# What's New

## Comparing Trade Secrets Protection Required by the 2020 U.S.-China Trade Agreement with Existing Chinese Law

By Yanping Wang

## At a Glance

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On January 15, 2020, the United States and China signed the 2020 Economic and Trade Agreement, also referred to for purposes of this article as the Phase One Agreement.[1] Many pundits saw this as the beginning of the end to the U.S.-China trade war that had been raging since March 2018. Given its breadth, addressing the entire Phase One Agreement is beyond the scope of this article. Instead, this article addresses the agreement's impact on issues relating to trade secrets protection by comparing sections of the agreement relevant to trade secrets with the applicable provisions of existing Chinese law, summarizing the areas in which China has already met the requirements, and discussing the areas in which China intends to take further action.

Since the late 1980s, protecting intellectual property rights has consistently been an important concern for foreign companies conducting business in China.[2] Recognizing this, China consequently addressed some of these concerns even before the Phase One Agreement was signed. For example, China adopted the second amendment to its Anti Unfair Competition Law (AUCL) in 2019[3] and passed the Foreign Investment Law of the People's Republic of China (FIL).[4] The amendment to the AUCL and newly enacted FIL were both designed to protect the intellectual property rights of foreign investors, and in certain instances, comply with the requirements set forth in the Phase One Agreement.

### Protection of "trade secrets" and "confidential business information"

Section B of Chapter 1 of the Phase One Agreement is titled "Trade Secrets and Confidential Business Information." However, what may constitute "trade secrets" is not clearly defined in the agreement, as the terms "confidential business information" and "trade secrets" seem to be used interchangeably. For example, footnote 1 of the Phase One Agreement provides that the term "confidential business information" concerns or relates to the "trade secrets, processes…or other information of commercial value, the disclosure of which is likely to have the effect of causing substantial harm to the competitive position of such person from which the information was obtained."[5] It appears that this broad definition was intended to address concerns that trade secrets were not adequately defined in the previous AUCL and did not adequately protect U.S. investors in China. Before the second amendment to the AUCL was adopted, trade secrets were defined to be "technology or operating information which is unknown to the public, which is of economic value, and of practical use; and the right holder has taken confidentiality measures [to protect it]."[6] Compared to the concepts that are familiar to western minds, this definition has several flaws: first, the trade secrets were narrowly defined to include "technology or operating information," but what constitutes "operating information" is unclear; second, the definition required that the information have "economic value" and be of "practical use" to qualify as trade secrets, but provided no guidance as to how to determine whether certain information is "of practical use"; and third, the definition required the right holder to meet a difficult burden of proving that the allegedly infringed information constitutes a trade secret worthy of protection under the law.

China tried to address these criticisms when it adopted the second amendment to the AUCL. In that amendment, trade secrets are defined to be the "business information etc., including technology and operating information that are unknown to the public, of commercial value, for which the right holders have taken corresponding confidentiality measures." Thus, by adding "etc." after "business information" and changing "of practical use" to "of commercial value," China attempted to conform to the requirement of protecting "trade secrets and confidential business information" defined in the Phase One Agreement.[7]

The following sections evaluate whether existing Chinese laws and regulations meet the requirements of the Phase One Agreement under various topics.

### Scope of actors liable for trade secret misappropriation

Chapter 1, Section B, Article 1.3 of the Phase One Agreement requires that China define "operators" in trade secret misappropriation to include all natural persons, groups of persons, and legal persons.

China has met this requirement. Article 9 of the AUCL provides that "operators" and "other natural persons, legal persons, or non-legal person organizations" can be liable for trade secret misappropriation.

## Scope of prohibited acts that constitute trade secret misappropriation

Chapter 1, Section B, Article 1.4 of the Phase One Agreement requires that China enumerate additional acts that constitute trade secret misappropriation, especially *electronic intrusions*, breach or inducement of a *breach of duty not to disclose* information that is secret or intended to be kept secret, and *unauthorized disclosure* or use that occurs after the acquisition of a trade secret under circumstances giving rise to a duty to protect the trade secret from disclosure or to limit its use.

China has met this obligation. The trade secret misappropriation acts include (1) acquiring trade secrets by *electronic intrusions*;[8] (2) disclosing, using, or allowing another person to use trade secrets in its possession by *breach of duty* to keep trade secret confidential or *in violation of the requirement of the right holder* to keep the trade secret confidential;[9] and (3) abetting, *inducing*, or aiding a person into or in acquiring, disclosing, using or allowing another person to use the trade secrets.[10]

## Burden-shifting in a civil proceeding

Chapter 1, Section B, Article 1.5, Paragraph 2 of the Phase One Agreement requires:

> (a) the burden of proof or burden of production of evidence, as appropriate, shifts to the accused party to show that it did not misappropriate a trade secret once a holder of a trade secret produces:
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> (i) evidence that the accused party had access or opportunity to obtain a trade secret and the information used by the accused party is materially the same as that trade secret;
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> (ii) evidence that a trade secret has been or risks being disclosed or used by the accused party; or
>
> (iii) other evidence that its trade secret(s) were misappropriated by the accused party; and
>
> (b) under the circumstances that the right holder provides preliminary evidence that measures were taken to keep the claimed trade secret confidential, the burden of proof or burden of production of evidence, as appropriate, shifts to the accused party to show that a trade secret identified by a holder is generally known among persons within the circles that normally deal with the kind of information in question or is readily accessible, and therefore is not a trade secret.

China has met this requirement, and Article 32 of the AUCL provides in a civil case for trade secret misappropriation. Under Article 32, after the trade secret holder has provided preliminary evidence that measures were taken to keep the claimed trade secret confidential and has reasonably indicated that its trade secret has been misappropriated, the burden of proof shifts to the accused party who needs to prove that the claimed trade secret is not a trade secret protected by the law. If the right holder of a trade secret provides prima facie evidence to reasonably indicate that the trade secret has been infringed and provides any of the evidence listed in the Phase One Agreement, the accused party must prove that no misappropriation exists.

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## Provisional measures to prevent the use of trade secrets

Chapter 1, Section B, Article 1.6 of the Phase One Agreement requires that China identify the use or attempted use of claimed trade secret information as an "urgent situation" that provides its judicial authorities to order the grant of a preliminary injunction based on the specific facts and circumstances of a case.

China has met this obligation. The concept of "preliminary injunction" is a part of "preservation" remedies in civil proceedings in China. Preservation can occur during a civil proceeding before the judgment is issued and before a civil case is filed. The contents of preservation include taking active actions or injunctions. Under Article 101 of the Civil Procedure Law of the People's Republic of China (PRC), an interested party, before filing a claim with a court or arbitration tribunal, may apply for the preliminary injunction in an urgent situation and if failure to request immediate relief will suffer irreparable harm.[11] What constitutes an "urgent situation" has been addressed by the Supreme People's Court.[12] In 2018, the Supreme People's Court provided the judicial guidance to determine what circumstance constitutes an "urgent situation" for the "trade secret" cases.[13] If the applicant can prove that its trade secret is in danger of being imminently disclosed illegally and it will suffer irreparable harm, then the preliminary injunction remedy will be granted. This provision and the practice are consistent with the requirement set forth in the Phase One Agreement.[14]

## Threshold for initiating criminal enforcement

Chapter 1, Section B, Article 1.7 of the Phase One Agreement requires China to amend its relevant laws to eliminate "actual losses" as a prerequisite to the initiation of a criminal investigation for misappropriation of trade secrets. Specifically, it requires that China will (1) as an interim step, clarify that "great loss" will include the remedial cost to meet the threshold for criminal enforcement under the trade secret provision in the relevant law and substantially lower the threshold for initiating criminal enforcement; and (2) as a subsequent step, eliminate the actual losses as a prerequisite to initiation of a criminal investigation for misappropriation of a trade secret.

China has met most of these requirements. "Great loss" is defined to mean the actual loss of RMB500,000 (approximately $72,000 in U.S. currency) or more, and the misappropriation has resulted in bankruptcy or other severe consequences to the right holder.[15] To meet the requirements set forth in the Phase One Agreement, China needs to expand "loss" to include the remedial cost; however, with respect to eliminating the "actual loss" requirement for criminal liabilities, the author questions the rationale of this requirement. The current Chinese law requires the actual loss as an element to constitute a crime,[16] and it is a distinguishing factor to separate the criminal liability from the civil liability. Absent this distinction, each trade secrets infringer faces both civil and criminal liability, which the author believes is unintended by the Phase One Agreement. The author believes that with broader definition of "loss," the "actual loss" incurred by the right holder should remain as the prerequisite for criminal liability.

## Criminal procedures and penalties

Chapter 1, Section B, Article 1.8 of the Phase One Agreement requires China's criminal procedure and penalties to at least encompass cases of trade secret misappropriation through theft, fraud, physical or electronic intrusion for an unlawful purpose, and the unauthorized or improper use of a computer system in the scope of prohibited acts.

The current China criminal penalties encompass cases of trade secret misappropriation through theft, fraud, and physical intrusion. China needs to revise the Criminal Law of the PRC to include methods such as electronic intrusion.

## Protecting trade secrets and confidential business information from unauthorized disclosure by government authorities

Chapter 1, Section B, Article 1.9 of the Phase One Agreement requires China to prohibit the unauthorized disclosure of trade secrets by governmental personnel, third-party experts, or advisors in any criminal, civil, administrative, or regulatory proceedings. More specifically, China must require administrative agencies and other authorities at all levels to:

(a) limit requests for information to no more than necessary for the exercise of legitimate investigative or regulatory functions;

(b) limit access to submitted information to only government personnel necessary for the exercise of legitimate investigative or regulatory function;

(c) ensure the security and protection of submitted information;

(d) ensure that no third-party experts or advisors who compete with the submitter of the information or have any actual or likely financial interest in the result of the investigative or regulatory process have access to such information;

(e) establish a process for persons seeking an exemption from disclosure and a mechanism for challenging disclosures to third parties; and

(f) provide criminal, civil, and administrative penalties, including monetary fines, the suspension or termination of employment, and, as a part of the final measures amending the relevant laws, imprisonment for the unauthorized disclosure of a trade secret or confidential business information that shall deter such unauthorized disclosures.

China has met most of these requirements except for (d) and (e). Article 23 of the FIL already imposes on administrative agencies and their employees the duties to maintain the confidentiality of trade secrets learned in the course of performing their duties. Article 24 of the FIL regulations defines the "administrative organs" to include all organizations empowered or authorized by the laws and regulations to administer public affair functions. Further, current Chinese law already limits the material or information required by the administrative organs to those necessary to perform their duties, and only those who need to know can access the trade secrets.[17]

Finally, Chinese law requires administrative organs to establish data security systems and deploy effective measures to protect the trade secrets and prevent leaks.[18] With respect to requirement (f), Chinese law already imposes disciplinary actions on the staff of administrative organs who unlawfully disclose trade secrets.[19] The types of discipline actions include a warning for 6 months, 12 months demerit, 18 months for gross demerit, and 24 months for demotion or dismissal.[20] With respect to the monetary penalties, China imposes RMB100,000 to RMB 1 million fines for trade secrets misappropriation and RMB500,000 to RMB 5 million for severe trade secrets violators.[21] With respect to the criminal liabilities, Article 219 of

the Criminal Law of the PRC provides fixed-term imprisonment of up to seven years depending on the severity of the criminal action.

## Conclusion

During the two years it took to negotiate the Phase One Agreement, China gradually came to understand the general attitudes of the U.S. on Chinese trade secret protection laws; therefore, it is not surprising that China, having the time and knowledge, took a step ahead to amend existing Chinese laws that meet the requirements imposed by the Phase One Agreement. The actions yet to be taken are to ensure that no third-party experts or advisors who compete with the submitter of the information or have any actual or likely financial interest in the result of the investigative or regulatory process have access to this information; and to establish a process for persons seeking an exemption from disclosure and a mechanism for challenging disclosures to third parties. These tasks are not difficult, and China can be expected to revise its laws accordingly; however, businesses and practitioners have always been more concerned about enforcement than whether the Chinese law has been rewritten in such a way that almost the same language of the Phase One Agreement has been incorporated into various Chinese laws. The enhanced enforcement of these laws remains to be tested. ■

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## ENDNOTES

1. Economic and Trade Agreement Between the Gov't of the United States of America and the Gov't of the People's Republic of China (January 15, 2020), available at <https://ustr.gov/sites/default/files/files/agreements/phase%20one%20agreement/Economic_And_Trade_Agreement_Between_The_United_States_And_China_Text.pdf> [https://perma.cc/7SQJ-FMF5]. It is also referred to as the "Phase One Agreement"; see Fact Sheet, Office of the United States Trade Representative <https://ustr.gov/countries-regions/china-mongolia-taiwan/peoples-republic-china/phase-one-trade-agreement/fact-sheets> [https://perma.cc/MFB6-JUMB]. All websites cited in this article were accessed July 30, 2020.
2. See generally Li & Alon, *China's intellectual property rights provocation: A political economy view*, 3 J Int'l Bus Policy 60 (2020), available at <https://doi.org/10.1057/s42214-019-00032-x>.
3. Law Against Unfair Competition of the People's Republic of China (promulgated by Order No. 10 of the Standing Comm Eighth Nat'l People's Cong, September 2, 1993, effective December 1, 1993; amended effective January 1, 2018, and amended effective April 23, 2019), available at <http://www.fdi.gov.cn/1800000121_39_3191_0_7.html> [https://perma.cc/8WYU-H9YD].
4. Foreign Investment Law of the People's Republic of China (adopted by Second Session of the Thirteenth Nat'l People's Cong, promulgated by Order No. 26 of the President, January 1, 2020), available at <http://www.fdi.gov.cn/1800000121_39_4872_0_7.html> [https://perma.cc/3FGQ-TFPC]. This law replaced three laws that governed foreign investment in China: the People's Republic of China Law on Sino-Foreign Equity Joint Ventures (adopted by Second Session of the Fifth Nat'l People's Congress, July 1, 1979, amended April 4, 1990, and amended March 15, 20010; the People's Republic of China Law on Wholly Foreign-Owned Enterprises (adopted by Fourth Session of the Sixth Nat'l People's Cong, April 12, 1986, and amended October 31, 2000); and the People's Republic of China Law on Sino-Foreign Cooperative Joint Ventures (adopted by First Session of the Seventh Nat'l People's Cong, April 13, 1988, and revised October 31, 2000).
5. Economic and Trade Agreement at p 1-1, n 1.
6. Law Against Unfair Competition at Art 9.
7. Jones & Milewski, *China Strengthens Trade Secret Protections Ahead of Trade Negotiations*, Crowell Moring (May 7, 2019) <https://www.crowelltradesecretstrends.com/2019/05/china-strengthens-trade-secret-protections-ahead-of-trade-negotiations/> [https://perma.cc/Q8TG-JPLZ].
8. Law Against Unfair Competition at Art 9, Par (1).
9. *Id.* at Par (3).
10. *Id.* at Par (4).
11. Civil Procedure Law of the People's Republic of China (adopted by Fourth Session of the Seventh Nat'l People's Cong on April 9, 1991, amended on October 28, 2007, August 31, 2012, and June 27, 2017), available at <http://cicc.court.gov.cn/html/1/219/199/200/644.html> [https://perma.cc/SB34-LYQX].
12. Although China is not a caselaw country, the judicial interpretations issued by the Supreme People's Court and the Supreme People's Procuratorate of the PRC are binding in China. See generally *China & Hong Kong Legal Research Guide: Case Law*, Library Guides, The University of Melbourne (April 29, 2020) <https://unimelb.libguides.com/china/cases> [https://perma.cc/UB5P-SZ7D].
13. Provisions of the Supreme People's Court on Several Issues Concerning the Application of Law in Cases Involving the Review of Act Preservation in Intellectual Property Dispute (issued by the Supreme People's Court of the PRC on December 12, 2018, effective January 1, 2019), available at <http://www.lindapatent.com/en/law_patent/803.html> [https://perma.cc/E3HN-7R2K].
14. *Id.*
15. Interpretation of the Supreme People's Court and the Supreme People's Procuratorate Concerning Some Issues on the Specific Application of Law for Handling Criminal Cases of Infringement on Intellectual Property Rights (issued by the Supreme People's Court and the Supreme People's Procuratorate of the PRC on December 8, 2004, effective December 22, 2004). See generally Kanji, *Paper Dragon: Inadequate Protection of Intellectual Property Rights in China*, 27 Mich J Int'l L 1261, 1273 (2006), available at <https://repository.law.umich.edu/cgi/viewcontent.cgi?article=1202&context=mjil> [https://perma.cc/2ZT5-V5ZN].
16. Article 219 of The Criminal Law of the People's Republic of China (adopted at the Second Session of the Fifth National People's Congress on July 1, 1979, revised at the Fifth Session of the Eighth National People's Congress on March 14, 1997, and promulgated by Order No. 83 of the President of the People's Republic of China on March 14, 1997).
17. Foreign Investment Law at Art 25, Par (1).
18. *Id.* at Par (2).
19. Foreign Investment Law at Art 39.
20. Articles 6 and 7 of the Regulation on the Disciplinary Actions against Civil Servants of Administrative Organs (adopted at the 173 executive meeting of the State Council on April 4, 2007, effective June 1, 2007).
21. Law Against Unfair Competition at Art 21.