

Shanghai Prosecutors Bring Largest Trade Secret Case in Recent Years

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On October 16, 2018, Shanghai prosecutors held a press conference announcing the filing of trade secret criminal charges with potential losses of 35 million RMB (roughly \$5 million USD), the largest such charge in over ten years in Shanghai.

In this case, Nanosphere Co., Ltd. (Nanosphere), a Shanghai based leading manufacturer of expandable microspheres, entered into a three-year development agreement with the defendant company in which the defendant would produce certain microspheres for Nanosphere, but was prohibited from using Nanosphere's technology in other respects. Shanghai prosecutors allege that during the performance of the agreement, two employees of the defendant company and one Nanosphere employee secretly worked together to take Nanosphere's technology, and to ultimately sell microspheres to Nanosphere's own clients. Chinese prosecutors filed criminal charges against the defendant company, two employees of the defendant company, and the Nanosphere employee for infringing Nanosphere's trade secrets.

According to the prosecutors, this is a difficult case given that trade secret laws in China, as well as calculation of the losses under the laws, are not that clear. According to the prosecutors, between 2010 and 2018, only 35% of criminal trade secret cases were finally brought to the court in Shanghai due to difficulties in investigation and evidence collection. In an effort to enhance trade secret protections, Shanghai prosecutors promulgated eight measures regarding improvement of protection on intellectual properties, which includes several innovative measures that may improve trade secret criminal prosecution, such as:

1. relying on certain concepts adopted in civil or administrative cases when handling criminal cases,
2. using comprehensive investigation measures by considering opinions from all relevant parties such as defendant, IP right owner, expert, and lawyers,
3. inviting experts in the area of copyright, trademark, patent as well as trade secret as guest assistants of the prosecutors, and
4. applying stricter internal confidential requirements on the lawyers handling trade secret cases.

TIP: There are still many challenges in using China's legal system to protect trade secrets, and therefore multinational companies operating in China should continue to develop and enhance their internal trade secret

protection measures, especially when it comes to sharing trade secrets with third parties. Companies may also want to explore whether other forums are available which would offer a greater likelihood of success for enforcing their trade secrets, including potentially using the “extraterritoriality provision” of the U.S. federal trade secret statute or even the International Trade Commission (ITC).

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