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Preliminary Injunctions Now Available for Enforcement of Trade Secrets

One of the most welcome developments in China's evolving legal landscape this year is a new law that allows owners of trade secrets to obtain preliminary injunctions to stop infringement.

Overseas investors have long complained about the inadequate protection accorded to trade secrets in China. China's poor record for protecting trade secrets consistently ranks among the top concerns that multinational companies have about doing business in China.

We assess the impact of the new law and how it will affect companies seeking to protect trade secrets and other IP rights in China.

China's Pre-existing Legal Framework for Preliminary Injunctions

Anyone who has ever applied to a Chinese court to preserve evidence or stop infringement of intellectual property rights prior to trial knows how frustrating and futile the process can be. Civil claims often take up to a year to be decided and without a preliminary injunction to protect them, holders of IP rights face huge potential losses from misuse of their IP rights before the case comes to trial.¹

For trade secret owners, the situation under the pre-existing law has been even worse. Courts have been unwilling to grant preliminary injunctions for several reasons but mainly because unlike patents, trademarks and copyrights, China has no unified law protecting trade secrets.

Furthermore, Chinese rules of evidence and the burden of proof make it very difficult for plaintiffs to prove trade secret infringement—fewer than 20% succeed—and this undermines applications for preliminary injunctions because courts in China tend to grant these only where there is a strong likelihood of prevailing at trial.²

Enter China's Amended Civil Procedure Law

China's Civil Procedure Law was amended in August 2012, and came into force on January 1, 2013, expanding the scope for obtaining injunctive relief. Articles 100 and 101 give courts discretion to issue preliminary injunctions whenever they determine that the conduct of a party will make judgment more difficult to enforce or could cause irreparable damage. However, until August 2, it was uncertain whether or not the amended Civil Procedure Law could be applied to cases involving trade secrets.

On August 2, 2013, the Shanghai No. 1 Intermediate Court issued a preliminary injunction prohibiting a defendant from disclosing, using or allowing others to use any trade secrets contained in documents that the defendant had allegedly downloaded without permission from the plaintiff's website.³

Eli Lilly v. Huang

Underlying the August 2 ruling was a dispute involving Eli Lilly and Company, the US pharmaceutical corporation, its Chinese subsidiary and a former employee of that subsidiary. Lilly and its subsidiary (the "plaintiffs") alleged that in May 2012, Huang had signed a confidentiality agreement undertaking, among other obligations, not to disclose any confidential information belonging to the plaintiffs.

In January 2013, Huang allegedly downloaded 21 confidential documents from the plaintiffs' server without authorization. Huang defied repeated requests to delete the documents and instead resigned on January 27.

In July 2013, the plaintiffs brought a trade secret misappropriation lawsuit against Huang under China's Anti-Unfair Competition Law, seeking damages in the amount of RMB20 million (about \$3.2 million) as well as an injunction against further dissemination of the documents. The plaintiffs also applied for a preliminary injunction to

prevent Huang from using or disclosing the trade secrets to anyone else before trial.

One-Off Ruling or Game Changer?

The ruling in *Eli Lilly v. Huang* remains controversial and IP rights holders are anxious to know whether it is an isolated decision that is unlikely to be repeated or represents a precedent for obtaining preliminary injunctions where IP rights are at risk.⁴

Lilly succeeded in getting its injunction because it was able to persuade the court that if the alleged trade secrets contained in the downloaded documents were used or disclosed to others, Lilly would suffer significant harm which was not capable of being remedied by damages alone.⁵ The company was also able to provide appropriate security (in the amount of RMB100,000) to cover potential cross-damages.⁶

Moreover, the official reluctance of Chinese courts to grant preliminary injunctions may also be about to change. Over the past two months, China's Supreme Court has been consulting foreign legal experts and gathering details concerning international best practices for injunctive relief which suggests that a new judicial interpretation on preliminary injunctions may be issued sometime in 2014. If that happens, more courts across China will be inclined to follow the example set in *Eli Lilly v. Huang*.

Vigilance Still Required

Notwithstanding these encouraging developments, IP rights holders should not lose sight of the other important lessons in the Lilly case.

First, the company was only able to enforce its rights because proper steps were taken to protect valuable trade secrets at the outset of the employment relationship with Huang and then again when his employment was terminated. This is a reminder that employment contracts, non-competition agreements and confidentiality undertakings all need to be properly prepared and executed, and that employment terminations need to be handled according to a suitable protocol, particularly in situations where there is a risk that trade secrets have been misappropriated. To ensure that employment documentation remains enforceable and addresses the new injunctive relief provisions, they should be reviewed and updated periodically by an experienced lawyer.

Second, it was vigilance and monitoring that revealed Huang's illegal conduct. IP rights holders must likewise ensure that their own trade secret protection efforts continue throughout the term of employment, with restrictions on access to sensitive information as well as appropriate monitoring of IT use by employees who have such access. On termination of employment, exit interviews provide a useful opportunity to remind outgoing personnel of their existing and ongoing confidentiality (and non-competition) obligations.

Third, just as Lilly avoided serious potential losses by pursuing Huang through the courts, other IP rights holders must be prepared to take enforcement action against staff and others who steal company secrets.

Finally, while it is unclear whether or not Lilly has encountered difficulty enforcing its injunction, the reality is that non-compliance with court orders is a problem in China so readers are forewarned that resolute follow up may be necessary to ensure that any injunctions they do get do not become dead letters.

Conclusion

It is premature to call the ruling in *Eli Lilly v. Huang* a landmark decision—too many hurdles remain for trade secret owners to become complacent about protection of trade secrets in China.

That said, China's Amended Civil Procedure Law is an encouraging step forward, offering owners of trade secrets the same level of protection as all other IP rights holders. In clear-cut cases of infringement, that protection is likely to be far better than owners of patents, trademarks and copyrights have enjoyed in the past, particularly if the Supreme Court issues a new judicial interpretation encouraging other courts in China to be more open-minded about granting preliminary injunctions.

Until preliminary injunctions become the rule rather than the exception, companies with trade secrets and other IP rights should ensure that the protections that they already have in place (ie: their contracts, protocols and procedures) are up to the task of actually preventing trade secrets from being stolen or misused in the first place.

¹ In principle, interlocutory injunctions are available in China for patents, trademarks and copyrights because such protection is already enshrined in the corresponding laws for these IP rights. However, in practice, very few of these injunctions are granted. For instance, in 2012, Chinese courts heard more than 83,000 cases involving disputes over IP rights but only 27 interlocutory injunctions were granted.

² Judicial resistance has also partly been to blame. A judicial interpretation by China's Supreme Court in 2001 stressed the economic interests of defendants and counseled judges to refuse granting interlocutory injunctions except in clear cases of infringement. This was followed by another interpretation in 2009, which specified when courts should consider not granting injunctive relief, and one at the end of 2011 urging caution about granting interlocutory injunctions.

³ This court ruling is remarkable for several reasons: firstly, because it marks the first time that a Chinese court has ordered an interlocutory injunction to protect trade secrets and second, because the court did so applying Art. 100 of the amended Civil Procedure Law, dispelling doubts that it applies to trade secrets. Third, the ruling goes against three prior China Supreme Court judicial interpretations on injunctive relief, any one of which would normally be regarded as having a binding influence on a decision like this. Nevertheless, the presiding judge in the case, Liu Junhua, in explaining the ruling, declared that Article 100 fills a longstanding legal loophole in China regarding trade secret protection.

⁴ China's legal system does not adhere to the doctrine of precedent which, in Anglo-American legal systems, is the policy of courts to adhere to principles established by decisions in earlier cases. Very few court cases in China have binding legal effect on other cases but Supreme Court judicial interpretations are regarded as persuasive.

⁵ Damages awarded for violations of IP rights in China are notoriously low, typically ranging between \$10,000-13,000.

⁶ These are the criteria spelled out for obtaining an interlocutory injunction under Article 100 of the amended Civil Procedure Law. They provide a road map for any party seeking to get a preliminary injunction.

Additional Information

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