

## **Introduction on Amendment to Trade Secret Act of the Republic of China**

### **Preface**

“Trade secret” is essential to a corporation’s competition, especially in the era of knowledge-based economy. In recent years, we often see news regarding some ex or current employees of some high-tech companies disclose some “trade secrets” to their rival corporation. Due to such ever-increasing unlawful activities, on January 11, 2013, the Legislative Body of the Republic of China has passed the new Amendment to Trade Secrets Act, imposing criminal liabilities and adding the extraterritorial clause to the Trade Secrets Act. The Amendment is intended to prevent any illegal act to acquire, use or disclose trade secrets of others and deter the economic espionage from occurring.

### **What is the definition of “Trade Secret”?**

The definition of “trade secret” is set forth under Article 2 of current Trade Secrets Act<sup>1</sup> and is read as follows:

The term " trade secret " as used in this Act shall mean any method, technique, process, formula, program, design, or other information that may be used in the course of production, sales, or operations, and also meet the following requirements:

- (1) It is not known to persons generally involved in the information of this type;
- (2) It has economic value, actual or potential, due to its secretive nature; and
- (3) Its owner has taken reasonable measures to safeguard its secrecy.

Consequently, both of the often referred “commercial secret” and “industrial secret” fall within the confinement of “trade secret”. Furthermore, in order to obtain the protection provided by the Act, the following requirements must be met:

- 1. It is not known to persons generally involved in the information of this type:**

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<sup>1</sup> [http://oldweb.tipo.gov.tw/secret/law\\_secret/law\\_secret\\_2.asp](http://oldweb.tipo.gov.tw/secret/law_secret/law_secret_2.asp); Latest visit date 12/24/2012.

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The information must have the nature of secrecy. For example, if a corporation that manufactures beverage discloses to the public its formula to make the drinks, then the formula loses the secrecy nature and does not constitute trade secret anymore as soon as the corporation publicly announces the secret formula of its drink.

**2. It has economic value, actual or potential, because of its secrecy nature:**

The information must have economic value. For instance, if a real estate corporation possesses certain information concerning its customers, such as the contact information, the details of relevant transactions, the commission fees and other indispensable information of real estate transactions and if this type of information is disclosed to its competitive companies, the corporation can anticipate its competitors may use it to compete with itself. As such, it is more likely than not its business chances may become slim. This kind of information apparently has economical values.

**3. Its owner has taken reasonable measures to safeguard its secrecy:**

The main difference between “Trade Secret” and “Intellectual Property Rights” is that the holder/owner of trade secret has taken reasonable measures to safeguard his trade secret and the reason to protect it is because the holder/owner not only has the willingness to protect it but also aggressively makes reasonable effort to keep information confidential. Should the holder/owner of “trade secrete” have not taken reasonable measures to safeguard its confidentiality, allowing any third party accesses to contact the trade secret, the law may not be able to lend its protection on the “trade secret” because the holder/owner of it appears not to care about keeping it in confidence.

Additionally, insofar as “reasonable measures” to safeguard trade secrete/confidential information are concerned, examples of the measures include the execution of Confidentiality Agreement, the marking of “Confidential Information” on the materials containing trade secret, or the notification to those who read or contact the materials to remind them the importance and confidentiality of the materials.

Although “trade secret” falls within the purview of intellectual property rights, the main differences between “trade secret” and “patent and trademark” is that the latter is required to be registered with the authorities; whereas the former is not required to go through legal red-tapping procedures but only subject to the meeting of the

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requirements set forth in Article 2 of current Trade Secrets Act.

### **The Background of the Amendment to Trade Secrets Act**

Commercial secrets and technology secrets of a corporation become the company's source of revenues and competitive advantages in the age of information exchange. Taiwan had enacted Trade Secrets Act as the legal protection of trade secrets on 17<sup>th</sup> January 1996 (the "1996 Act"). However the 1996 Act imposes only civil liabilities on unlawful activities. To prosecute a perpetrator for violation of the 1996 Act, a criminal lawsuit must be initiated pursuant to the Criminal Code of the Republic of China, such as Article 342 (the offenses of "breach of trust"), Article 317 ("the unlawful disclosure of commercial or industrial secrets"), and Article 318-1 ("making illegal use of computer to disclose other's secrets"), or Article 36 ("the offenses of impediment of fair competition") under the Fair Trade Act. The situation has led to difficulty having the perpetrators punished. Considering the difficulty of evaluating the actual losses incurred from misappropriation of trade secret, the gravity of the losses a corporation would sustain when the perpetrators sold the trade secret of the corporation to abroad, and the possible impact on domestic industries arising from and in connection with such sales, the 1996 Act is apparently unable to deter said perpetrators from violating the law. Comparing the 1996 Economic Espionage Act of the United States which sees the violation of economic espionage as a felony, the protection provided by the 1996 Act is, thus, obsolete. Taking the 1996 Economy Espionage Act of the US for example, it provides that the natural person committing misappropriation shall be sentenced to imprisonment for not more than 15 years, and a fine of 500,000 US Dollars; whereas the legal entity committing the offense may be fined up to 10 million US Dollars. Consequently, it is truly hoped the passage of the Amendment would actually serve its purpose to further deter unlawful activities in this regard.

### **The Highlights of the Amendment to Trade Secrets Act**

#### **< 1 > criminal penalties**

The most important amendment to the act is that it imposes criminal liabilities on the persons committing misappropriation of trade secret. The perpetrator can be sentenced up to 10 year imprisonment and be fined NT\$50 million (about US\$1.75 million) or

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10 times of the illegal profits.

The revised Article 13-1 is read as follows:

Any person committing an act falling under any of the following circumstances for the purpose of an illicit gain for himself/herself or for a third person, or inflicting a loss on the holder of a trade secret shall be sentenced to a maximum of 5 years imprisonment or short-term imprisonment, in addition thereto, a fine between NT\$1 million and NT\$10 million may be imposed:

1. Acquiring a trade secret by an act of theft, embezzlement, fraud, threat, unauthorized reproduction, or other wrongful means, or using or disclosing a trade secret so acquired.
2. Committing an unauthorized reproduction, usage, or disclosure of a trade secret known or possessed.
3. Failing to delete or destroy a possessed trade secret as the trade secret holder orders, or disguising it.
4. Any person knowingly acquires, uses or discloses a trade secret known or possessed by others is under circumstances prescribed in the preceding 3 subparagraphs.

**Pursuant to the Act, the four types of criminal activities are as follows:**

〈 1 〉 unlawful acquisition or unlawful exploitation or disclosure of trade secrets :

Unlawful acquisition includes theft, embezzlement, fraud, extortion, unauthorized reproduction or other unlawful acts. For example, the so-called “other unlawful acts” means a person who gains access or probe to certain trade secrets with the intent to unlawfully acquire such trade secrets. To constitute an offender hereof is not required to have a special status (like public servant) or qualification whatsoever. As such, an offender is not limited to employees, management class, or parties to confidentiality agreement and any person violating the Act may be the subject to the Act.

Additionally, exploitation or disclosure of trade secrets is illegal if the person obtains such secret through any of the improper means specified in the law mentioned above.

〈 2 〉 unlawful reproduction, usage, or disclosure :

A person who without authorization or exceeds the scope of the authorization

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duplicates, uses, or discloses the trade secret of others which he/she knows or possesses with just causes. Consequently, the person who may fall within this category is limited to the person “who knew or possesses the trade secrets of others“. In other words, it is limited to those who have already known or possesses the trade secret and took advantage of utilizing such powers without any authorization

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〈3〉 unlawful possession thereafter

A person legally possessing the trade secret of others conceals it or fails to follow the instructions of the owner of the trade secrets to delete or destroy it, regardless of the fact he/she is instructed to do so. The person who may be subject to this category of illegal act is limited to those who have already possessed the trade secret but abused it resulting in causing harms to the owner of the trade secrets.

〈4〉 malicious transferees of trade secrets

The Act sets forth an offense for those malicious transferees of trade secrets who knew he/she unlawfully acquired, used or disclosed trade secrets of others or with gross negligence did not know he/she unlawfully acquired, used or disclosed trade secrets of others, both of which resulted in the indirect infringement of trade secrets of others.

〈2〉 The extraterritorial clause

Since the unlawful disclosure of trade secrets to persons in foreign countries would bring a material impact on domestic industries, the legislators add an extraterritorial clause to the Amendment (Article 13-2), which is read as follows: a person intending to use trade secrets overseas (including foreign countries, Mainland China, Hong Kong and Macao) therefore committing the offence shall be increased his/her criminal punishments and shall be sentenced to imprisonment for not less than one year but no more than ten years; and, in addition thereto, a fine of not less than NT\$3 million but not more than NT\$50 million may be imposed; provided, however, that in the event the unlawful profits gained exceed NT\$50 million, the fine may be increased, at discretion of the court, up to from 2 times to 10 times of the unlawful profits.

If the offense is committed domestically, a criminal prosecution may be instituted only upon the complaint by the holder/owner of the trade secrets. The Amendment

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provides the holder/owner of such trade secrets and the offender employees with an opportunity to reach settlement and let the holder/owner be able to focus its strengths on taking legal measures against the legal entities that maliciously and illegally acquired such trade secrets from the offender employees.

Insofar as the offence is committed aboard, a criminal prosecution may be instituted with or without any complaint by the holder of the trade secrets because it involves the public interests and interests of the nation. It is worth noting that an attempted offense under the law is punishable regardless of whether it is conducted domestically or abroad (Article 13-4).

〈 3 〉 Increase punishment for civil servant

In case a civil servant or a former civil servant who knows or possesses others' trade secrets within the scope of his/her authority or employment and intentionally commits a crime prescribed in the preceding article shall be sentenced to the punishment prescribed for such an offense by increasing it up to one half. (Revised Article 13-3, paragraph 3)

〈 4 〉 **The criminal liability of legal entities**

In addition to punishing the natural person who commits the crime, the Amendment imposes criminal liability on legal entities. Pursuant to Article 13-4 of the Amendment, if the representatives of a legal entity, the agents of a legal entity or natural person, or employees or other staff of a legal entity, during the course of performing his/her duties, violate the Article 13-1, 13-2 of the Amendment, the legal entity or the natural person concerned shall be subject to punishment as prescribed in the respective Articles of the Amendment; provided that the punishment shall not apply to a legal entity or natural person who have done their utmost to prevent the occurrence of a crime result. This is to prevent the punishment to those employers who did know the offense.

### **Conclusion**

Even though some companies worry about the enactment of the Amendment would impede the flow of human resources, many corporations support the Amendment since it provides protection to intellectual properties. A corporation intending to

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safeguard its trade secrets cannot over-emphasize the importance of reasonable measures to safeguard trade secrets, and sufficiently educating employees' awareness of keeping confidential information in confidence. Moreover, to cope with global keen competition, corporations may consider utilizing agreements, such as, non-competition agreement, and confidential agreement to protect its trade secrets. Of course, as the newly enacted Trade Secrets Act is on the way, people would definitely pay much more respect on others' trade secrets.



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