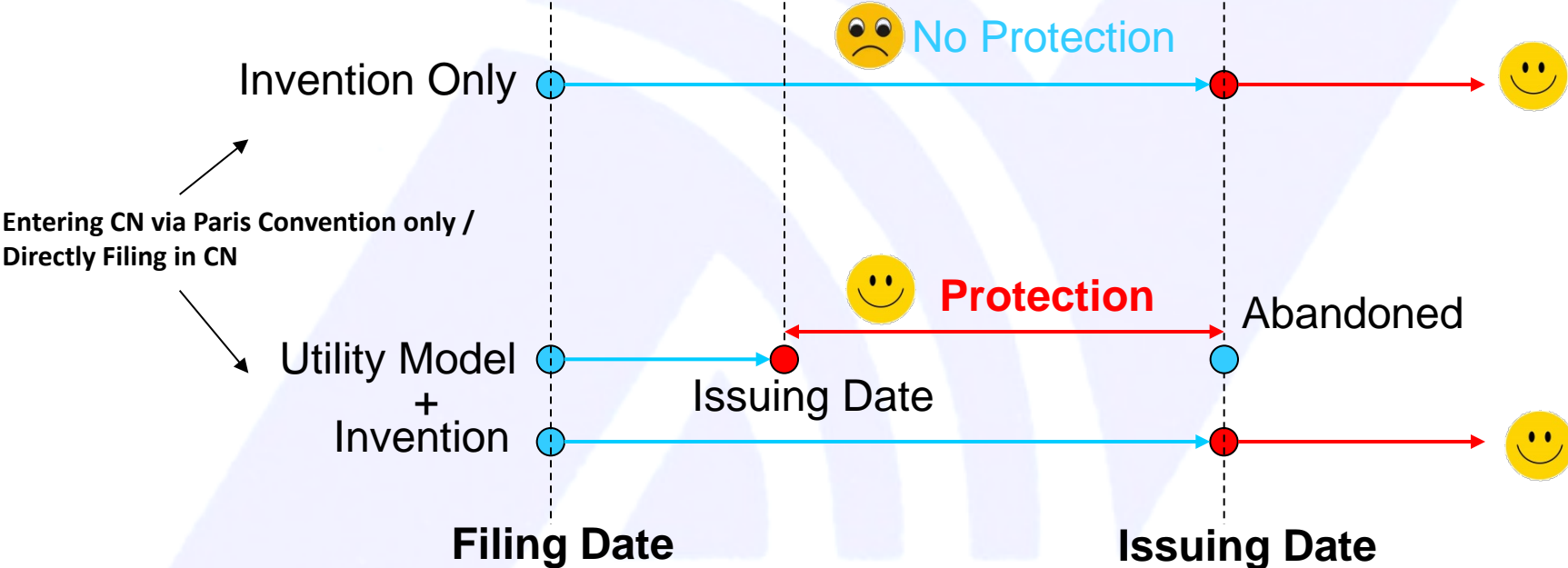
### Invalidated Rate for Invention Patents



### Invalidated Rate for Utility Models



# Serial Strikes by Utility Modal and Invention





# Case Study: Shi vs. Henli Vehicle

- Two applications were filed
- Claims 1-3 of **the invention patent** application were rejected due to lack of inventiveness in OA1
- Still pending



- **The UM** was granted and
- later Initiated a litigation

- Infringement litigation based on **the UM** was initiated
- Infringement was established and 500K RMB (80K USD) awarded

- **Jiangsu High Court**
- **(2017) Suminzhong No. 1755**

**A Starter of Internal Combustion Engine**

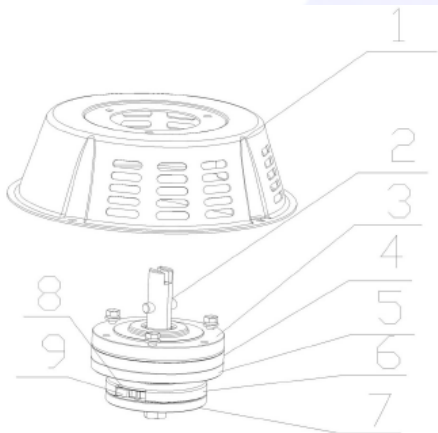


图1

# Criterion for Inventive Step

	Utility Models	Inventions
Prior Art's Technical Fields to be considered	Same (emphasis) Close or relevant (selective)	➤ Same ➤ Similar, close or relevant
Amount of Prior Art to be combined	At most two pieces	No limitation
Claims under the Same Invention	Broad	Narrow
Same Claims under the Same Invention	More Stable	Stable

# Post-Procedures After Registration

	Utility Models	Invention Patents
Evaluation Report System Quasi-Substantive Examination	Yes <ul style="list-style-type: none"> <li>✧ 1-Instance Final</li> <li>✧ 2 months: must finish within 2 months.</li> <li>✧ Ex Parte</li> </ul>	No
Invalidation Procedure	No Difference	

# Case Study: Jia vs. Xusen Coating

- Two applications were filed
- Notarized purchase of accused infringing product
- Litigation was initiated
- **The UM** was alleged for the damages before 12.16. 2019 and **the invention patent** was alleged for the injunction and damages after 12.16.2019
- Infringement was established



- **The UM** was granted
- **The UM** was abandoned
- **The Invention Patent** was granted

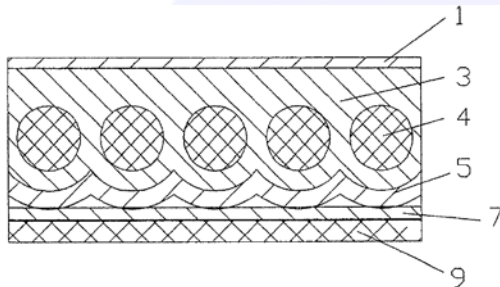
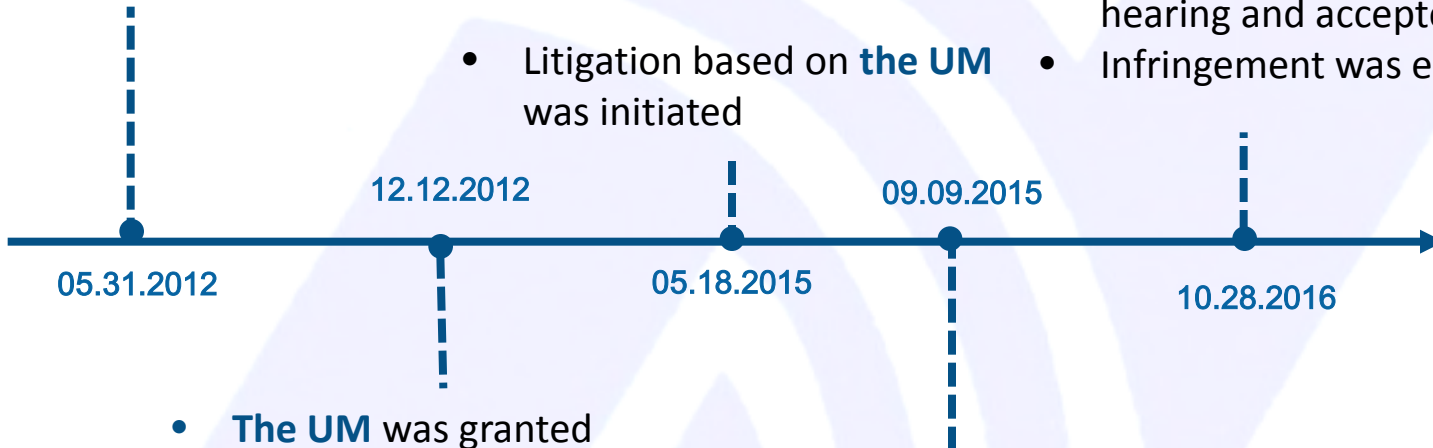


图3

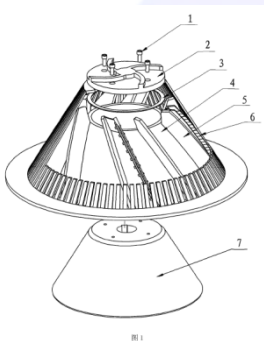
- **Guangzhou Intermediate Court**
- **(2011) Suizhongfaminsanchuzi No. 103**

# Case Study: Huayou Feida vs. West Equipment

- Two applications were filed



- **The invention patent** was alleged by replacing **the UM** during the court hearing and accepted by the court
- Infringement was established



- Beijing IP Court
- (2015) Jingzhiminchuzi No. 828

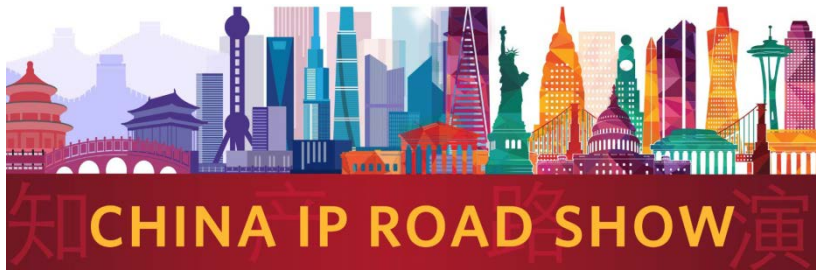
# Thanks

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Louisville, KY: July 25, 2018

Iowa City, IA: August 28, 2018

Kansas City, MO: August 30, 2018

New York, NY: September 27, 2018

**By Amy Hsiao**

Partner at **Swanson & Bratschun**

2018 China IP Roadshow with USPTO

## 3 Key Differences in China



# Agenda

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- 25 slides
- 3 key differences
- 1 story





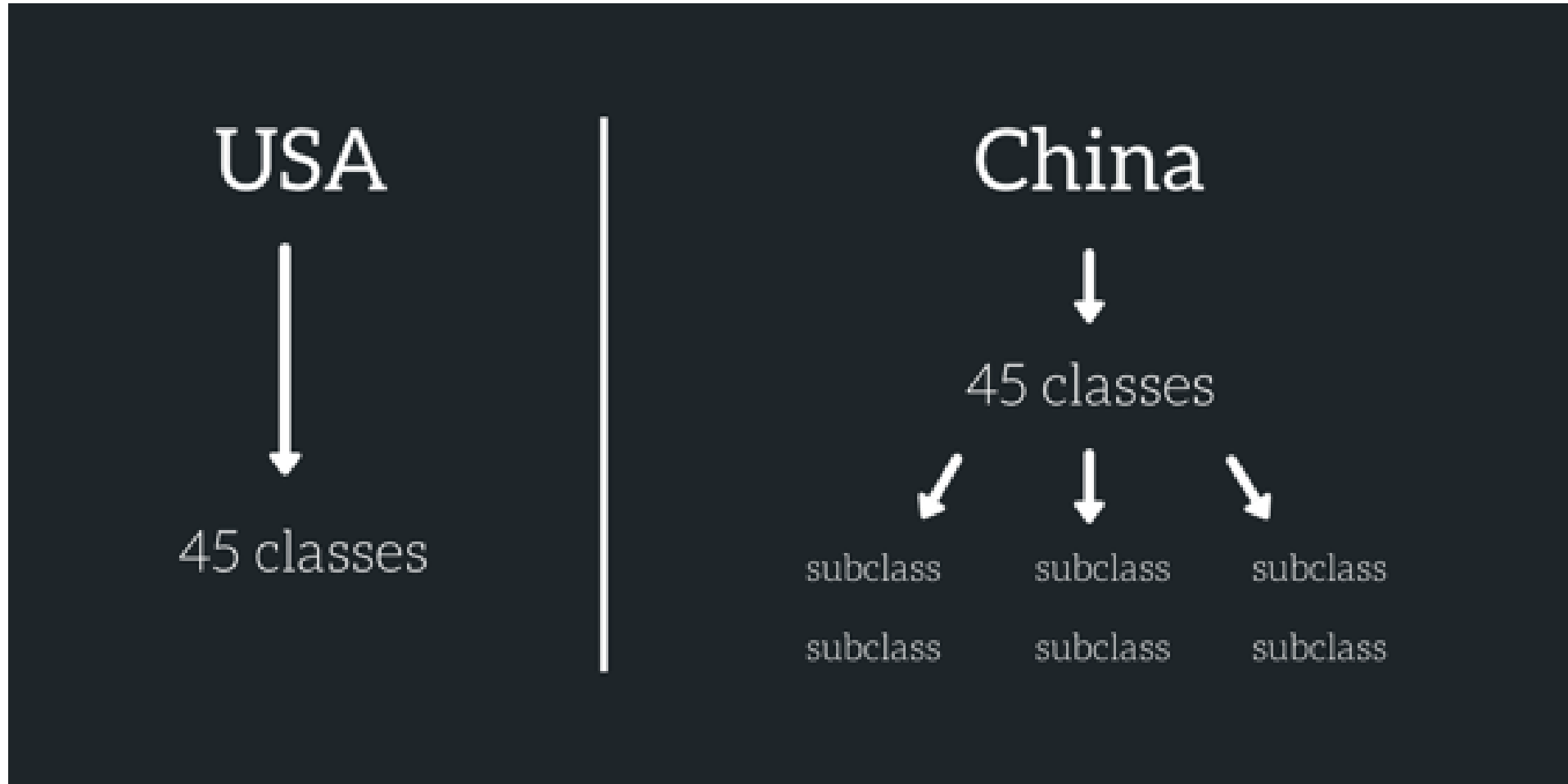
# 5 million

Chinese trademark applications  
January 2017 – November 2017

月份	2017年	去年同期	增长数	同比增长
1	279,722	272,826	6,896	2.53%
2	230,325	152,157	78,168	51.37%
3	375,451	339,450	36,001	10.61%
4	517,101	333,713	183,388	54.95%
5	530,552	344,508	186,044	54.00%
6	558,871	353,682	205,189	58.02%
7	523,658	335,571	188,087	56.05%
8	571,416	360,865	210,551	58.35%
9	573,355	324,131	249,224	76.89%
10	451,612	281,350	170,262	60.52%
11	505,303	363,207	142,096	39.12%
合计	5,117,366	3,461,460	1,655,906	47.84%

# Difference #1 -

# China Subclass system



Western ID → very  
specific, based on use,  
literal


China ID → subclass  
system




Meaning: “formally  
different”

Subclass  
System

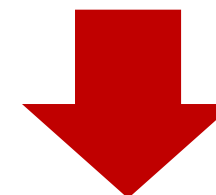


# Using Madrid or Typical Western Filing Strategies



	/ 服务列	光学品；紧凑型光谱仪； 光学器械和仪器； 查看详细信息...	类 似 群	0911
	/ 服务列	计算机硬件安装、维护和 修理； 查看详细信息...	类 似 群	3706
	商 品 / 服 务 列 表	颜料：适用于改变材料光 学性质的涂料；提供安全 和品牌保护、鉴别以及辨 别的柔版、雕刻凹板以及 凹版印刷油墨，以及高性 能涂料和分散剂；光学涂 料；涂覆在基层上的薄膜 和多层光学涂料；油墨、 染料、油漆、塑料、纸制 品和纺织品中用的颜料和 工业涂料，亦在油墨。	类 似 群	0202

# Using the Western Way to Seek Protection in China



Class	Total Subclasses	Subclass Coverage	Number of Subclasses NOT covered
Class 1	16	<ul style="list-style-type: none"><li>0102 (industrial raw material) or</li><li>0106 (chemical reagent)</li></ul>	14
Class 5	8	<ul style="list-style-type: none"><li>0501 (medicine)</li></ul>	7
Class 9	24	<ul style="list-style-type: none"><li>0901 (computers/software) or</li><li>0910 (measuring/lab/scientific instruments)</li></ul>	22
Class 10	9	<ul style="list-style-type: none"><li>1001 (surgical/dental/vet apparatus) or</li><li>1003 (electronic/x ray/nuclear medical apparatus)</li></ul>	7
Class 40	15	<ul style="list-style-type: none"><li>4001 (custom processing and info for others)</li></ul>	14
Class 42	12	<ul style="list-style-type: none"><li>4209 (R&amp;D services) or</li><li>4211 (chemical research)</li></ul>	10

## This is Why...

- Already have Cl. 25 T-shirts → infringer: **gloves**
- Already have Cl. 28 fitness equipment → infringer: **gym bags**
- Hotel services vs. **high end alcohol, furniture**

## Western vs. China Practice

- Prepare ***specifications***
- Review ***watch notices***
- Review and evaluate ***clearance searches***
- Key question: Do you REALLY have rights in China?



# Take Away Points

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## This is Why...

- US is specific → IR extension → China
- Over time:
  - Many oppositions, still lose
  - Investment \$\$ but realize no rights

## Conclusion:

- *USA → go narrow; China → go broad*

# Difference #2 –



Products / Landmark Trademark Cases in China. An In-Depth Analysis / Hardcover

## Landmark Trademark Cases in China. An In-Depth Analysis

\$195.00

**Contributor(s)**  
By Wang Ze, Zhou Yunchuan, Zhou Bo, Rui Songyan, Xu Lin  
Translated by Hui-Wen (Amy) Hsiao

Qty:

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**Publish Date**  
05/05/2017

When will my product ship?

**Product Line**  
Kluwer Law International

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Simple Rule – Use does NOT give rise to rights in China (95% of the time)

China rarely recognizes common law rights

# Textbook -- China's Trademark System

# Relevant Provisions in China's Trademark Law

- **Article 13.2**

Where a mark is a reproduction, imitation, or translation of **a third-party's well-known trademark, which has not been registered in China**, and where the goods are identical or similar, which may cause public confusion and damage the interests of the registrant of the famous mark, no registration shall be granted and the use of the mark shall be prohibited.

就相同或者类似商品申请注册的商标是复制、摹仿或者翻译他人**未在中国注册的驰名商标**，容易导致混淆的，不予注册并禁止使用。

- **Article 32**

No trademark application shall infringe upon another party's existing prior rights. **Nor shall an applicant rush to register in an unfair manner a mark that is already in use by another party and that enjoys substantial influence.**

申请商标注册不得损害他人现有的在先权利，也**不得以不正当手段抢先注册他人已经使用并有一定影响的商标。**

# Examples

Cartier – Class 14 jewelry vs. *Cl. 19 ceramic tile*

MICHELIN– Class 12 tire vs. *Cl. 09 acoustics*

Chanel – Class 03 perfume vs. *Cl. 19 ceramic tile*

BMW– Class 12 automobile vs. *Class 25 clothing*

Lipton- Class 30 tea vs. *Class 11 Refrigerator*





# A TALE OF TWO GIANTS IN CHINA: WHY DID FACEBOOK WIN...

Two US brands recently battled brand squatters in China with very different outcomes. Facebook won. Apple lost. Jason Wang and Amy Hsiao look behind these different results for strategic insights. What are the key issues to bear in mind when an

## My Article

# ...AND APPLE LOSE?

of this article as a catch-all bad faith provision was controversial because the law's literal language gives the courts authority to go



trademark rights, even where those rights are widely recognised outside of China. And it remains a jurisdiction full of pitfalls for the average brand owner. Brand squatting remains an active and

# CHINA-BRITAIN BUSINESS FOCUS

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## Publication with Beijing



# Difference #3 –

# What is a Chinese mark?



"Treasure horse"  
(Concept)



Bottom line... 1 point





# Top Case #1

The New Balance Case

Is it possible to be an  
infringer to **YOUR OWN**  
brand in China?

# So ... what happened?

- Zhou owned a registration for “BAI LUN” (in Chinese characters) covering shoes **since 1996**;
- Zhou owned another registration for “XIN BAI LUN” (in Chinese characters) covering shoes since **2011**;
- New Balance was using “Xin Bai Lun” to promote and sell its footwear products in China;
- New Balance’s lack of registrations for that mark for footwear senior to those of Zhou’s in China; and
- New Balance’s significant sales under the Xin Bai Lun mark, resulting in substantial profits available as damages for infringement.
- In **2013**, Zhou sued New Balance under trademark infringement.

No.	Version #1	Version #2	Version #3	Version #4	Version #5
Characters	新百伦	新平衡	纽巴伦	纽百伦	新巴伦
English Phonetics	XIN BAI LUN	XIN PING HENG	NIU BA LUN	XIU BAI LUN	XIN BA LUN
Creation method	Translation (new) Transliteration (balance)	Translation (new + balance)	Transliteration	Transliteration	Translation (new) Transliteration (balance)





# New Balance Decision

- 1<sup>st</sup> court decision – USD \$15.6 M
- 2<sup>nd</sup> decision – around USD \$1M
- Also recognized:
  - Bad faith
  - Need to issue public statement to “erase negative infringement effect”

You probably have  
two questions...



# Last Point: WIPO / China

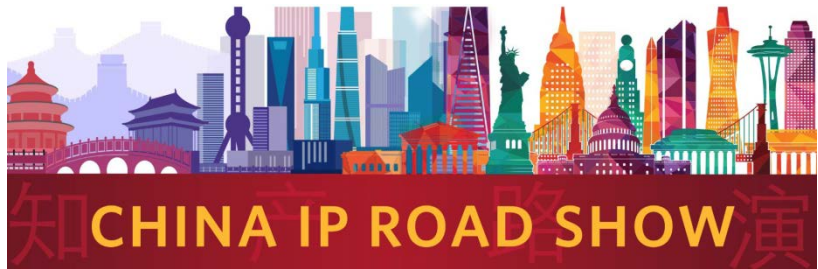


# Thank you.



# Amy Hsiao

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[www.lastweekinchina.com](http://www.lastweekinchina.com)
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- Firm website:  
[www.sbiplaw.com](http://www.sbiplaw.com)



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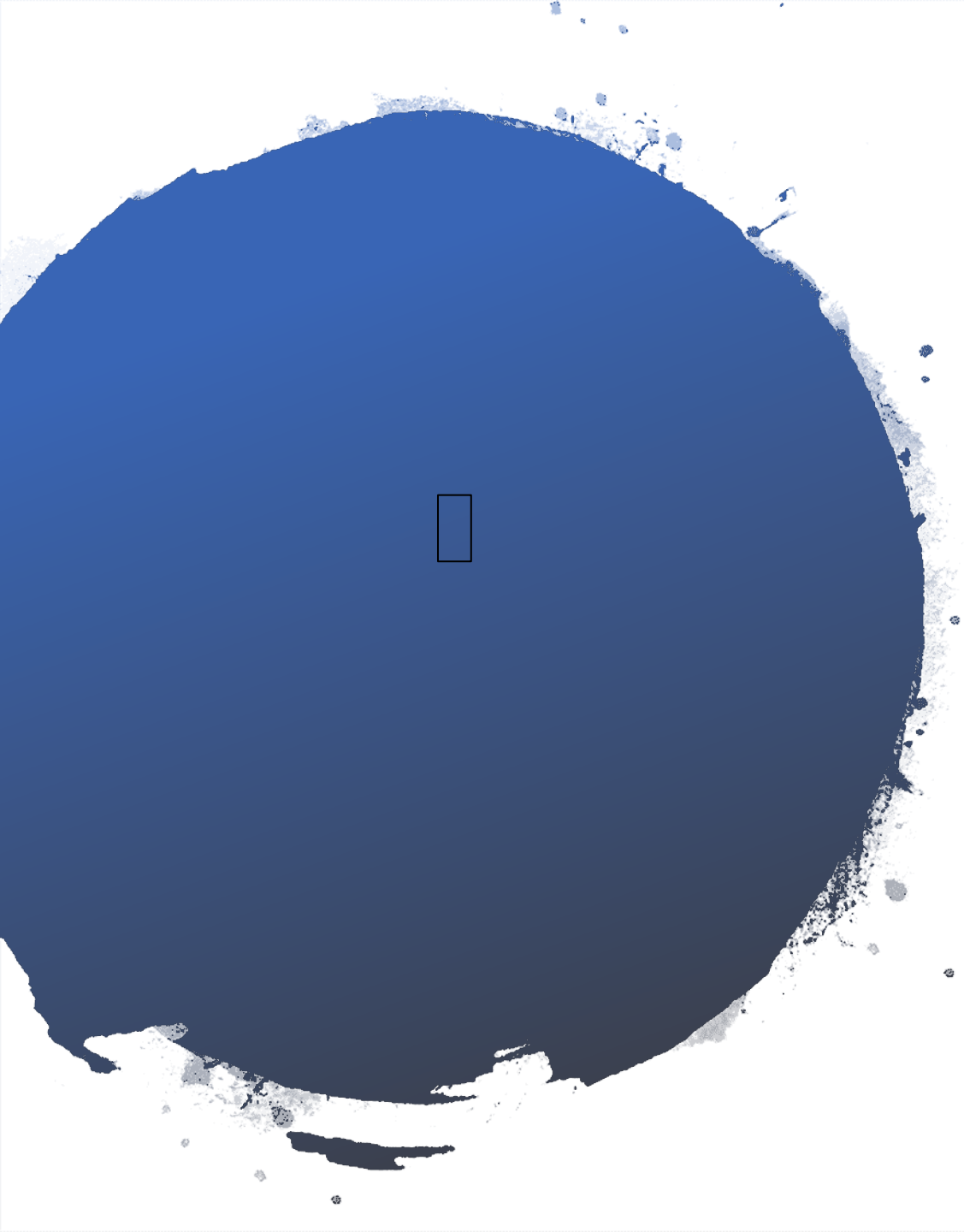
# Copyright in China



**By Amy Hsiao**

Partner at **Swanson & Bratschun**





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**How** to get copyright?

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**Why** is it called "super trademark"?

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**One Story:** The Most Recent Hot Topic?

# Recent Copyright Statistics in China

# Here's the Big Picture

- There were 1090 copyright cases in 2016 and 2352 cases in 2017, this is a **115.8% increase** within one year.
- In 2017, there was a total of 573 copyright cases which accounted for **24.4% of the total cases**. Overall the court made judgments in the plaintiff's **favour 88.1% of the time**.
- **Criminal** copyright case: around 70 in 2017; 115 arrested
- Top products seized for copyright issue: **books/magazines**

# How to obtain copyright in China?

# Four Primary Options

- **Most Direct** → “Legal Entity Work”
- **Work Made by Hire** → Ad agency (created by the outside)
- **Work Made by Employee** → The employee is the author, the employer is the copyright owner (created by the inside)
- **Assignment** → The assignee is the copyright owner

# Question:

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- Berne Convention?
- Primary Facie evidence for ownership
- Especially for enforcement.

# 作品登记证书

登记号: 国作登字-2018-F-00532180

作品名称: [REDACTED]

作品类别: 美术作

作者: [REDACTED]

著作权人: [REDACTED]

创作完成时间: 2014年11月

首次发表时间: 2014年11月

以上事项, 由 [REDACTED] 申请, 经中国版权保护中心审核, 根据《作品自愿登记试行办法》规定, 予以登记。

登记日期: 2018年04月09日

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作品类别: 美术作品

作者: [REDACTED]

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Here's another question!

Bad faith  
Invalidation

## Quick Summary

**Trademark Vs. Copyright –**  
Substantive Examination /  
Enforcement

**Chinese Copyright vs. US  
Copyright**

- Originality
- Enforcement – AIC can impose fines injunctions and confiscate products

Biggest **Advantage** of Copyright



“Super Trademark”???

## 1. 商标法第32条“在先权利”

第三十二条 申请商标注册不得损害他人现有的在先权利，也不得以不正当手段抢先注册他人已经使用并有一定影响的商标。

No applicant for trademark application may infringe upon another person's existing prior rights, nor may he, by illegitimate means, rush to register a trademark that is already in use by another person and has certain influence.

## 2. 著作权是在先权利

《商标审查及审理标准》四、损害他人在先权利审理标准 2.2著作权 2.2.1未经著作权人的许可，将他人享有著作权的作品申请注册商标，应认定为对他人在先著作权的损害，系争商标应当不予核准注册或者予以无效宣告。

Trademark examination guideline: Trademark application that deemed to infringed upon copyright of another person without permission for registration.

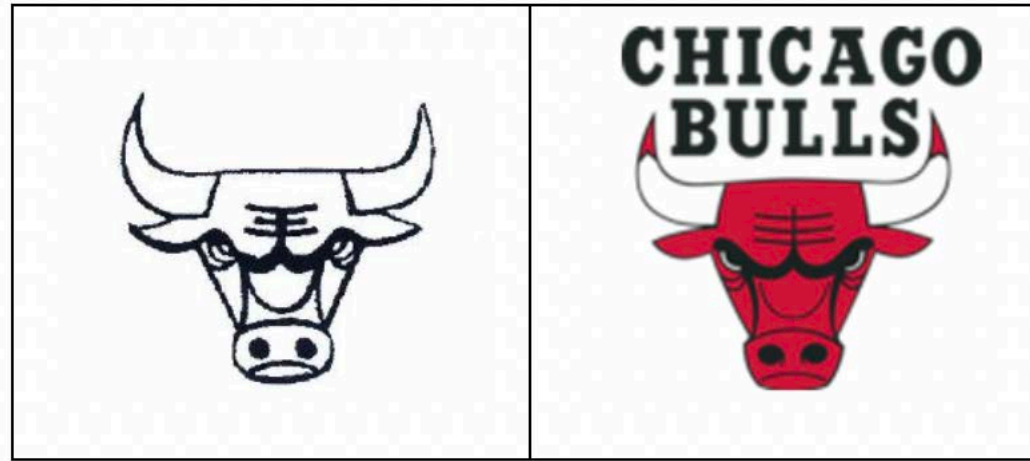
## 3. 在先著作权可以阻挡全类商标注册

For the purposes of Trademark Law, the protection granted to a registered trademark is usually limited to the certain class and certain designated goods or services of such trademark. However, if resorting to copyright as a prior right to oppose the application or invalidate the registration of a trademark, class, goods or services



Bottom Line

# Examples



Class 30

*First Instance: Beijing No. 1 Intermediate People's Court  
(No. 3818; 2012) – Decided on December 4, 2012*

*Second Instance: Beijing High People's Court (No. 343;  
2013) – Decided on September 5, 2013*

Question: Will  
a WKTM be  
sufficient to  
block this  
mark?

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Class 38, 41,  
29, 30, 32, 33  
Dried Fruit? Beverage?



Question:  
Can Others Use Copyright  
Against Your Business?

Familii Sangam MN

Telugu MN

Telugu Sangam MN

TH SarabunPSK

Times

✓ Times New Roman

*Trattatello*

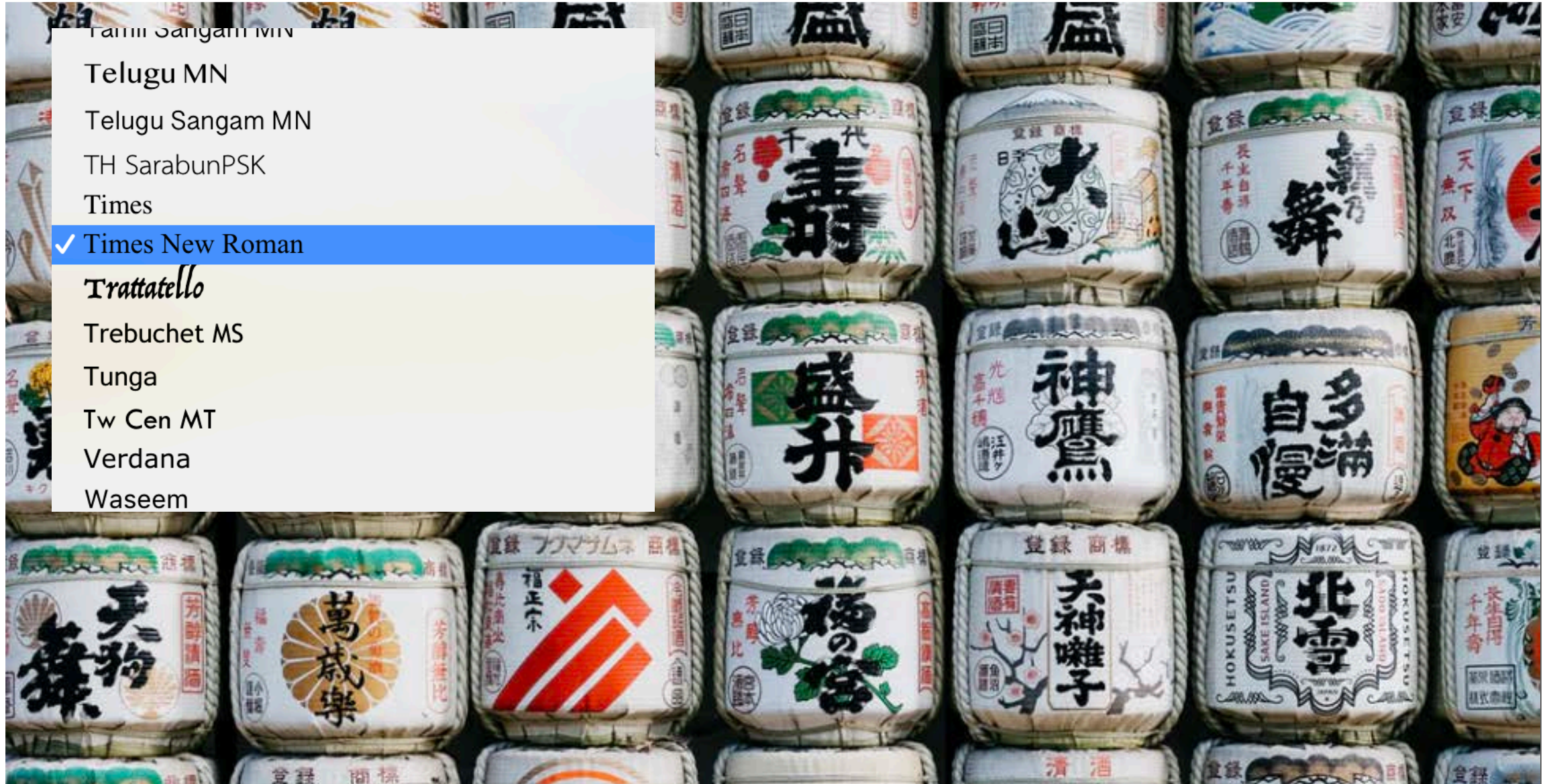
Trebuchet MS

Tunga

Tw Cen MT

Verdana

Waseem



1	北大方正电子有限公司起诉宝洁公司	<b>飘柔</b> 【倩体字】	/	一审法院：单字不享有著作权，不构成侵权 二审法院：属于合法使用，驳回上诉，维持原判	(2011)一中民终字第5969号
2	汉仪公司起诉笑巴喜公司	<b>笑巴喜</b> 【秀英体】	笑、喜	Infringement recognized; Injunction issued/damage granted.	
3	汉仪公司起诉福建双飞日化公司	<b>城市宝贝</b> 【秀英体】	城、市、宝、贝	Infringement recognized; Injunction issued/damage granted.	
4	北大方正诉上海跃兴旺、北京家乐福	 【方正平和体】	自、然、子	Infringement recognized; Injunction issued/damage granted.	
5	上诉人广州梦想家诉张海山	 【张海山锐谱体】	玛、雅	一审法院：侵权，判决赔偿5000元 二审法院：不侵权，	(2016)粤73
6	中易公司起诉微软公司	字库中的所有单字	/	Infringement recognized; Injunction issued/damage granted.	中易字库中的每个 5362号





# AMY HSIAO

美国律师，华尔街经历，全球并购 + 知识产权跨境诉讼策略整合国际经验

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- Connect on LinkedIn: <https://www.linkedin.com/in/amy-hsiao411/>
- Firm Website: [www.sbiplaw.com](http://www.sbiplaw.com)







# Thank you.

# Trade Secret Protection in China

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**Ruixue Ran**

**Covington & Burling LLP**

August 2018

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NEW YORK SAN FRANCISCO SEOUL SHANGHAI SILICON VALLEY WASHINGTON

# Outline

- Introduction
- IP v. contract claims in China
- Multi-jurisdiction protection
- Risk mitigation

# Introduction

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# Common Scenarios of Trade Secret Misappropriation

- Join a competitor
  - Sometimes using a labor dispatch arrangement to cover up
- Start a new company competing with the former employer
- Your partner, e.g. joint venture partner, reseller or supplier, becomes a competitor

## Potential cross-border elements

- The U.S.-based former employee joins a competitor in China or starts a company in China
  - former Apple employee was indicted for joining Xiaopeng (a Chinese automotive maker) in July 2018
- The U.S.-based former employee hired by a Chinese competitor to work in U.S.
- The China-based former employee received training in U.S.
- The China-based former employee brought the U.S.-developed trade secrets to new Chinese employer
- The products made through the misappropriated trade secrets are imported into U.S.

# Contract vs. IP claims in China

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# Enforcement in China

- IP claims
  - Administrative enforcement
  - Civil action
  - Criminal proceeding
- Contractual claims
  - Breach of confidentiality
  - Breach of non-compete(if applicable)
  - Normally through labor arbitration and subsequent appellate proceedings before the civil courts



# Legal Framework Protecting Trade Secrets in China

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- China does not have a unified trade secrets law, but a number of laws and regulations governing civil, criminal and administrative enforcement options:
- **Primary statute** protecting trade secrets: *Anti-Unfair Competition Law (2017)*-- “Trade secret” defined:
  - “Technical information” or “business information;”
  - which is unknown to the public;
  - have commercial value; and
  - for which the rights holder has adopted secret-protection measures.
- **Other statutes** setting forth additional legal standards:
  - *Labor Law and Labor Contract Law*
  - *Company Law*
  - *Contract Law*
  - *Criminal Law*

# Chinese Authorities Concerning Trade Secrets Protection

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- **The court system:** the Supreme People's Court ("SPC") and local courts.
  - Civil and criminal litigation
- **The public prosecutor system:** the Supreme People's Procuratorate ("SPP") and its local counterparts
  - Criminal trade secret misappropriation investigation and prosecution
- **Local Public Security Bureaus ("PSBs")**
  - Criminal investigation of trade secrets misappropriation.
- **The State Administration for Market Regulation ("SAMR", formally known as "SAIC")**
  - Local AICs also have authority to investigate allegations of trade secret misappropriation.

# IP Claims in China: Options

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- China's trade secrets framework offers **three enforcement options**:
  - **Administrative** enforcement:  
Seek administrative relief through the local AIC
  - **Civil** litigation:  
Bring a civil suit in the appropriate court
  - **Criminal** investigation and prosecution:  
Ask local prosecutors to bring criminal charges

# IP Claims in China: Administrative enforcement

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- **SAMR and local counterparts (AICs) as the “market regulator”**
  - Main enforcer of “Anti-Unfair Competition Law”
  - **Pros:**
    - Authority vs. speed: AIC proceedings can progress to conclusion within 90 days, and thus are speedier routes to relief, including injunctions.
    - AICs may impose fines from RMB 100,000 to 3,000,000
  - **Cons:**
    - Limited authority to collect evidence, as compared to PSB
    - AICs often decline to take cases involving complicated technical issues, which may also take longer than the prescribed 90-day period.
- Courts with civil and criminal jurisdiction tend to be more powerful than AICs and often the more appropriate fora in which to pursue relief.

# IP Claims in China: Civil litigation

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- **Bring a civil litigation for trade secret misappropriation in court**
- **Pros:**
  - Civil courts can order damages.
    - the cap for the statutory damages increased from RMB 1 million to 3 million since this January.
  - Civil courts may issue permanent and preliminary injunctions.
  - Civil and criminal cases may be pursued concurrently, or civil cases may be initiated after seeking AIC and/or criminal investigations.
- **Cons:**
  - No U.S.-style discovery: essentially leaving the plaintiff to assemble evidence through private resources
  - Burden of proof in civil court quite high
  - Judicial appraisal is normally necessary, which would delay the action.

# IP Claims in China: Civil litigation

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- **Burden of proof in civil trade secret cases:**

The plaintiff is required to prove, with legally obtained, documentary evidence, that

- (1) it possessed a trade secret conforming to the statutory requirements;
- (2) the other party's information is identical or substantially identical to the trade secret, and
- (3) the other party has adopted unfair methods.

- **Compare with U.S. rule:** The test under Chinese law is similar to the “substantial similarity, plus access, without legitimate sources” rule used in U.S. trade secrets litigation when there is a lack of direct evidence of misappropriation

# IP Claims in China: Criminal prosecution

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- Complainants may seek criminal charges if the trade secret misappropriation causes “serious” or “particularly serious” economic losses.
- **Pros:**
  - Law enforcement can get fast and better access to information (confessions, cooperating witnesses, etc.; PSBs have greater power to collect evidence than AICs)
  - Tougher deterrence and punishment: criminal cases can lead to sentences of up to 7 years’ imprisonment and fines
  - faster-moving criminal case can have implications for civil case
  - can enhance perception of legitimacy of civil case
  - signals to third parties a willingness to seek criminal prosecution
  - Complainant involvement: Complainant can continue to work with the PSB during the investigation. Complainant involvement is particularly helpful for the PSB’s submission of documentary evidence to the appropriate judicial appraisal institution; assistance with the submitted evidence is critical to the complainant’s success.

# IP Claims in China: Criminal prosecution

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## ■ **Cons:**

- Difficult to persuade the PSB to build the case, and the bar is quite high
  - to provide prima facie evidence proving losses incurred are higher than RMB 500,000
  - to provide prima facie evidence the information taken is a “trade secret”
- Current employees may have second thoughts toward such action against the former employees.



# IP Claims in China: Interplay between different available options

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- Practitioners and general counsels must consider and understand the interplay between the different available enforcement procedures.
- **The most challenging aspect of trade secret cases frequently lies in evidence collection.** For example, civil plaintiffs usually complain of their inability to obtain evidence of trade secret misappropriation, especially relating to misappropriated manufacturing processes believed to be used in competitors' factories.
- **One strategy for addressing this challenge: parallel proceedings**  
To pursue an AIC proceeding or criminal investigation before filing the civil action, as these proceedings may result in admissible evidence for use in the civil trial.

## **Contractual claims in China**

- Breach of confidentiality
  - relief largely depending on the terms of NDA
  - normally including damages and specific performance
- Breach of non-compete
  - relief largely depending on the non-compete terms
  - normally including damages and specific performance (if the term of non-compete has not expired)

# Contractual claims in China

- Forum
  - normally firstly resorting to labor arbitration committee
  - first-instance court
  - appellate court
- *Tencent v. Xu Zhenhua*
  - the Shanghai First Intermediate People's Court awards Tencent RMB 19.8 million in August 2018 for Xu's breach of non-compete.

# IP Claims v. Contract Claims

- Normally cannot be brought simultaneously in a civil case, mainly due to labor arbitration is preemptively required for the action against a former employee
- It would be easier for the plaintiff to establish violation of non-compete
- IP claims are generally more powerful than contractual claims, and are normally preferred approaches
  - criminal/administrative authorities involvement can have more deterring effects
  - current employer can also be a target and can be named as a defendant
  - remedies can be more powerful
    - injunctive relief: drive the competing products out of the market
    - damages: the current employer are usually more resourceful than the former employee

# Multi-jurisdiction protection

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## **Enforcement—U.S.**

- Civil action for trade secret misappropriation before the federal district court or state court
  - Manitowoc v. Sany (No. 1:13-cv-00677-WCG, WIED)
- Criminal proceeding for trade secrets theft
  - United States of America v. XIAOLANG ZHANG (No. CR-18-70919, CAND)
- 337 case before the International Trade Commission
  - Steel Case (337-TA-1002)

# **Trade Secret Enforcement Options:**

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## **Multi-jurisdiction and multi-forum suits**

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- In this increasingly globalized world, problems and solutions no longer stopped at national borders, nor limited to a single jurisdiction.
- Multi-jurisdiction and multi-forum trade secret suits more frequently seen than ever.
- It is also critical to understand the interplay between Chinese proceedings and related proceedings in other countries. For larger competitor vs. competitor suits, trade secret legal actions are often initiated as coordinated, global attacks requiring a coordinated response.

# **Trade Secret Enforcement Options:**

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## **Multi-jurisdiction and multi-forum suits**

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- **Challenges of parallel proceedings across the globe**
  - Different legal standards or despite similar legal standards, different applications
  - Applicable law for the conducts at issue - the act of “misappropriation” usually takes place in a jurisdiction other than the place of suit
  - Jurisdictional challenge
  - Difficulties of evidence collection and admission into evidence
  - Local protectionism
  - Conflicting goals and procedures of parallel proceedings



# Trade Secret Enforcement Options:

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## Multi-jurisdiction and multi-forum suits

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- **An example: The *Sino Legend (Rubber Resins)* related litigation**
- On May 21, 2012, SI Group, Inc. of Schenectady, New York filed a complaint at the **ITC and sought permanent exclusion orders and cease and desist order** pursuant to Section 337. The complaint alleges that the Sino Legend entities in China unlawfully import into the U.S. certain rubber resins made using misappropriated SI Group trade secrets obtained from a former employee of SI Group.
- On November 26, 2008, SI Group contacted the Shanghai PSB to initiate a **criminal investigation** against the former employee. The PSB eventually terminated its investigation for “lack of evidence.”
- As a result of PSB’s decision to terminate the criminal investigation, SI Group filed **two civil actions** against Sino Legend and the former employee before the Shanghai Court in early February 2010. SI Group re-filed these cases on March 24, 2011.
- In January 2012, Sino Legend counter sued SI Group for trade secret misappropriation in Shanghai.

# Risk Mitigation: A Comprehensive Approach

# TRADESECRETMATRIX

Define	Mitigate Trade Secret Risk		Prepare for Incidents	*	Incident Response
trade secrets and other confidential information	<b>Limit Access</b>	<b>Verify Compliance</b>	identify team & resources <ul style="list-style-type: none"> <li>• management</li> <li>• legal, IT, HR, PR, security, etc. functions</li> <li>• forensics</li> <li>• gov't contacts</li> <li>• investor relations</li> <li>• PR</li> </ul>	<b>B R E A C H  O R  S U S P E C T E D  B R E A C H</b>	implement plan
	secure networks, devices, data, documents, locations, and other property	security audits and other monitoring			secure critical information to mitigate loss/preserve evidence
protections afforded by law or contract	policies & procedures <ul style="list-style-type: none"> <li>• IT</li> <li>• security</li> <li>• privacy</li> <li>• HR</li> <li>• risk managers</li> <li>• Procurement</li> </ul>	hire/exit procedures <ul style="list-style-type: none"> <li>• interviews</li> <li>• end access</li> <li>• retrieve devices</li> <li>• agreements</li> </ul>	critical decisions <ul style="list-style-type: none"> <li>• investigate</li> <li>• hold back comp and benefits</li> <li>• file civil litigation</li> <li>• engage law enforcement                             <ul style="list-style-type: none"> <li>— investigation</li> <li>— prosecution</li> <li>— intelligence sharing</li> </ul> </li> <li>• engage diplomatic and trade officials</li> <li>• notify insurers</li> <li>• disclose                             <ul style="list-style-type: none"> <li>— shareholders</li> <li>— customers</li> <li>— other companies</li> </ul> </li> </ul>		
	Training	business changes <ul style="list-style-type: none"> <li>• M&amp;A due diligence</li> <li>• integration procedures</li> <li>• flip side on dispositions</li> <li>• joint ventures</li> </ul>			check & secure insurance coverage
	agreements <ul style="list-style-type: none"> <li>• vendors/contractors</li> <li>• employment</li> <li>• executive</li> <li>• benefit plans</li> <li>• Acquisitions</li> </ul>	develop incident response plan			consider best practices-related communications; brokered by government

# Preventive Steps for Protecting Trade Secrets in China

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## 1. Establish a system for managing confidential information in and provided to Chinese subsidiaries and joint ventures.

- Exercise care when sharing trade secrets with employees, subsidiaries, joint ventures, vendors, suppliers, or other third parties
- A signed confidentiality agreement in advance
- An acknowledgement of receipt of confidential information that identifies in detail the disclosed confidential information
- A summary description is not likely to provide sufficient protection

# Preventive Steps for Protecting Trade Secrets in China

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## 2. Include trade secret-related rules and protections in all contracts.

- Companies doing business in China or with Chinese entities or employees should negotiate and set forth trade secret-related rules and protections in their contracting practices and procedures.
- Decide and specify in advance on issues such as who owns trade secrets at the time of contracting, and who will own trade secrets in the event either party undertakes additional research and development following the date the contract is executed.
- Confidentiality agreements of unlimited duration OK.

# Preventive Steps for Protecting Trade Secrets in China

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## 3. Establish trade secret-related rules and protections in the company's employment management.

- Employment agreements may incorporate non-compete provisions of limited duration binding the employee during and after the employment term.
- The scope of the non-compete must be reasonable, for example, in terms of the applicable business scope, the geographic region and duration (usually up to two years).
- Reasonable monthly compensation agreed upon in advance and paid.
- Companies should also take protective measures to ensure that their employees maintain confidentiality.
- Companies should conduct exit interviews with all departing employees to flag potential issues as early as possible.

# Exit review and return of company IP

- Conduct exit review
  - Know where the employee goes
  - Remind the obligations of non-compete and confidentiality
  - Remind return of IP
    - Any compensation for the IP developed?
    - Remuneration for the service invention per the Patent Law?
- Collect and store the devices and the documents
  - record for chain of custody

# Q&A

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