

The Promotion of Cross-Border Exchange of Intellectual Assets

between China, Japan and Switzerland

The Case of Music and Trade Secrets

-- a Chinese law perspective

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Introduction

Since the national policy of Opening Reform was established in 1978, cultural and economic exchanges between China and the rest of the world have become increasingly frequent. China is a civil law country and its statute law plays a very important role. As China is a large country and the level of economic development varies from region to region, case law in China has yet to mature. In order to promote the cross-border exchange of intellectual assets and protect foreigner's rights in China effectively, it is important and inevitable to gain a greater understanding of the Chinese legal system.

In this paper, the author mainly aims to introduce the state of current legislation with respect to Chinese substantial law and private international law by focusing on two cases - music copyright and trade secrets - in order to discuss the manner in which the intellectual property of a foreigner is protected in China.

1. Private International Law in China

The emergence of private international law was relatively late in China. From the establishment of the People's Republic of China until 1978 when the national policy of Opening Reform was established, private international law was barely applied due to China's international isolation and its own closed national policy¹. From 1978, as more and more foreigners migrated to China, and as economic and cultural communication with foreign countries became increasingly active, the importance of private international law was realized and soon it became one of the more popular academic subjects in most law faculties around China. Due to the above historical reasons, the academic study of private international law in China is considered to be relatively late for a developed country. Currently, there is not a separate code for private international law in China². However, there have been remarkable developments in private international law legislation and in the field of academic study in recent years. Issues about private international law, such as jurisdiction and the choice and application of an applicable law, are mainly stipulated in civil laws such as the *General Principles of Civil Law of China*³, the *Civil Procedure Law of China*⁴, etc. In

1 See the *Model Law of Private International Law of the People's Republic of China* (Sixth Draft) Introduction P 2.

2 The Chinese Society of Private International Law, an academic society, was established in October, 1987. The society tried to draft a model private international law code from 1993. This model law (Sixth Draft) that this paper referred to was drafted by this society in 2000 to be referred to by the legislative and judicial bodies or other government departments working for foreign affairs and the colleges and schools of law and legal science research institutes.

3 Adopted on April 12, 1986, and effective on January 1, 1987.

4 Adopted on April 9, 1991, and modified on October 28, 2007. In addition to these two laws, there are private international law provisions in other

this part, I will introduce several provisions related to private international law mainly based on statute laws, and analyze a number of private international law issues regarding the jurisdiction decision-making and the application of applicable law in the cases of music copyright and trade secrets by Chinese courts.

1.1 Jurisdiction Issues in China

1.1.1 General Territorial Jurisdiction

In principle, if the defendant's domicile is located in China, then Chinese courts have the jurisdiction⁵ over the dispute. In addition to this principle, according to Article 24 of the *Civil Procedure Law of China*, in a lawsuit brought with respect to a contract dispute, both the court in the place where the defendant's domicile is located and the court in the place where the contract is performed have jurisdiction. Similarly, in a lawsuit brought with respect to a tort, the court in the place where a tort is committed and the place where the defendant's domicile is located have jurisdiction. According to the *Interpretation on General Principles of Civil Law* issued by the Supreme Court of China, the place where a tort is committed includes the place where the tortious act was undertaken and the place where the tortious consequences occurred.

1.1.2 Agreement on Choice of Forum and Jurisdiction by Appearance

The clauses concerning Agreement on Choice of Forum and Jurisdiction by Appearance are stipulated in Article 242 and Article 243 of the *Civil Procedure Law of China*. According to Article 242, the parties of a disputed contract involving foreign elements or the parties engaged in disputes over property rights and interests involving foreign elements are entitled to reach a written agreement to choose the court located in the place that has an actual connection with the disputes as the court to adjudicate their disputes. However, if a court in China is chosen as the court with jurisdiction, such an agreement of jurisdiction shall not contravene the provisions on class jurisdiction⁶ or exclusive jurisdiction⁷ proscribed in the *Civil Procedure Law of China*. Article 243 addresses jurisdiction by appearance in that if the defendant in civil litigation proceedings involving foreign elements makes an appearance, raises no objection to the jurisdiction of the court, and files his or her defense to the court, he or she shall be deemed to accept that the court has jurisdiction over the case.

In addition to these provisions concerning jurisdiction, there is a general criterion to decide whether Chinese courts have jurisdiction or not over the contract or property dispute when the defendant has no domicile in China. Article 241 of the *Civil Procedure Law of China* states that if (i) the contract is signed or performed within Chinese territory, (ii) the object of the action is

laws such as the *Law of China on Chinese-Foreign Equity Joint Ventures*, the *Law of Succession of China*, the *Law of Succession of China*, the *Negotiable Instruments Law of China*, and the *Arbitration Law of China*.

5 Yong-ping Xiao, *The Principle of Private International Law*, Law Press China, 2005 P366, 367.

6 Class jurisdiction refers to the subject matter jurisdiction of courts at different levels.

7 There are four types of the exclusive jurisdiction in the *Civil Procedure Law of China*:

(1) A lawsuit brought concerning real estate shall fall under the jurisdiction of the people's court located in the place where the real estate is located (Article 34(1));

(2) A lawsuit concerning harbor operations shall fall under the jurisdiction of the people's court located in the place where the harbor is located (Article 34(2));

(3) A lawsuit concerning inheritance shall fall under the jurisdiction of the people's court located in the place where the deceased had his or her domicile upon death, or where the principal portion of the estate is located (Article 34(3));

(4) Lawsuits brought concerning disputes arising from the performance of contracts for Chinese-foreign equity joint ventures, Chinese-foreign contractual joint ventures or Chinese-foreign cooperative exploration and development of the natural resources in China shall fall under the jurisdiction of Chinese courts (Article 244).

within Chinese territory, (iii) the defendant has distrainable property within Chinese territory, or (iv) the defendant has its representative agency, branch or business agent within Chinese territory, the appropriate Chinese court⁸ will have jurisdiction over the case. As case law in China has yet to develop, this criterion will be the guideline for Chinese judges to decide whether Chinese courts have jurisdiction over a case involving foreign elements where the defendant has no domicile located within China.

1.2 Applicable Law

1.2.1 Applicable law to contracts

As far as the applicable law to contracts is concerned, the principle of party autonomy will be principally applied and if there is no agreement on the choice of an applicable law between the parties, the *doctrine of the closest connection* will be complementarily applied⁹. Either Chinese law or foreign law is available to be chosen by the parties in the cases involving foreign elements, but in the case of a Chinese-foreign equity joint venture contract, Chinese-foreign contractual joint venture contract, or a contract for Chinese-foreign joint exploration and development of natural resources which is performed within the territory of China, the Chinese law¹⁰ shall be applied exclusively.

1.2.2 Applicable law to tort cases

According to Article 146 of the *General Principles of Civil Law of China*, the law of the place where a tort is committed shall be applied in handling compensation claims for any damages caused by the act. If both parties are citizens of the same country or have established domiciles in the same country, the law of their own country or the country where their domiciles are located may be applied. However, an act committed outside China shall not be treated as a tort if, under Chinese law, it is not regarded as a tort.

Additionally, according to the judicial interpretation on the *General Principles of Civil Law* issued by the Supreme Court of China, the place where a tort is committed includes the place where the tortious act was undertaken and the place where the tortious consequence occurred. When the two laws conflict, the court can choose either one to apply as the applicable law¹¹.

8 According to Article 241 of the *Civil Procedure Law of China*, the proper court means the court in the place where the contract is signed or performed, where the object of the action is located, where the defendant's distrainable property is located, where the infringing act takes place or where the representative agency, branch or business agent is located.

9 See Article 145 of the *General Principles of Civil Law of China* and Article 126 of the *Contract Law of China*. Parties to a foreign-related contract may select the applicable law for resolution of a contractual dispute except as otherwise provided by law. Where parties to the foreign-related contract fail to select the applicable law, the contract shall be governed by the law of the country with the closest connection thereto. Also see Article 5 of the latest guideline issued by Supreme Court of China. If the parties fail to choose a law governing a contractual dispute, the law of the country or region having the closest connection with the contract shall be the applicable law.

10 Id. See Article 126.2 of the *Contract Law of China*. According to the latest guideline issued by the Supreme Court of China, besides the three types of contracts mentioned above, Chinese law must also be applied exclusively in the following contracts. They are (iv) the assignment contracts of Chinese-foreign equity joint venture contract, Chinese-foreign contractual joint venture contract, or a contract for Chinese-foreign joint exploration and development of natural resources; (v) the Chinese-foreign equity joint venture contract, Chinese-foreign contractual joint venture contract that was contracted and managed by a foreign natural person or a foreign corporate or other organizations which is established within the territory of China; (vi) the contract that a foreign natural person or a foreign corporate or other organizations buy the stock from the stockholder of a non-foreign investment venture which is located in the territory of China; (vii) a foreign natural person or a foreign corporate or other organizations' stock subscription contract from a non-foreign investment LLC or joint-stock company which is located in the territory of China. (viii) the contract that a foreign natural person or a foreign corporate or other organizations buy the property of the non-foreign investment company which is located in the territory of China; (ix) other contracts that should apply the Chinese law stipulated by Chinese Law and Administrative Regulation.

11 See Article 187 of the judicial interpretation of the *General Principles of Civil Law of China* and Article 273 of *Maritime Code of China*.

In addition to the approaches introduced above, however, an international agreement concluded or acceded by China will be preferentially applied if it contains provisions conflicting with Chinese civil laws, unless China announces reservations to such provisions¹².

1.3 Recognition and Enforcement of Foreign Judgments

The rules of recognition and the enforcement of foreign judgments in the Chinese legal system are mainly based¹³ on international treaties¹⁴, bilateral treaties¹⁵, and domestic Chinese legislation. Article 268 of the *Civil Procedure Law of China* states that after a court in China reviews an application or pleading for the recognition and enforcement of a legally effective judgment rendered by a foreign court according to international treaties concluded or acceded to by China or based on the principle of reciprocity, it is to be recognized and enforced in China in accordance with the laws of China if the court considers that such judgment does not contravene the basic principles of the laws of China nor violates national, social, or public interests.

Based on these rules and the judicial practice in China, the following requirements must be satisfied when foreign judgments are required to be recognized and enforced¹⁶:

- 1) The foreign court must have jurisdiction;
- 2) The foreign judgment must have come into effect;
- 3) The litigation proceedings must be valid and lawful;
- 4) There are no lawsuit conflicts between the foreign country and China;
- 5) If the foreign judgment is recognized or enforced, that the public policy of China will not be contravened;
- 6) There is reciprocal relationship between the foreign country and China;
- 7) The foreign court has applied the due applicable law which is the same as the law applied if the case were rendered in a Chinese court¹⁷;

2. Music Copyright

2.1 General Legislation Concerning Music Copyright

According to Article 10 of the *Copyright Law of China*¹⁸, the music copyright holder has, in general, the following subdivided rights including the *right of reproduction*¹⁹, the *right of distribution*²⁰, the *right of rental*²¹, the *right of performance*²², the *right to broadcast*²³, the *right*

12 See Article 142 of the *General Principles of Civil Law of China*.

13 Yong-ping Xiao, *supra* note 5, P424.

14 For example, there is recognition and enforcement for foreign judgment clauses in the *International Convention on Civil Liability for Oil Pollution Damage*, 1969 adopted by China on January 30, 1980.

15 Currently, China has concluded bilateral judicial assistances with more than 30 countries among which the rule on the recognition and enforcement for foreign judgment is written.

16 Yong-ping Xiao, *supra* note 5, P427.

17 Strictly speaking, this condition is not the general requirement for the recognition and enforcement of foreign judgment because it only exists in some bilateral treaties.

18 Adopted at the Fifteenth Meeting of the Standing Committee of the Seventh National People's Congress on September 7, 1990 and amended at the Twenty-fourth Session of the Standing Committee of the Ninth National People's Congress on October 27, 2001. In order to implement the copyright law of China, the *Regulations for the Implementation of the Copyright Law of China* was promulgated by the State Council of China on August 2, 2002 in which musical works is defined to include such works as songs and symphonic works, with or without accompanying words, which can be sung or performed.

19 Article 10(5) of the *Copyright Law of China*.

20 *Id.* Article 10(6).

of communication through information networks²⁴, the right of adaptation²⁵, and the right of translation²⁶. These rights come into existence upon the completion of a work and are automatically protected by Chinese copyright law irrespective of whether or not it is published or registered²⁷. Furthermore, a producer of a sound recording or a video recording shall enjoy the right to authorize reproduction, distribution or rental of the sound recording or the video recording or publication through information networks and receipt of remuneration therefore. Under the trust contract between MCSC²⁸ and the trustee, subdivided rights relating to copyrighted music works such as the *right of reproduction*, the *right of distribution*, the *right of performance*, and the *right to broadcast* can be transferred to MCSC²⁹ either in part or in its entirety. The trustee can transfer its music copyrights to the collective society from three aspects such as content splitting, geographical splitting and splitting on a time axis³⁰.

According to Article 25 of the *Copyright Law of China*, it is required that anyone who transfers any of the subdivided rights mentioned above must conclude a written contract³¹. When an exclusive licensing contract or a copyright transfer contract is concluded, the contract may be registered with the copyright administrative department. Parties to a transfer of copyright contract or a licensing contract can also make an agreement on liability for a breach of contract and the method of dispute resolution (such as the jurisdiction, the applicable law or the inclusion of an arbitration clause) in the contract. If there is neither a written arbitration agreement nor an arbitration clause between the parties in the contract, any party can take legal proceedings directly to a Chinese court³².

With the advent of the internet, the MCSC has promoted the development of an on-line music copyright registration system. By opening the homepage of MCSC, the on-line music registration system can be easily accessed. The music copyright holders can complete their music copyright works registration through the following process. Member information registration→Member

21 Id. Article 10(7).

22 Id. Article 10(9).

23 Id. Article 10(11).

24 Id. Article 10(12). That is, the right to make a work available to the public by wire or by wireless means so that people may have access to the work from a place and at a time individually chosen by them.

25 Id. Article 10(14).

26 Id. Article 10(15).

27 Id. Article 2.

28 MCSC (Music Copyright Society of China) is a collective society in charge of administrating the music copyrights of a composer, a lyricist or another music copyright holder in China. It is a non-commercial society, established by the National Copyright Administration of China and Chinese Musicians Association on December 17, 1992. MCSC collects fees from the users, issues them licenses for the use of music works and then distributes the fees to the music copyright holders on a proportional basis. According to Article 8 of the *Copyright Law of China*, the collective society can not only exercise the copyright in its own name for the copyright holders, but is also entitled to participate as a party in legal or arbitration proceedings. There is another collective society related to music copyright in China named CAVCA, which represents makers of audio-video works. CAVCA controls the right of reproduction, the right of distribution, the right of rental, the right of performance, the right to broadcast, and the right of communication through information networks related to audio-video programs. MCAC manages the foreign music copyright through reciprocal representation agreements between foreign collective societies in China. The scope of the authority is the same as the one under which the foreign collective societies were authorized by the right holders. However, following a response ([2004]No. 26) by NCAC to an inquiry ([2004]No.3) by the third civil court of Supreme Court, it has determined that foreign collective societies cannot qualify as a plaintiff in China. (<http://www.ncac.gov.cn/GalaxyPortal/inner/bqj/include/detail.jsp?articleid=4716&boardpid=1901&boardid=1150101011611>).

29 Refer to the homepage of MCSC, <http://www.mcsc.com.cn>.

30 Refer to the Haijun Lu, *Discussion on the Legal Status of Collective Management Society*, Politics Science and Law, P29. Also refer to the report of Tatsuhiro Ueno who is a member of this project.

31 Refer to Article 25 of the *Copyright Law of China*.

32 Refer to Article 55 of the *Copyright Law of China*.

log-on→work registration→information input→fee payment→completion of the registration. When the copyright holders complete the registration, MCSC will issue a digital music copyright certificate to the registered right holders and the registered music work is then assigned a unique global ISWC code³³. This system can exclude many complicated administrative procedures and provides a convenient registration system for copyright holders. Therefore their music copyrights would be protected effectively and also a platform for the copyright trade would be offered.

2.2 Controversies in Relation to Music Copyright in China.

There are some controversies being discussed recently in China about music copyright. Two typical topics will be selected with the discussion of the protection of music copyright in China. One is about the right of communication through information network and the other is about the problem of charging royalties at karaoke bars.

The right of communication through information networks³⁴ is recognized as a new subdivided right related to music copyright in the Internet era. Since the right of communication through information network is deemed as an exclusive right of the author, performer and the maker of audio-video product, the act of uploading music work onto the internet without the permission of the music copyright holder for browsing or downloading is certainly deemed as an infringement. Now ISPs, which provide P2P software through which users can easily access and download a lot of copyrighted music works free of charge through the Internet, have been rendered illegal by the court of China because their P2P software providing acts contributed a tort to music copyrights. The judgments made by the court of China are mainly based on the theory of joint liability which was stipulated in Article 130 of *General Principles of Civil Law* stating that if two or more persons jointly infringe upon another person's rights causing damages, they shall bear joint liability.

For a long period³⁵, Karaoke bars used copyrighted music without paying any royalties to the copyright holders in China. Since the collective society on behalf of the copyright holders was established in 1992, the problem of charging the Karaoke bars has emerged. In 2006, NCAC enacted a criterion of charging 12 yuan per room one day³⁶. It includes the royalties of both music works and MV works. It further gives MCAC and CAVCA authority to charge royalties. In practice, however, the charging process was hardly taken because the managers of the bars were reluctant to pay royalties. Their disputes finally focused on two points. One is if the collective society has right to charge royalties and the other is whether the criterion is reasonable. However, there is a consensus that the copyrighted music works can no longer be used by Karaoke bars for free in China since the official notice was issued by NCAC³⁷. The settlement of these disputes depends on the improvement of the people's sense of intellectual property protection and negotiation between the users and the collective society³⁸ on behalf of the copyright holders. Also, in order to solve the problem of Karaoke bar's charging royalties, the experience of the developed

33 <http://www.ccidcom.com/Mobile/Zengzhi/200705/19370.html>.

34 When the *Copyright Law of China* was modified in 2001, the right of communication through an information network was first stated in Article 10 (12) of the law. The right is defined as the right to make a work available to the public by wire or by wireless means so that people may have access to the work from a place and at a time individually chosen by them.

35 Karaoke was first introduced into China in the 1980s.

36 <http://www.ipr.gov.cn/cn/zhuanti/426-2007/2006contant.shtml>.

37 See Tao Tang, *Respect the Intellectual Property and Kala will be ok forever*, Legal System and Society, 2007.03, P231.

38 See Haiying Wang, *The Rational Consideration over the Karaoke Royalty Charging Disputes*, Development Research, 2007.08, P59.

countries such as Japan may be referred to by China.

2.3 Protection to Foreign Music Contents in China

2.3.1 Protection by Domestic Legislation

There are the following approaches concerning the protection of music copyright in China's legal system.

First, there is the principle of nationality and the principle of territoriality on the protection of foreign work in China.

The principle of nationality means that irrespective of whether or not a Chinese or a Chinese legal person's work was released within the territory of China, it is protected by the *Copyright Law of China*. The principle of territoriality means that if a foreign work is first released in China, it is assumed to be a Chinese work and protected by the *Copyright Law of China*. In addition, even though a foreign work was first released abroad, if it is then released in China within 30 days from the date of the first release abroad, it is assumed to be a work first released in China and therefore qualifies for protection³⁹ under the *Copyright Law of China*. In other words, the foreigner's copyright will be protected by Chinese copyright law automatically without any registration if the above condition is satisfied.

Second, performances by foreigners and audio recordings produced and distributed by foreigners within the territory of China shall also be protected by the *Copyright Law of China*⁴⁰.

2.3.2 Protection under the International Convention⁴¹

According to Articles 33, 34, and 35 of the *Regulations for the Implementation of Copyright Law of China*, rights enjoyed by foreigners in their performance, in the audio recordings produced and distributed by them and the rights enjoyed by foreign radio and television stations in their broadcasting programs under the international conventions to which China has already acceded are protected by the *Copyright Law of China*⁴².

When the provision of domestic legislation and provisions of the international convention differ as to which rule should be applied, it should be noted that the law of each country has a different approach. One is that the administration or the justice institute of the convention's member only applies their own intellectual property laws such as England, Norway, Sweden, etc.; and the other one is that the administration or the justice institute of the convention's member applies the convention's provisions directly such as France, US, Japan, Russia, etc.⁴³. China adopts the latter approach. The *General Principles of Civil Law of China* stipulates that if an international convention is concluded or acceded to by China which contains provisions differing from those in the civil laws of China, the provisions of the international convention shall be applied unless the

39 Id. Articles 7, 8.

40 Id. Articles 33, 34.

41 Currently, China has joined the following international conventions relating to music copyright. Those are the "Berne Convention" (joined on October 15, 1992), the "Universal Copyright Convention" (joined on July 30, 1992), the "Convention for the Protection of Producers of Phonograms Against Unauthorized Duplication." (joined in 1993), the "WIPO Copyright Treaty" (WCT) (joined on December 29, 2006), and the "WIPO Performances and Phonograms Treaty" (WPPT) (joined on December 29, 2006) with a reservation to Article 15 (Right to Remuneration for Broadcasting and Communication to the Public) (1) Performers and producers of phonograms shall enjoy the right to a single equitable remuneration for the direct or indirect use of phonograms published for commercial purposes for broadcasting or for any communication to the public).

42 Supra note 18, Articles 33(2), 34(2), 35.

43 See Zongshun Tang, *The Relationship between Chinese Intellectual Property Law and the International Convention*. Intellectual Property, No. 17, P3.

provisions are ones to which China has announced reservations⁴⁴.

2.4 Music Copyright in terms of Private International Law

There is a general consensus on the principle of territoriality in the field of intellectual property law⁴⁵. The decision as to the applicable law in a copyright dispute still depends on each country's private international law. With respect to music copyrights, Article 5 of the Berne Convention provides the principle that the applicable law is that of the country where protection is claimed⁴⁶. This principle has acquired extensive approval and was also adopted in the *Model Law of Private International Law of the People's Republic of China* (Sixth Draft)⁴⁷ in which such provision⁴⁸ that the existence, content and validity of the copyright are governed by the law of the place where the claimed right was stipulated.

The relationship between the principle of territoriality and the principle of the laws of the country where protection is claimed is complicated. Interpretations of Art.5.2 of Berne Convention, which states "the laws of the country where protection is claimed", varies among different countries, including the opinion that it is subject to the private international law of the court, the opinion that it is subject to the laws of the country where protection is claimed and the opinion that it is subject to the country of origin⁴⁹. In these circumstances, the private international law of the court will work and be applied.

Due to the national and territorial character of intellectual property rights, some scholars pointed out that national courts may regard national intellectual property rights (especially questions as to their validity) to be their exclusive prerogative. In addition, they may refuse to recognize and enforce foreign judgments that dealt with their national intellectual property rights⁵⁰.

Licensing agreements between foreign copyright holders and collective societies have contractual and proprietary aspects. The contractual aspects of the licensing agreement will be governed by the applicable law of the contract. The determination of the applicable law of the contract still depends on the private international law of each country. As mentioned above, Chinese courts may accept an express or implied choice of law between the parties. If there is no such agreement on the choice of law, the court may decide the applicable law of the contract based on the criteria of "closest connection", in which the "characteristic performance⁵¹" may be found⁵².

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44 See Art. 142 of the *General Principles of Civil Law of China*.

45 See Prof. Masahiro Dagauchi, *The Applicable Law and International Jurisdiction Issues on Copyright*, Copyright 2000.8, P13.

46 The original is "shall be governed exclusively by the laws of the country where protection is claimed".

47 This model law was drafted by the Chinese Society of Private International Law in 2000. It is academic in nature.

48 See Article 95 of the model law.

49 Supra note 45, P14.

50 See Yong-ping Xiao, supra note 5, P172.

51 The theory of "characteristic performance" was adopted by the latest guideline named that *Provisions of the Supreme People's Court on Some Issues Concerning the Application of Law of Civil and Commercial Cases Involving Foreign Elements* enacted by the Supreme Court on June 11, 2007. Article 5.2 stipulates that "[i]n the determination of the law governing a contractual dispute on the principle of most significant relationship, the people's court shall determine the law of the country or region having the most significant relationship with the contract as the governing law of a contract according to the particularities of the contract and other factors such as that the performance of contractual obligations by one party can best embody the essential characteristic of the contract."

52 Yong-ping Xiao, supra note 5, P172.

3.1 Requirements of Trade Secrets

Trade secrets are gradually being considered to be special intellectual property⁵³ rights in China. It is defined in Article 10(3) of the *Anti Unfair Competition Law of China*⁵⁴ and Article 219 of the *Criminal Law of China*. Trade secrets in Chinese law are defined as consisting of three requirements: secrecy, practical utility⁵⁵, and that the trade secret holder has taken the measures to maintain secrecy.

Trade secrets can be divided into technology information and business information. Design, engineering, product formulas, product technology, management know-how, client lists, information of freight sources, production and marketing strategies⁵⁶, minimum bid set by the caller, the contents of the bid and so on will all be considered as trade secrets in China. Then the legal clauses related to trade secrets in China are intensively stipulated within the following laws: the *Anti Unfair Competition Law of China*, the *Criminal Law of China*, the *Contract Law of China*, the *Labor Law of China*, the *Labor Contract Law of China*, the *Civil Procedure Law of China*⁵⁷, and also in some judicial interpretations, administration regulations and ministerial rules.

3.2 Types of the Infringement on Trade Secrets

According to Article 10(1)(2) of the *Anti Unfair Competition Law* and Article 219 of the *Criminal Law of China*, the following acts are considered to be infringements on trade secrets.

- 1) Obtaining one's trade secrets by stealing, luring, coercion or any other illegitimate means;
- 2) Disclosing, using or allowing another to use the trade secrets obtained from the legal owners by the means mentioned in the preceding paragraph;
- 3) In violation of an agreement on or against the legal owners' demand to keep trade secrets,

53 Refer to the *Interpretation of the Supreme Court on Some Issues Concerning the Application of Law in the Trial of Civil Cases Involving Unfair Competition* adopted on December 30, 2006 and came into force on February 1, 2007.

54 Adopted on September 2nd, 1993.

55 Yong-sheng Dai, *Comparative Research on Trade Secret Law*, East China Normal University publisher, 01, 2005, P60.

56 Article 2(5) of *Regulation on Banning the Infringement of Business Secrets* issued by State Administration for Industry & Commerce.

57 *Contract Law of China*, issued on March 15, 1999 and effective on October 1, 1999. Article 43 A trade secret the parties learn in concluding a contract shall not be disclosed or improperly used, no matter the contract is established or not. If the party discloses or improperly uses such trade secret and thus causing loss to the other party, it shall be liable for damages..

Labor Law of China, issued on July 5, 1994 and effective on January 1, 1995.

Article 22 The parties involved in a labor contract can reach agreements in their labor contracts on matters concerning the keeping of the trade secrets of the employer.

Labor Contract Law of China, issued on June 29, 2007 and effective on January 1, 2008. Article 23 An employee who has the obligation of keeping confidential, the employer and the employee may stipulate non-competition clauses in the labor contract or in the confidentiality agreement and come to an agreement that, when the labor contract is dissolved or terminated, the employee shall be given economic compensations within the non-competition period. If the employee violates the stipulation of non-competition, it shall pay the employer a penalty for breaching the contract. Article 24 The persons who should be subject to non-competition shall be limited to the senior managers, senior technicians, and the other employees, who have the obligation to maintain confidentiality, of employers. The scope, geographical range and time limit for non-competition shall not be contrary to any laws or regulations.

After the dissolution or termination of a labor contract, the non-competition period for any of the persons as mentioned in the preceding paragraph to work in any other employer producing or engaging in products of the same category or engaging in business of the same category as this employer shall not exceed two years.

Civil Procedure Law of China, amended on October 28, 2007.

Article 66 Evidence shall be presented in the court and cross-examined by parties. However, evidence that involves state secrets, trade secrets, or individual privacy shall not be presented in an open court session.

Article 120 Civil cases adjudicated by people's courts shall usually be heard publicly, except for---a case involving trade secrets may not be heard publicly if a party so requests.

For translations of the above laws, refer to <http://www.chinalawinfo.com>

disclosing, using or allowing another person to use the trade secrets he or she has;

4) The third party who knows or should be aware of the illegal activities as first mentioned, and who gains, uses or publishes the trade secrets will be deemed to be activities infringing upon the others' trade secrets.

From the above provisions, we can conclude that the legality of the method is the key in determining whether or not an act constitutes an infringement on trade secrets. The true nature of an infringement on trade secrets lies in the illegality of the method by which a person obtained another's technical information and management information. On the contrary, if a person obtained and used the same information as the trade secrets owned by the right holders through legal channels or methods such as independent research, legal techniques, reverse engineering, etc., the acts will not be prohibited by Chinese law⁵⁸.

According to the latest interpretation of the *Anti-Unfair Competition Law of China*, the party who claims that another person infringed upon his or her trade secrets should bear the burden of proving that or her his trade secrets have satisfied the legal conditions, the infringed party's information is the same as his or her trade secrets, and that the party adopted illegal methods in obtaining the trade secrets. The legal conditions of trade secrets include the carrier of trade secrets, specific contents, commercial value and the specific measures to keep secrets and so on⁵⁹.

3.3 Remedies for Infringements Against Trade Secrets

3.3.1 Civil liability

1) Injunction of infringement

According to Article 16 of the *Anti Unfair Competition Law*, governmental administrative departments for industry and commerce, such as the State Administration for Industry and Commerce (SAIC) or the Administration for Industry and Commerce in each province, or those at the city level shall be responsible for the supervision and investigation of any act of unfair competition, including infringements to trade secrets. Article 25 stipulates that administrative departments for industry and commerce of government shall issue an injunction order to the infringer.

According to the latest interpretation of the *Anti Unfair Competition Law of China*, when the court issues an injunction of infringement order against the trade secrets infringer, the injunction period will generally continue until the date when the trade secrets have been made public⁶⁰.

2) Compensation for damage

According to Article 20, trade secret holders have the right to demand that the infringer provide compensation for the damage inflicted. The amount of the compensation shall be equivalent to the profit obtained by the injuring party during its infringement. If it is difficult to measure the amount of damage, it shall compensate reasonable costs to the damaged party who has paid the costs incurred in order to investigate the activities of unfair competition made by the infringer⁶¹. According to the latest interpretation of the *Anti Unfair Competition Law of China*⁶², if trade secrets were made public as a result of an infringement, the amount of compensation shall be calculated according to the business value of trade secrets. The business value shall be evaluated

58 See Article 12 of the *Interpretation of Anti Unfair Competition Law of China* issued by the Supreme Court of China on January 12, 2007.

59 Id. Article 14.

60 Id. Article 16.

61 Yong-sheng Dai, *supra* note 55, P37.

62 Article 17 of the *Interpretation of Anti Unfair Competition Law of China*.

by the following factors: the development cost, the profit obtained by the implementation of trade secrets, the expected profit, and the time that the trade secrets can maintain the competitive advantage for the right holders and so on.

According to these Chinese law provisions, with respect to the issue of compensation for intellectual property damage, China adopted the principle of compensation but not the principle of exemplary damages. That is to say, the total amount of compensation should be based on the total loss of the right holder or the profit gained by the infringer through the infringing act. Some scholars pointed out that “as far as the developing countries are concerned, improving the protection level of IP on the one hand can protect and encourage creativity and promote importation of foreign advanced techniques, and on the other hand, it will conflict with the dissemination of IP and the public policy, therefore restrict the new creation, and even conflict with national interest.”⁶³ There is no doubt that the balance of the private interest of the intellectual property holders and the public interests of a country is very necessary and important especially in the information era⁶⁴. Therefore, it is reasonable for China to set IP protection policy based on Chinese affairs, the development level of economic and society and the national interest. At present, Chinese IP related laws have not adopted the principle of exemplary damages like the US.

In the case that an employee breached a nondisclosure agreement (NDA) or a prohibition of competition agreement, trade secret holders can pursue the defaulting party’s breach of contract liability, including compensation for damage.

3.3.2 Administrative liability

According to Article 25 of the *Anti Unfair Competition Law*, if a manager violates Article 10 by infringing upon the trade secrets, Administrative Departments for Industry and Commerce of government may fine the infringer a minimum of 10,000 RMB yuan and up to a maximum of 200,000 RMB yuan.

3.3.3 Criminal liability

Any person who commits any of the infringing acts of trade secrets stipulated in Article 219 of the *Criminal Law of China* and causes material damages to the trade secret holder shall be sentenced to a fixed-term of imprisonment of less than 3 years and shall also be fined; if the consequences are especially serious, he or she shall be sentenced to a fixed-term of imprisonment of more than 3 years but not more than 7 years and shall also be fined.

Furthermore, according to Article 7 of the *Interpretation of the Supreme Court concerning Issues on Criminal Cases of Infringement upon Intellectual Property*, if the infringer causes more than 500,000 RMB yuan in losses to the trade secret holder, it will be deemed to be material damage. If the infringer causes more than 2,500,000 RMB yuan in losses to the trade secret holder, it will be deemed to be especially serious damage.

3.3.4 Arbitration agreement

The parties may also conclude an arbitration agreement after the dispute has arisen or include an arbitration clause in contracts in advance in order to resolve the dispute. In contrast to the lawsuit, the parties can select a foreign arbitral body without being subject to the exclusive jurisdiction⁶⁵ of China. However, due to the exclusive application of the Chinese Law stipulated in Art.126 of

63 Huiguo Zhou, *The Judicial Application of Legal Compensation of Intellectual Property*. Academic Forum, vol.7, P5.

64 Kazunori Ishiguro, *Cross-Border Problems on Intellectual Property Rights*, NTT Publishing Co., Ltd. P77.

65 Supra note 7(4).

the *Contract Law of China* regarding to the three types of the contracts⁶⁶, the foreign arbitral body must apply Chinese Law, otherwise the arbitration would not be enforced by Chinese courts.

The infringement of trade secrets by a former employee due to a change in employment will be protected by the Labor Law or Labor Contract Law⁶⁷. The parties can conclude an NDA and pursue the liability of the party who breached the agreement based on the above laws through the routes of conciliation, arbitration or litigation⁶⁸.

3.4 Insufficient Protection of Trade Secrets in China

The following issues relate to the protection of trade secrets under the *Anti Unfair Competition Law of China*.

3.4.1 The scope of trade secrets is still limited

One of the requirements of trade secret protection is practical utility. However, it should be noted that some elements of the practical utility are difficult to prove in the process of litigation. For example, the data obtained in a failed experiment or at a certain stage of development may not be deemed to be a trade secret by the court of China.

3.4.2 Subject of the trade secret holder is limited

According to the *Anti Unfair Competition Law*, only trade secrets owned by manager who deals in commercial business can be protected by the law. Therefore, any person who purely engages in the creation activity will not be protected by the law.

3.4.3 Laws on government's obligation of keeping secrets is still not clear

TRIPS stipulated that Members shall protect pharmaceutical or agricultural chemical products undisclosed tests or other data submitted to governments or governmental agencies against unfair commercial use⁶⁹.

Though there are similar provisions with respect to the obligation of government department and government officials to maintain confidentiality in the *Regulation on the Prohibition of Infringement on Trade Secrets* issued by State Administration for Industry and Commerce (SAIC)⁷⁰, it is no more than a regulation and, strictly speaking, not a law. Many scholars have suggested that this kind of provision on government or government officials' obligation to maintain confidentiality should be upgraded to the level of a law and should be incorporate into the *Anti Unfair Competition Law of China* when it is amended.

The above problems in Chinese legislation with regard to the insufficient protection of trade secrets has been pointed out by many scholars⁷¹, and this will surely have a significant influence on future changes to the law.

66 Supra note 10.

67 Supra note 57.

68 Such as the case of Rosenberger Asia Pacific Co., Ltd. v. Yong Li, Beijing first Intermediate People's Court, Civil Judgment No.1500 (2006). In the judgment, against the defendant's protest that because the dispute between Rosenberger and Yong Li belongs to labor dispute so in this kind of dispute, the Principle of the Pre-Placement of the Labor Dispute Arbitration should be applied, the judge decided as follows: the Prohibition of Business Strife is a legal method to protect trade secrets, but the legal relations is different from the trade secrets protection. In this case, legal relation Concurrence exists and anyone of the parties can select one of these legal relations to lay claim. So the protest of the defend lacks of legal basis.

69 Article 39, paragraphs 1 & 3 of TRIPS.

70 Article 10 of the regulation, supra note 56.

71 Supra note 55, P40. Chengsi Zheng, *WTO and Trade-Related Aspects of Intellectual Property Rights*, China Renmin University Press, 1996, P224.

3.5 Trade Secrets in terms of Private International Law

When the jurisdiction of a Chinese court is affirmative in a trade secrets infringement case, the next private international law problem the court faces is qualification. If there is a non-disclosure agreement between the disputing parties, then the applicable law will be decided based on the private international law provisions on contract; if one party brings an action based on tort against another party, then the applicable law will be decided based on the private international law provisions as it relates to a tort. With a general view to the trade secrets related cases judged by Chinese courts, there are cases that have applied foreign laws due the party's autonomy, and there are also cases based on Chinese laws. As they have already been mentioned in part 1, the provisions of private international law of China will not be repeated here.

Conclusion

This paper has discussed Chinese laws and regulations regarding music copyright and trade secrets from two aspects - substantial law and private international law. There are many new statutes and guidelines enacted by the Chinese legislature year-to-year in order to address emerging issues in this new era. Due to the limited length of this paper, not all of the legal issues related to music copyright and trade secrets were addressed, and as such, the focus of the paper was on those statutes deemed to be most important. Based on the traditional understanding of Savigny-type private international law, it is necessary to realize that the legal system of each country is different from each other and as such, it is necessary to respect each country's law. It is hoped that this paper is helpful in terms of understanding the Chinese legal system and the promotion of the cross-border exchange of intellectual assets between foreign countries and China.