

UIC REVIEW OF INTELLECTUAL PROPERTY LAW



THE STATE OF TRADE SECRET PROTECTION IN CHINA IN LIGHT OF THE U.S.-CHINA TRADE WARS: TRADE SECRET PROTECTION IN CHINA BEFORE AND AFTER THE U.S.- CHINA TRADE AGREEMENT OF JANUARY 15, 2020

PAOLO BECONCINI

ABSTRACT

The article contains a thorough review of the recent amendments of China's regulations on trade secret protection and enforcement, in light of the U.S. WTO lawsuit of 2018 and the U.S.-China Trade Wars. This article analyzes in detail the U.S. demands for specific amendments to critical features of trade secret protection in China, such as shifting the burden of proof and lowering the thresholds to access criminal enforcement, and how China is meeting such expectations and its commitments to change as embodied in the first Chapter of the January 15, 2020 U.S.-China Economic and Trade Agreement. This article analyzes the most recent Chinese regulations and Supreme People's Court interpretations of July and September 2020 to determine whether they are implementing any of the Trade Agreement's commitments. This article also provides analysis and suggestions about further needed changes in China trade secret law, as well as practical guidance to practitioners on to how best navigate trade secret enforcement challenges in China.

Keywords: China, US-China Trade Wars, Trade Secrets Protection

**UIC JOHN MARSHALL
LAW SCHOOL**



Cite as Paolo Beconcini, *The State of Trade Secret Protection in China in Light of the U.S.-China Trade Wars: Trade Secret Protection in China Before and After the U.S.-China Trade Agreement of January 15, 2020*, 20 UIC REV. INTELL. PROP. L. 108 (2021).

THE STATE OF TRADE SECRET PROTECTION IN CHINA IN LIGHT OF THE
U.S.-CHINA TRADE WARS:
TRADE SECRET PROTECTION IN CHINA BEFORE AND AFTER THE U.S.-
CHINA TRADE AGREEMENT OF JANUARY 15, 2020

PAOLO BECONCINI

I. INTRODUCTION.....	108
II. BACKGROUND	109
III. TRADE WARS AND CHINA’S REFORM OF ITS TRADE SECRET LAWS.....	112
IV. THE 2019 AMENDMENT OF THE TRADE SECRET PROVISIONS IN THE CHINA UNFAIR COMPETITION LAW.....	114
V. TRADE SECRETS IN THE U.S.-CHINA TRADE AGREEMENT OF JANUARY 2020 (PHASE I AGREEMENT).....	116
VI. THE INTERVENTION OF THE SUPREME PEOPLE’S COURT IN 2020	119
A. Shifting of the Burden of Proof.....	119
B. Actual Loss, Great Loss and the Threshold for Obtaining Criminal Enforcement in China.....	125
1. First attempts at defining Great Loss.....	127
2. Recent Jurisprudence and Corrective Intervention of the Supreme People’s Court in July 2020	129
C. Trade Secret Abuses and Theft by Public Officials During Formal Administrative or Judicial Proceedings.....	135
D. Preliminary Relief	136
VII. OTHER IMPORTANT PROVISIONS IN THE DRAFT INTERPRETATION	138
VIII. CONCLUSIONS.....	142

THE STATE OF TRADE SECRET PROTECTION IN CHINA IN LIGHT OF THE US-
CHINA TRADE WARS:
TRADE SECRET PROTECTION IN CHINA BEFORE AND AFTER THE US-CHINA
TRADE AGREEMENT OF JANUARY 15, 2020

PAOLO BECONCINI*

I. INTRODUCTION

China's track record when enforcing IP rights of foreign entities has been in the U.S. and EU's list of grievances for over two decades. The accession of China to the WTO in 2001 and its commitment to the IP protection standards set forth in the ancillary TRIPS agreement further escalated the degree and intensity of such disputes. Most notably, in 2007, for the first time, the U.S. sued China before the WTO for alleged violations of the TRIPS agreement.¹

In the past three years, however, the issue of intellectual property protection in China has played an increasingly critical role in the trade and foreign policies of the U.S. and China. In 2018, the U.S. filed a new complaint against China before the WTO alleging a violation of the TRIPS agreement.² Even more important, these old grievances came center stage when they were cited as one of the key reasons for the U.S. government's decision to raise tariffs on Chinese exports, igniting the Trade war with China.³ In particular, China has been accused of not providing sufficient statutory and administrative tools to effectively protect foreign IP rights and to allow systemic misappropriation of foreign IP assets and trade secrets. The struggle between China the U.S., and to a lesser extent the EU, for the next world order centers primarily on

* © Dr. Paolo Beconcini, Squire Patton Boggs. LL.M. & B.A. University of Florence; LL.M. University of Southern California; email: paolo.beconcini@squirepb.com. Dr. Beconcini is a Consultant for Squire Patton Boggs, where he has headed the firm's China Intellectual Property team since 2012.

¹ Donald P. Harris, *The Honeymoon is Over: Evaluating the U.S. – China WTO Intellectual Property Complaint*, 32 FORDHAM INT'L L.J. 1, 96–186 (2008).

² Request for Consultations by the United States, *China — Certain Measures Concerning the Protection of Intellectual Property Rights*, WTO Doc. WT/DS542/1 (Mar. 23, 2018); Request for the Establishment of a Panel by the United States, *China — Certain Measures Concerning the Protection of Intellectual Property Rights*, WTO Doc. WT/DS542/8 (Oct. 18, 2018). On March 23, 2018 the United States filed with the WTO a request for consultation with China about the latter's violations of the TRIPS agreement on protection of IP rights. The formal request from the US is contained in the WTO document (WT/DS542/1). The negotiation with China failed, and on October 18, 2018 the US filed a request with the WTO for the appointment of a Dispute Settlement Body (WT/DS542/8). The documents can be retrieved from the WTO website at: https://www.wto.org/english/tratop_e/dispu_e/cases_e/ds542_e.htm.

³ See Ana Swanson, *W.T.O. Says American Tariffs on China Broke Global Trade Rules*, N.Y. TIMES (Sept. 15, 2020), <https://www.nytimes.com/2020/09/15/business/economy/wto-trade-china-trump.html#:~:text=WASHINGTON%20%E2%80%94%20World%20Trade%20Organization,filed%2C%20which%20argued%20that%20Mr> (reporting that China legally responded to the tariffs slammed on Chinese goods by the U.S. with its own WTO lawsuit against the U.S. alleging that the latter's unilateral action on tariffs violated the U.S.'s obligations under the General Agreement on Tariffs and Trade 1994 (GATT 1994) and the Understanding on Rules and Procedures Governing the Settlement of Disputes (DSU). On September 15, 2020 the WTO issued a decision siding with China when finding that the U.S. violated the WTO rules when imposing tariffs on China).

technological dominance, which in turn, requires control over the legal and economic tools to exploit it. The actuality of such issues is shown by the heated race to a successful vaccine and treatment for the Covid-19 virus and the related allegations of espionage and patent theft and infringement among the countries involved in said race.

In this struggle, trade secrets, the most legally vulnerable of the IP rights, have taken center stage. Hacking, cyber-espionage, forced technology transfer and state sanctioned industrial espionage have become the front line in the power struggle between China and the U.S. This article aims at providing an overview of the current state of development of China's framework for the protection and enforcement of trade secret rights in light of the trade wars and the U.S.-China Trade Agreement of January 2020. Additionally, this article assesses whether the changes implemented in China will address the traditional U.S. grievances and how they will effectively impact foreign rights holders.

Section II of this article provides an introduction to and some background on the topic of trade secret protection in China and the current political and economic relations between China and the U.S. Next, sections III and IV present an overview of the statutory and regulatory history, as well as changes regarding trade secret protection in China. In Section V, the article addresses the current state of political affairs and analyzes the pertinent chapter and section of the China-U.S. Economic and Trade Agreement on trade secrets and compares it to the previously introduced legislation and regulations in China. Then Section VI addresses and analyzes China's planned amendments to its trade secrets regime following the U.S.-China Trade Agreement. Section VI will also focus on some of the key disputed features of the Chinese trade secret system, such as shifting the burden of proof, the threshold for acceding to criminal justice and pre-litigation relief measures, and whether and to what extent they are being addressed by China in a very recent wave of statutory and judicial developments. The topics of section VI are not only important to policy makers but also, and more importantly, to rights holders and practitioners. They affect the very way trade secrets will be protected in the field, in real cases. Section VII will briefly look at other important changes to the trade secret system that will be introduced through official interpretations of the Supreme People's Court. All of these changes will have a significant impact on the ability of rights holders to effectively enforce their rights. Section VIII will contain a recap of the main topics and will present conclusions on whether trade secrets are now better protected in China than before the trade wars and the U.S.-China Economic and Trade Agreement.

II. BACKGROUND

China introduced its first modern legislation on trade secret protection in the 1990s⁴ with the promulgation of the Anti-Unfair Competition Law (AUCL) of 1993.

⁴ Law Against Unfair Competition of the People's Republic of China (promulgated by the Standing Comm. Nat'l People's Cong., Sept. 2, 1993), Art. 10(3), <https://www.wipo.int/edocs/lexdocs/laws/en/cn/cn011en.pdf> [hereinafter Law Against Unfair Competition 1993]. Prior to that, China had promulgated some provisions to protect trade secrets, but these were categorized as State secrets belonging to the government and not subject to private

The AUCL was then supplemented by other special provisions regarding trade secrets in contract law, labor law, and criminal law⁵. However, the Chinese government has faced difficulty with adapting these regulations to constant emerging challenges.⁶ Such challenges include the liberalization and extreme mobility of the skilled labor market and the inability of courts and the police to consistently and effectively protect foreign trade secrets. These challenges and China's constant need to adapt its regulations has produced a seriously flawed system. In particular, the trade secret enforcement system in China has often been accused of being ineffective, of setting unreasonably high and ill-defined thresholds for criminal enforcement,⁷ and of not providing adequate damages and remedies. Furthermore, it has been accused of acting in a politicized manner, of openly favoring Chinese businesses, and institutionalizing the theft of foreign trade secrets by turning a blind eye to allegedly increasing violations by public officials through subtle forms of forced disclosure in a variety of administrative proceedings. All of these aforementioned accusations and grievances have long since sat atop the U.S.'s and EU's lists of suggestions and demands for what China can do to improve its IP protection system.⁸

ownership. Among them, was for example the Regulations on the Issues of Science and Technology Secrets, issued by the Central Committee of the Communist Party in 1958 and the Regulations for Maintaining Confidentiality of Science and Technology, issued by the Central Committee of the Communist Party in 1978. *See also People's Republic Of China Intellectual Property Rights Memorandum Of Understanding—1992*, TCC EXPORT, https://tcc.export.gov/Trade_Agreements/All_Trade_Agreements/exp_005362.asp (last visited 1/31/2021) (only after the signing of the Memorandum of Understanding between the Governments of the People's Republic of China and the Government of the United States of America on the Protection of Intellectual Property of 1992, China committed to a sweeping reform and modernization of its IP system including the implementation of a trade secrets regime). *See also SHAN HAILING, THE PROTECTION OF TRADE SECRETS IN CHINA* 1-29 (2nd ed. 2012) (this book provides a very detailed history of the birth of trade secret protection in China).

⁵ In practice, there are a plethora of other norms and administrative regulations with provisions concerning trade secrets. *See, e.g.*, Regulations of the People's Republic of China on the Administration of Import and Export of Technologies (effective Jan. 1, 2002), art. 13, <https://www.wipo.int/edocs/lexdocs/laws/en/cn/cn125en.pdf>; Regulations of the People's Republic of China on Customs Protection of Intellectual Property Rights (promulgated by the Standing Comm. People's Cong., effective Mar. 1, 2004), art. 4, <http://english.customs.gov.cn/Statics/d95ecac5-4be9-4d69-b71f-c77169e73360.html>. There are also examples of local regulations on trade secret protection like those issued by special economic zones like Shenzhen and Zhuhai, which promulgated such laws in the late nineties.

⁶ SHAN HAILING, *supra* note 4, at 279.

⁷ *See* Off. of the U.S. Trade Rep., *United States Files WTO Case Against China Over Prohibited Subsidies*, THE USTR ARCHIVES (Feb. 2, 2007), <https://ustr.gov/about-us/policy-offices/press-office/press-releases/archives/2007/february/united-states-files-wto-case-against-chi>. In April 2007, the U.S., through its Office of the United States Trade Representative (USTR) filed a case with the WTO accusing China of non-compliance with the TRIPS agreement. Among the accusations in the case was that China set unreasonably high thresholds for access to criminal enforcement for trademark and copyright infringement.

⁸ *See* Comprehensive Agreement on Investment, EU-China, Dec. 30, 2020, https://trade.ec.europa.eu/doclib/docs/2020/december/tradoc_159242.pdf. Most recently, this topic of trade secrets and forced technology transfer was addressed by the EU-China Comprehensive Agreement on investments (CAI). *See also* Paolo Beconcini, *China's Recent Trade Investment Agreement with the EU and the Impact of its Provisions on Forced Technology Transfer*, UIC RIPL (Jan. 27, 2021), <https://ripl.jmls.uic.edu/2021/01/27/chinas-recent-trade-investment-agreement-with-the-eu-and-the-eu-and-the-impact-of-its-provisions-on-forced-technology-transfer/> (outlining the recent EU-China CAI agreement).

However, in the last few years, a series of systemic economic changes and increasing external political pressure from the West has inspired China's trade secret regime to evolve at a "quicker than expected" rate. In particular, the evolution of the Chinese economic system from the world's factory to world innovator and an economic power has increased the pressure on China to provide more effective protection of foreign trade secrets in reciprocity for protection of its domestic brands expanding business abroad.⁹ On the other hand, it is alleged that the pace of economic and technological competition with the West is pushing China to use economic policies and plans to cover illicit, government-sanctioned intellectual property and trade secret theft, for instance in the case of the Thousand Talents Plan.¹⁰ Another Chinese government policy that has recently come under scrutiny is the "Made in China 2025" policy,¹¹ aimed at reducing China's dependence on imported technologies in ten prioritized industries including robotics and AI, IT, aviation, railway transport, biopharma, and many others.¹² The mounting tensions and increasing number of trade

⁹ Xi Jinping's Speech at the 25th Study Session of the Political Bureau of the Central Committee, XINHUA NEWS AGENCY (Dec. 1, 2020), http://www.gov.cn/xinwen/2020-12/01/content_5566183.htm. In a most recent speech at the 25th Study Session of the Political Bureau of the Central Committee of the Communist party, General Secretary Xi Jinping emphasized that: "Innovation is the first driving force leading development and protecting intellectual property rights is protecting innovation." The text of the speech was published on January 31, 2021 in "Seeking truth Magazine" and can be found via the link at the beginning of this footnote.

¹⁰ See Zhen Shuji, *The "Thousand Talents Plan" suddenly disappeared after many arrested by the US*, RFI (July 5, 2020), <https://www.rfi.fr/cn> (reporting on the alleged institutionalized IP theft system is the so called Thousand Talents Program (千人计划), launched back in 2008 by the Chinese government. The program, aimed at recruiting international experts and talents in the scientific field for improving China's innovation capacities, has been accused of being a vehicle for government sanctioned espionage and IP theft. Interestingly, there have been very recent reports that the Thousand talents program has disappeared from the Chinese internet. According to Taiwan's Apple Daily, as early as September 2018, it was reported that the Chinese authorities had ordered the official media to suspend the promotion and reporting of the "Thousand Talents Plan").

¹¹ See The State Council of The People's Republic of China, *Made in China 2025*, ENGLISH.GOV.CN, <http://english.www.gov.cn/2016special/madeinchina2025/> (last visited on Jan. 14, 2021). In May 2015, the Chinese government launched "Made in China 2025," a state-led industrial policy seeking to make China the world leader in global high-tech research and manufacturing. The program offers Chinese companies government subsidies, and intellectual property acquisition to surpass the West in advanced key industries. See also Else B. Kania, *Made in China 2025, Explained*, THE DIPLOMAT (Feb. 1, 2019), <https://thediplomat.com/2019/02/made-in-china-2025-explained/> (the author explains that the Made in China 2025 policy is "but one key piece of a complex architecture of plans and policies aimed at generating 'innovation-driven development,' an agenda that has emerged as a clear priority under Xi Jinping's leadership.").

¹² WHITE HOUSE OFF. OF TRADE AND MFG. POLICY, HOW CHINA'S ECONOMIC AGGRESSION THREATENS THE TECHNOLOGIES AND INTELLECTUAL PROPERTY OF THE UNITED STATES AND THE WORLD (June 2018), <https://china.usc.edu/sites/default/files/article/attachments/white-house-china-threatens-us-intellectual-property-2018-06.pdf>. In this report, physical theft by Chinese employees is listed as the most traditional and also most common form of IP theft. However, new threats are emerging; those including cyber-espionage, the evasion of U.S. export control laws, and the implementation of intrusive regulatory gambits to force technology and IP transfers to Chinese government officials or forced business partners in key industries. Interestingly, the report includes "reverse engineering" as a trade secret theft practice of China. Frankly, this is puzzling. Reverse engineering is common everywhere, it is legal in itself and it is indeed a source of how technology further develops. It is evident that the White House document was politically framed to provide justification to the trade tariffs. Nonetheless, it correctly pointed out some critical flaws in the Chinese trade secret protection system. Even to the most objective and unbiased friends of China, it is evident

secret theft cases by Chinese individuals caused the U.S. to announce in July 2018 that it was increasing tariffs on Chinese goods. This move was an act of retaliation by the U.S., blatantly seeking to sanction China for its alleged disregard of U.S. companies' intellectual property rights. This then escalated into a full-blown trade war that triggered the U.S. to implement initiatives aimed at curbing trade secret theft by China within the U.S. Among those initiatives, and possibly the most remarkable, was the November 2018 *China Initiative*¹³ launched by the U.S. Department of Justice. The *China Initiative* ushered in a number of high-profile trade secret theft cases in the U.S.

This article aims at surveying recent changes in China's trade secret regime during the trade war period, starting from the 2019 amendment to the AUCL's provisions on trade secrets, passing through the U.S.-China Economic and Trade Agreement (hereafter referred to as the Phase I Agreement),¹⁴ to the latest 2020 interpretations and provisions by the Supreme People's Court. In particular, the article will focus on some critical aspects of trade secret protection in China that have been at the center of the U.S.-China trade war and evaluate whether the recent legislative and judicial changes in China have had a positive effect on the day-to-day protection and enforcement of foreign trade secrets in China.

III. TRADE WARS AND CHINA'S REFORM OF ITS TRADE SECRET LAWS

In April 2019, partly in order to respond to the U.S. government's allegations and to facilitate the negotiation of a deal to end the trade wars, China amended the trade secret provisions in its 1993 Anti-Unfair Competition Law (AUCL). Among the most remarkable changes was the expansion of the definition of trade secret, the inclusion of hacking as an act of infringement, the increased number of vicarious liabilities for third parties, and a number of presumptions to shift the burden of proof to the defendants.

The amendments were not, however, enough to broker a final deal, sending the trade disputes to go on for another nine months. Finally, China and the U.S. agreed on a truce with the execution of the Economic and Trade Agreement of January 15, 2020.¹⁵ The agreement, also known as the Phase I Agreement, contains a whole chapter dedicated to the protection of trade secrets.¹⁶ Interestingly enough, the U.S. agrees on reciprocity of treatment, but all of the clauses are specifically directed to

that such practices exist and that there has been at least indirect *placet* (or a blind eye) by the Chinese government to the lax application of its laws on trade secrets and to the delay in their modernization for the sake of achieving certain grand economic policies.

¹³ U.S. DEP'T OF JUST., THE CHINA INITIATIVE (2018), <https://www.justice.gov/opa/information-about-department-justice-s-china-initiative-and-compilation-china-related>. The China Initiative was launched by the U.S. Department of Justice in November 2018 and involved the investigation and prosecution of cases of IP and trade secret theft by Chinese individuals and entities. It does so by identifying and prosecuting trade-secret and intellectual property (IP) theft, hacking, and economic espionage.

¹⁴ Economic and Trade Agreement, U.S.-China, art. 1.6, Jan. 15, 2020, https://ustr.gov/sites/default/files/files/agreements/phase%20one%20agreement/Economic_And_Trade_Agreement_Between_The_United_States_And_China_Text.pdf. [hereinafter Phase I Agreement].

¹⁵ Zhen Shuji, *supra* note 10.

¹⁶ Phase I Agreement, *supra* note 14, ch.1, sec. B.

China. As a result, China committed to further raise the level of trade secret protection as specifically requested by the Phase I agreement.

Even though some of the Phase I Agreement's provisions were already implemented in the 2019 amendment to the AUCL,¹⁷ there are some other critical stipulations of this agreement that have not yet been implemented by the Chinese government. After more than six months, China has not implemented any legislation that fully addresses all the stipulations of the Phase I Agreement. This is not surprising, as many of the stipulated changes seemingly rely more on implementing administrative regulations and processes, rather than creating new laws.¹⁸ Interestingly, the only recent legislation also concerning trade secrets is an amended set of norms of the Criminal Procedure Law of China that finds no corresponding counterpart in the Phase I Agreement.¹⁹ These new norms provide instead for harsher punishment of foreign individuals or entities stealing secrets from China. The new clauses target any person or company that "steals, spies, buys, or illegally provides trade secrets to foreign institutions, organizations, and personnel."²⁰ This seems to be China's way of responding to the U.S.'s implementation of the China Initiative.²¹ Also, these new norms may be a sign that China is reacting to the U.S. reconfiguring its espionage and cyber policies to become more defense-oriented during the Trump administration.²²

In this legislative limbo, on June 10, 2020, the Supreme People's Court took the initiative to address trade secret protection and the Phase I Agreement's stipulations by releasing a draft of a binding judicial interpretation titled "Several Issues concerning the Application of Law in the Trial of Civil Cases Involving Disputes over

¹⁷ See Mark Cohen, *The Phase I Agreement: Its fans and Discontents*, CHINA IPR (Jan. 21, 2020), <https://chinaipr.com/2020/01/21/the-phase-1-ip-agreement-its-fans-and-discontents/>. This is not the only inconsistency in the drafting of the Phase I Agreement. Mark Cohen pointed out that the many textual inconsistencies, the misplaced focus on certain IP issues rather than others had made "many people speculate that the negotiators on the US side and/or the Chinese side may not have been adequately consulting with experts, bringing to mind the Chinese expression of building a chariot while the door is closed (without consulting others)."

¹⁸ Past agreements on IP matters with China were frustrated by the difficulty of having these international stipulations translated into efficient administrative processes in China. Such experiences should be cautionary tales to those placing excessive hopes on such agreements.

¹⁹ (中华人民共和国刑法修正案(十一), 中华人民共和国主席令第66号, (2020年12月26日第十三届全国人民代表大会常务委员会第二十四次会议通过)) [Amendment XI to the <Criminal Law of the People's Republic of China>, Order of the President of the People's Republic of China No. 66 [2020]] (adopted at the 24th meeting of the Standing Comm. of the 13th Nat'l People's Cong., Dec. 26, 2020), <http://www.npc.gov.cn/npc/c30834/202012/850abff47854495e9871997bf64803b6.shtml> [hereinafter Amendment XI to the Criminal Law].

²⁰ *Id.* art. 23 (author translation from the original Chinese text of the draft amendments: "Where commercial secrets are stolen, spied upon, sold, or illegally provided to overseas institutions, organizations, or persons, a sentence of up to 5 years imprisonment or short-term detention is given, and/or a fine; and where the circumstances are serious, the sentence is to be 5 years or more imprisonment and a concurrent fine.")

²¹ Cissy Zhou, *China sharpens economic espionage penalties in 'tit-for-tat provision' against US accusations of trade secret theft*, SOUTHERN CHINA MORNING POST (July 13, 2020, 7:30PM), <https://www.scmp.com/economy/china-economy/article/3092939/china-sharpens-economic-espionage-penalties-tit-tat-provision>.

²² JOHN BOLTON, *THE ROOM WHERE IT HAPPENED*, 174–180 (Simon & Schuster 2020).

Trade Secret Infringement”²³ (hereafter referred to as “the 2020 Draft Interpretation”). This draft was then formally adopted on August 24, 2020 and effective as of September 12, 2020 (hereafter referred to as the 2020 Interpretation).²⁴ Seven days after the issuance of the 2020 Draft Interpretation, the Supreme People’s Court intervened again to address trade secret protection by issuing an updated version of the “Provisions for the determination of the thresholds for initiating criminal prosecution of trade secret theft crimes”²⁵ (hereafter referred to as the “2020 Provisions”). The 2020 Interpretation and 2020 Provisions are legally binding on all Chinese judges, police officers, and criminal procurators deciding cases of trade secret infringement. These are indeed the most critical, though not the most recent regulations on trade secrets after the amendment of the AUCL in 2019.²⁶ An analysis of their content and a comparison with the trade secret provisions of the Phase I Agreement is therefore necessary and forthcoming.

IV. THE 2019 AMENDMENT OF THE TRADE SECRET PROVISIONS IN THE CHINA UNFAIR COMPETITION LAW

The amendments of the 1993 AUCL were enacted on April 23, 2019.²⁷ Among the awaited amendments was the inclusion of “commercial information” other than

²³ People's Court News and Media Headquarters, *The Supreme People's Court publicly solicits opinions on three judicial documents*, CHINACOURT (Jun. 10, 2020) (translated by Google), [https://www.chinacourt.org/article/detail/2020/06/id/5289821.shtml?from=singlemessage&isappinstalled=0%20\(last%20visited%2019:47%2011/6/2020\)](https://www.chinacourt.org/article/detail/2020/06/id/5289821.shtml?from=singlemessage&isappinstalled=0%20(last%20visited%2019:47%2011/6/2020)).

²⁴ Fa Shi [2020] No. 7 (最高人民法院于审理侵犯商业秘密民事案件适用法律若干问题的规定, 法释[2020]7号, 生效日期: 2020年09月12) [Provisions of the Sup. People’s Ct. on Several Issues Concerning the Application of <Law in the Trial of Civil Cases of Trade Secret Infringement>, [2020]] (effective Sept. 12, 2020), <https://baijiahao.baidu.com/s?id=1677544158014759321&wfr=spider&for=pc> [hereinafter 2020 Interpretation].

²⁵ (最高检、公安部就《关于修改〈最高人民法院 公安部关于公安机关管辖的刑事案件立案追诉标准的规定(二)〉侵犯商业秘密案立案追诉标准的补充规定(征求意见稿)》向社会公开征集意见) [Supplemental Provisions on Revising the Standards for the Filing and Prosecution of Trade Secret Infringement Cases in the Provisions (II) of the Supreme People's Procuratorate and the Ministry of Public Security on the Standards for the Filing and Prosecution of Criminal Cases under the Jurisdiction of Public Security Authorities] (Draft for Comment) (July 2020), https://www.spp.gov.cn/spp/tzgg1/202007/t20200710_472730.shtml [hereinafter 2020 Provisions].

²⁶ (商业秘密保护规定(征求意见稿)) [Notice of the State Admin. for Market Reg. on the Public Comment on the “Provisions on the Protection of Trade Secrets” (Draft for Comment)] (promulgated by the State Admin. For Market Reg., Sept. 4, 2020, rev’d Oct. 18, 2020), http://www.chinalaw.gov.cn/government_public/content/2020-09/04/657_3255348.html. The provisions are binding upon all administrative bodies enforcing trade secret rights and aims at improving efficiency and efficacy of administrative enforcement, since now the least use and least effective enforcement tool against trade secret violations. This draft has no rank of law and is also of limited scope compared to the issues dealt with by the cited Interpretations and Provisions of the Supreme People’s Court. Nonetheless, it is a proof of the current commitment to improve IP and trade secret protection at government and judicial level.

²⁷ (中华人民共和国反不正当竞争法(2019 修正) [现行有效]) [Anti-Unfair Competition Law of the People’s Republic of China (2019 Amendment)] (promulgated by the Standing Comm. Nat’l People’s Cong., effective Apr. 23, 2019), art. 9(4), <https://www.hongfanglaw.com/wp-content/uploads/2019/10/Anti-Unfair-Competition-Law-of-the-Peoples-Republic-of-China-2019-AmendmentEnglish.pdf> [hereinafter Anti-Unfair Competition Law 2019].

“technical or operational” information in the trade secret definition, thus removing any lingering doubt as to the scope of information that may constitute a trade secret.²⁸ The trade secret definition in the old AUCL did not include commercial information. This allows a larger variety of commercial data and know-how to be protected under the AUCL umbrella. Also, the older AUCL required that a secret, to be protectable, had to bring economic benefit to the owner.²⁹ The amended version from 2019 requires only that the trade secret has commercial value, which, before the reform was just one of the sub-categories of “economic benefit.”³⁰ This creates a lower burden of proof when establishing this requirement, to the obvious benefit of the rights holder, especially in relation to commercial rather than technical secrets.³¹ However, in a December 16, 2019 decision, the Supreme Court reduced the scope of commercial secrets by excluding protection for mere customer lists, even if included in executed confidentiality agreements.³² In particular, the binding precedent established that customer names, product names, product specifications, sales order quantities, unit prices, contact people, phone numbers, addresses, etc., are information that can be, in good part, compiled from open sources. While the 2019 AUCL requires that “commercial information” contain some “special information” to qualify as a trade secret. The Court added examples of what is meant by “special information”: a customer list, to be considered a trade secret, must include the customer’s specific purchasing habits, intentions and other in-depth information – not just past order information. The new law and the following interpretation by the Supreme People’s Court on this critical aspect seem to have provided clarity and consistency.

At the same time, the amendment expanded the definition of infringer. Whereby the previous norms only referred to business operators, the new law defines the infringer as “a business operator or any other natural person, legal person or unincorporated organization.”³³ This will eliminate doubts about whether, for

²⁸ *Id.*

²⁹ Law Against Unfair Competition 1993, *supra* note 4, art. 10(3).

³⁰ (最高人民法院关于审理不正当竞争民事案件应用法律若干问题的解释 (2007.1.12)) [Interpretation of the Sup. People’s Ct. on Several Issues Concerning the Application of <Law in the Trial of Civil Cases of Unfair Competition>, Judicial Interpretation No. 2 [2007]] (promulgated by the Judicial Comm. Of the Sup. People’s Ct., Jan. 12, 2007, effective Feb. 1, 2007), <https://www.ccpit-patent.com.cn/zh-hans/node/11541/11540> (China) [hereinafter Interpretation on Law of Unfair Competition] (the court defined economic benefit as existing when the related information has practical or potential commercial value and can be used for enhancing the competitive advantage for the right holder).

³¹ (最高人民法院关于审理侵犯商业秘密纠纷民事案件 应用法律若干问题的解释 (征求意见稿)) [Interpretation of the Sup. People’s Ct. on Several Issues Concerning the Application of the <Law on Trial of Civil Cases Concerning Trade Secret Infringement Disputes>, (Draft for comments)] (issued June 10, 2020), art. 3, [https://www.chinacourt.org/article/detail/2020/06/id/5289821.shtml?from=singlemessage&isappinstalled=0%20\(last%20visited%2019:47%2011/6/2020\)](https://www.chinacourt.org/article/detail/2020/06/id/5289821.shtml?from=singlemessage&isappinstalled=0%20(last%20visited%2019:47%2011/6/2020)) [hereinafter 2020 Draft Interpretation] (expressly indicated that potential commercial value is sufficient to meet this standard, thus further lowering the burden of proof and expanding access to protection, especially for commercial secret holders).

³² (麦达可尔(天津)科技有限公司、华某1兴科技(天津)集团有限公司侵害商业秘密纠纷再审民事判决书(2019)最高法民再268号) [Mai Da Keer (Tianjin) Tech. Co., Ltd. v. Huayang Xinxing Technology (Tianjin) Group Co., Ltd., Civil Judgment for Retrial of Trade Secret Infringement Dispute], (2019) Sup. Fa Min Zai No. 268 (Sup. People’s Ct. 2019) (China), <http://tonghanggongsi.com/Case/detail/id/3473.html>.

³³ Anti-Unfair Competition Law 2019, *supra* note 27, art. 2.

example, a single person hacking for resale of stolen secrets is a business operator. In this respect, the law has further listed “hacking” as a specific conduct in violation of trade secrets.³⁴ In addition, the new amendment lightens the burden of proof of the victim of a trade secret violation by providing a presumption of infringement. The lack of such a presumption in the past was a serious obstacle that often-restrained foreign rights holders from taking legal action in China. The new amendment also introduces changes to the law on damage compensation. In particular, punitive damages for repeating infringers were raised from a maximum of three times the illicit profit to a maximum of five times the same, while the upper ceiling for statutory damages raised from RMB1 million to RMB5 million.³⁵

In spite of so many positive amendments, pressure continued to mount on China to push for more reform during the latter half of 2019.

V. TRADE SECRETS IN THE U.S.-CHINA TRADE AGREEMENT OF JANUARY 2020 (PHASE I AGREEMENT)

The dispute on trade secret protection in China came to a new head with the trade war truce between the U.S. and China at the beginning of 2020, and the signing of the Phase I Agreement. Chapter I of the Phase I Agreement is dedicated to the protection of intellectual property in China. Section B of Chapter I specifically concerns the protection of trade secrets in China and the acceptance of equivalent treatment by the U.S.³⁶

Interestingly, most of the Section B provisions and the underlying legal issues have already been satisfactorily addressed by the 2019 amendments of the AUCL. For example, the requirement in the Phase I Agreement to expressly include “commercial business information” in the definition of trade secret has been addressed by both the amended version of the AUCL and the abundant case law of the Supreme People’s Court.³⁷ The same applies to the stipulation in article 1.3 of Chapter I, Section B of the

³⁴ *Id.* art. 9(1).

³⁵ See Paolo Beconcini, *Changes in China Concerning the Trademark Law and the Trade Secret Provisions of the Anti-Unfair Competition Law Address Concerns of Western Countries*, IPTECHBLOG (Apr. 30, 2019), <https://www.iptechblog.com/2019/04/changes-in-china-concerning-the-trademark-law-and-the-trade-secret-provisions-of-the-anti-unfair-competition-law-address-concerns-of-western-countries/>.

³⁶ Phase I Agreement, *supra* note 14, art. 1.6. For example, article 1.3(3) Chapter I, Section B states where the U.S. commits to provide equivalent treatment when extending liabilities for trade secret violation to both entities and private individuals or when the definition of operator should include natural persons, groups of natural persons and legal persons. The same reference to a U.S. guarantee of reciprocal treatment is provided in article 1.4 Chapter I, Section B, enumerating the type of acts that shall constitute trade secret infringement, among them, hacking. Other examples of the U.S. commitment on affording equivalent treatment are those concerning shifting of the burden of proof (Art. 1.5 Chapter I, Section B), those concerning the availability of preliminary and interim measures (Art. 1.6 Chapter I, Section B), and those regarding misappropriation of trade secrets by government authorities and agents (Art. 1.9 Chapter I, Section B).

³⁷ Anti-Unfair Competition Law 2019, *supra* note 27, art. 9(4). See, e.g., (青岛麦某机械设备进出口有限公司、徐某侵害经营秘密纠纷再审审查与审判监督民事裁定书 (2020) 最高法民申 401 号) [Qingdao Maimou Machinery Equipment Imp. & Exp. Co., Ltd., Xu and Liu v. Shandong Bo Pump Electromechanical Imp. & Exp. Co., Ltd., Civil Judgment for Infringement of Business Information], (2020) Zui Gao Fa Min Shen No. 401 (Sup. People’s Ct. 2020) (China). In this judgment, the Supreme

Phase I Agreement to extend the definition of “business operator” to private individuals. The same further applies to article 1.4 of Chapter I, Section B of the Phase I Agreement requiring China to include the breach or inducement of a breach of duty not to disclose information that is secret or intended to be kept secret, as well as the addition of electronic intrusion (hacking) among the forms of infringement.³⁸ Article 1.5 of Chapter I, Section B of the Phase I Agreement has been at least in part addressed by article 32 of the AUCL in its 2019 amended version, as well.³⁹ Both norms provide for the shifting of the burden of proof in civil proceedings where there is a reasonable basis to conclude that a trade secret infringement has occurred. The presence of such outdated and redundant requirements in the Phase I Agreement can only be explained by the rush of the U.S. drafters to get the deal done without proper consultation with experts from the private sector.

People’s Court affirmed that the relevant information about the Ministry of National Economy and Finance of Sudan constitutes “trade secrets” for the following reasons:

- a. such information is not known by the public as the plaintiff submitted four contracts signed between 2003 and 2005 with the Sudanese Ministry of National Economy and Finance, which can reflect the long-term stable transactions between them, and also constitutes special customer information such as special needs for models, transaction prices, and other transaction habits that differ from the publicly known information.... The other party only submitted evidence such as the notarization of Internet news about the signing of water supply project contracts between Sudan and Chinese companies to try to support their claim that the above information is publicly known. However, the content of the web pages in the notarization cannot reflect the in-depth information of the involved trade secrets. In summary, the relevant information of the Sudanese Ministry of National Economy and Finance meets the two requirements of “not generally known and easily available to relevant personnel in the field to which it belongs” and can be determined as “not known to the public....
- b. this information could bring economic benefits for the right owner as the plaintiff’s evidence could prove that it conducted actual transactions with the specific customers based on the relevant information about the Ministry of National Economy and Finance of Sudan (...)
- c. the plaintiff already took confidential measures as the plaintiff provided shareholders resolution to show the defendant acted as the director and manager of the plaintiff, and the directors and the managements have mandatory confidentiality obligations for the company’s trade secrets.

See also (麦达可尔（天津）科技有限公司、华某1兴科技（天津）集团有限公司侵害商业秘密纠纷再审民事判决书(2019)最高法民再 268号) [Mai Da Keer (Tianjin) Tech. Co., Ltd. v. Huayang Xinxing Technology (Tianjin) Group Co., Ltd., Civil Judgment for Retrial of Trade Secret Infringement Dispute], (2019) Sup. Fa Min Zai No. 268 (Sup. People’s Ct. 2019) (China), <http://tonghanggongsi.com/Case/detail/id/3473.html> (in this decision, the Supreme People’s Court recognized that customer names, product names, product specifications, sales order quantities, unit prices, contact personnel, telephone numbers and addresses qualified as protectable commercial trade secrets.).

³⁸ Phase I Agreement, *supra* note 14, art. 1.4.

³⁹ Anti-Unfair Competition Law 2019, *supra* note 27, art. 32; *see also* Phase I Agreement, *supra* note 14, art. 1.5 (outlining a burden shifting process during a civil proceeding for trade secret misappropriation that is similar to what is stated in article 32 of China’s Anti-Unfair Competition Law).

However, there are still provisions of the Phase I Agreement that have not been fully addressed or clarified by the earlier amendment of the AUCL. Here are some examples.

For instance, although shifting the burden of proof was addressed in part by the 2019 amendments to the AUCL, many issues remain unclear and some important issues have not been addressed at all. Article 1.5(2)(a) of Chapter I, Section B of the Phase I Agreement requires that the burden of proof must shift to the accused party to show that it did not misappropriate a trade secret once a holder of a trade secret produces:

- (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;
- (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.⁴⁰

Article 1.5(2)(b) stipulates that when the rights 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 rights 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.⁴¹ All these provisions are necessary if a proper and fair shift of the burden of proof is to be realized in practice. In the next section we will try to find out if and how the full implementation of the above provisions of article 1.5 of the Phase I Agreement have been addressed by the 2019 AUCL and, more importantly, by the 2020 Draft Interpretation of the Supreme People's Court.

Another example is article 1.7 of Chapter I, Section B of the Phase I Agreement. This provision deals with the thresholds to initiate criminal enforcement against trade secret theft. In particular, this provision requires China to better and clearly define the threshold of the "great loss" requirement for the commandment of criminal enforcement as well as eliminate the requirement of "actual losses" to commence such proceedings.⁴²

Another important provision of the Phase I Agreement that needs to be addressed by China is that concerning the implementation of procedures and penalties to ensure that trade secrets shared in the course of administrative proceedings are not misused or leaked by public officials. Article 1.9 provides that China shall prohibit the unauthorized disclosure of trade secrets or confidential business information by

⁴⁰ Phase I Agreement, *supra* note 14, art. 1.5(1)-(2)(a).

⁴¹ *Id.* art. 1.5(2)(b) ("China shall provide that: (b) under the circumstance 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.").

⁴² *Id.* art. 1.7.

government personnel or third party experts or advisors in any criminal, civil, administrative, or regulatory proceedings conducted at either the central or sub-central levels of government in which such information is submitted.⁴³ Among the typical proceedings are forced joint ventures with local partners in key industrial sectors, technological or quality licensing and certification proceedings, and various other administrative proceedings. This provision addresses the repeated allegation by the U.S. government that Chinese administrations use such proceedings to extort know-how and resell it to Chinese competitors.

Eventually, article 1.6 of Chapter I, Section B of the Phase I Agreement requires both parties to provide prompt and effective provisional measures to prevent the use of misappropriated trade secrets.⁴⁴ The provision expressly requires China to identify the use or attempted use of claimed trade secret information as an “urgent situation” (*periculum in mora*) that would allow the Chinese judges to grant a preliminary injunction based on the specific facts and circumstances of a case.⁴⁵ China has since long implemented a preliminary injunction and evidence preservation system to protect IP rights before and during litigation of infringement disputes. The question is to determine whether the Phase I Agreement is imposing on China additional obligations to further change and improve such system compared to the already existing norms and procedures.

VI. THE INTERVENTION OF THE SUPREME PEOPLE’S COURT IN 2020

The Supreme People’s Court’s 2020 Draft Interpretation (fully adopted in August 2020) and the July 2020 Provisions are the most recent and most detailed regulations issued in China on trade secret protection after the 2019 AUCL and the Phase I Agreement. Both judicial regulations are now fully binding on all Chinese judges, police, and procurators and will have a concrete effect on the standards that will then apply to the enforcement of trade secret rights in China. But a question still exists: has the Supreme People’s Court used such opportunity to address the various issues highlighted in the preceding paragraphs? The following explores this question. To this purpose, we will reference the finally adopted 2020 Interpretation text when conducting our analysis. We will also reference the 2020 Draft Interpretation when relevant differences arise.

A. *Shifting of the Burden of Proof*

Article 32 of the AUCL already provides for a judge to order the shifting of the burden of proof under two main circumstances: a) when the holder of a trade secret right can prove *prima facie* that they have taken measures to maintain the confidentiality of its secret; and b) they can *reasonably* indicate (*prima facie* proof) that such secret has been infringed.⁴⁶ In this case, the alleged infringer will have to prove

⁴³ *Id.* art. 1.9.

⁴⁴ *Id.* art. 1.6.

⁴⁵ Phase I Agreement, *supra* note 14, art. 1.6.

⁴⁶ Anti-Unfair Competition Law 2019, *supra* note 27, art. 32.

that the claimed secret does not fall within the scope of trade secrets as provided in the AUCL. The second paragraph of this provision further defines the requirement of *prima facie* proof of infringement by listing a number of presumptions of infringement: i) the alleged infringer had access to or opportunity to obtain such secrets and the information used by the alleged infringer is substantially identical to such secrets; ii) there is evidence showing that such secrets have been or have the possibility of being published or used by the alleged infringer; and iii) there is any other evidence showing that such commercial secrets have been infringed by the alleged infringer.⁴⁷

The above provision seems to cover most of the requirements of article 1.5(1)–(3) of Chapter 1, Section B of the Phase I Agreement. In particular, the final open clause of article 32 allows for stretching the application of the clause to a multitude of additional situations. However, the problem with open clauses in China is that they will rely on the judges' own discretion, and judges are not likely to exercise them until the Supreme People's Court intervenes with an interpretation. Aside from this, two more important features highlighted in the Phase I Agreement were not addressed by article 32 of the AUCL. One is that article 32 of the AUCL does not precisely define critical terms such as "opportunity to obtain" and "substantial identity." The other issue is that article 32 of the AUCL does not regulate the presumption set forth by article 1.5(b) of Chapter I, Section B of the Phase I Agreement. That being the case, has the Supreme People's Court filled the gap by addressing such points in its June 10, 2020 draft Interpretation?

Article 12 of the 2020 Interpretation lists a number of factors that the civil judges should consider when determining whether an employee or ex-employee had the opportunity to obtain the alleged trade secret, namely: (1) job title, responsibility, and authorization; (2) job content or assignment; (3) specific participation in manufacturing and operating activities related to trade secrets, and (4) whether they could have or did ever access, obtain, control, keep in custody, store, or copy trade secret materials.⁴⁸ This intervention seems to provide sufficient clarification of the term "opportunity to obtain."⁴⁹ We can expect that judges will be effectively able to rely on such interpretation in their decision-making process to the benefit of the rights holders, which will have the burden to provide the above information and see then the burden shift over to their adversary. In practice, rights holders should keep good and orderly records of all the above facts so as to be able to provide them in support of their case before a Chinese judge. Internal processes should be set in place to keep such records and to clearly define functions and entrusted information as "trade secret-

⁴⁷ *Id.* art. 32(1)–(3).

⁴⁸ 2020 Interpretation, *supra* note 24, art. 12. The English translation of article 12 of the 2020 Draft Interpretation reads:

If the people's court determines whether an employee or former employee has a channel or opportunity to obtain the trade secret claimed by the right holder, he may consider the following factors related to it: (1) duties, duties and authorities; (2) the job or the task assigned by the unit; (3) the specific circumstances of participation in production and business activities related to trade secrets; (4) whether or have been able to access, contact, obtain, control, store, store, and copy trade secrets and their carriers; (5) other factors to be considered.

⁴⁹ Anti-Unfair Competition Law 2019, *supra* note 27, art. 32.

sensitive.” This should start with the employment agreement and the related trade secret and confidentiality policies and then include concrete markings of documents and the installation of appropriate tracking software.

Article 13(1) of the 2020 Interpretation provides for shifting of the burden of proof if the claimant can prove that there is no “substantive difference” between the alleged infringing information and the trade secret claimed by the rights holder.⁵⁰ The draft also provides a list of factors the judge will need to evaluate when determining the similarity between the relevant information.⁵¹ It will again be the burden of the rights holder to present these factors to the court in order to shift the burden of proof. In this respect, we can say that the 2020 Interpretation is addressing this other open issue of article 32 of the AUCL.

In addition to the above provisions, the 2020 Interpretation provides additional guidance to judges when determining the sufficiency of the evidence concerning the confidential measures put in place by the rights holder. Article 5 of the 2020 Interpretation lists the factors a judge must consider when determining whether the measures in its specific case were appropriate,⁵² while article 6 lists the means by

⁵⁰ 2020 Interpretation, *supra* note 24, art. 13. English Translation: “If there is no substantive difference between the alleged infringing information and the trade secret claimed by the right holder, the people's court may determine that the alleged infringing information and the trade secret constitute the substantially the same as stated in Article 32, paragraph 2, of the Anti-Unfair Competition Law.”

⁵¹ *Id.* art. 13(2). Article 13(2) provides guidance to the judge in order to determine the “similarity” between the information used by the accused party and the content of the trade secret:

When the people's court determines whether it is substantially the same, it shall comprehensively consider the following factors: 1) the degree of similarities and differences between the infringed information and the trade secret; 2) if it is easy for the relevant personnel in the field to think of this difference when the alleged infringement occurs; 3) if there is a substantial difference between the alleged infringing information and the commercial secret in the purpose, use method, purpose, effect, etc. 4) information about trade secrets in the public domain; and 5) Other factors to be considered.

Article 14 of the 2020 Draft Interpretation was slightly different in that it embodied point 3) in article 13 as a requirement for the similarity/non-similarity determination rather than one of the guidance features as now present in article 13. In practice, however, there should not be any difference as to the scope and applicability of this provision.

⁵² *Id.* art. 5(2). Article 5(2) of the draft interpretation provides that:

The people's court shall determine whether the right holder has adopted corresponding secrecy based on factors such as the nature of the trade secret and its carrier, the commercial value of the trade secret, the identifiable degree of confidentiality measures, the degree of correspondence between the confidentiality measures and trade secrets, and the right holder's willingness to keep confidential measures.

The provision is less specific than that of the article 6(3) of the 2020 Draft Interpretation. For the determination of the corresponding confidential measures, the people's court may consider the following factors comprehensively: a) the nature of the trade secret carrier; b) the right holder's willingness to keep secret; c) recognition of confidentiality measures; d) the degree of matching of confidentiality measures with trade secrets; and e) how easy/difficult it is for others to obtain trade secrets through improper means. The major difference seems

which confidentiality can be established between employer and employee.⁵³ Both provisions provide a helpful set of standards that will reduce the judge's discretion and increase consistency and predictability in the judicial decision-making process. However, none of these provisions address the case of article 1.5(b) of Section B, Chapter I of the Phase I Agreement.

Article 8 of the 2020 Draft Interpretation seems to add additional criteria for the shifting of the burden of proof that are even more favorable than those of article 32 of the AUCL. Eventually, this provision of the 2020 Draft Interpretation was deleted from the final text of the 2020 Interpretation adopted in August 2020. Article 8 of the Draft Interpretation provides that the rights holder must first submit preliminary evidence to prove that: (a) they have implemented appropriate confidentiality measures to protect the claimed trade secret; (b) the alleged infringer had ways or opportunities to obtain the trade secret; and (c) that there is a "high probability" of infringement. After the right holder sufficiently provides that evidence, article 8 requires that the burden shifts to the alleged infringer to prove one of the following exceptions: i) there is public knowledge; ii) the non-commission of an act of infringement; or iii) independent acquisition, such as by reverse engineering, licensing, transfer etc. to avoid a presumption of liability.⁵⁴ Commentators have puzzled over the

that the final article 5 added "commercial value" of the trade secret as an evaluation criteria. This is indeed an important criteria to measure the degree of correspondence between the measures adopted and the nature of the secret to be protected, which was highlighted in point d) of article 6(3) of the Draft Interpretation. In substance the two provisions are almost identical.

⁵³ *Id.* art. 6. Article 6 of the 2020 Interpretation provides that:

If one of the following circumstances is sufficient to prevent the disclosure of commercial secrets under normal circumstances, the people's court shall determine that the right holder has taken corresponding confidentiality measures: 1. Sign a confidentiality agreement or stipulate confidentiality obligations in the contract; 2. By means of articles of association, training, rules and regulations, written notifications, etc., requirements for confidentiality are imposed on employees, former employees, suppliers, customers, visitors, etc. who can access and obtain trade secrets; 3. Restricting visitors or conducting differentiated management of production and business sites such as secret-related factories and workshops; 4. Differentiating and managing trade secrets and their carriers by means of marking, classifying, isolating, encrypting, sealing, and restricting the scope of persons who can contact or obtain them; 5. Take measures to prohibit or restrict access, storage and copying of computer equipment, electronic equipment, network equipment, storage equipment, software, etc., that can access and obtain trade secrets; 6. Require the resigned employee to register, return, delete, destroy the trade secrets and their carriers that they obtained, and continue to undertake the obligation of confidentiality; 7) Taking other reasonable confidentiality measures

⁵⁴ 2020 Draft Interpretation, *supra* note 31, art. 8. The English translation of this article states:

Where the right holder already submits preliminary evidence to prove that corresponding confidentiality measures have been taken against the claimed trade secret, and the alleged infringer has channels or opportunities to obtain the trade secret, the accused infringer shall prove either the claimed trade secrets have already been disclosed to the public or no infringement exists.... If the alleged infringer claims that it obtained the alleged infringing information through

requirement of “high probability” believing that it must be the same thing as “opportunity to obtain the secret.”⁵⁵ The provision does not further define “high probability.” Some suggest that this threshold is met by proving *prima facie* one of the infringing conducts enumerated within article 9 of the AUCL.⁵⁶

The author believes that article 8 of the 2020 Draft Interpretation does not conflict with article 32 of the AUCL. The latter clearly concerns the shifting of the burden of proof in cases against the person entrusted with the confidential secrets. On the other hand, article 8 of the Draft Interpretation may be read as being limited to infringements by third parties, e.g., hackers or beneficiaries of a trade secret obtained from someone who gave it to them after breaching their duty of confidentiality to the rights holder under article 32 of the AUCL. Although article 8 of the 2020 Draft Interpretation refers generically to “infringer,” it may simply be referring to a third-party user of the trade secret. In this case, the requirements of “opportunity to obtain the secret” and “high probability of infringement” as separate requirements makes sense. In practice, the provision provides the right holder with the initial obligation to shift the burden to the recipient of the stolen secret by proving that he was in contact with the infringer (normally former employee of the right holder or a hacker) and that there were signs that using that information would have infringed the rights holder’s intellectual property. Although, the fact that the enumerated defenses available to the “infringer” include licenses or transfers, etc., seems to confirm the above-mentioned scope of this presumption. This is a rather common situation in most businesses when an employee at one company is approached by an employee at a competitor offering information about the competitor’s products or services.

As one last remark, the second paragraph of article 8 of the 2020 Draft Interpretation provides examples of proof of independent/lawful acquisition of the secret by the defendant (e.g., reverse engineering, license, transfer etc.).⁵⁷ Interestingly, it fails to mention that the defendant should also prove that these same acquisitions were not the result of wrongdoings. In fact, a wrongful, bad faith acquisition would, by itself, be clear proof of “high probability” of infringement. In defense of the draft, we can state that wrongful reverse engineering is already sanctioned by the AUCL as interpreted by article 12(2) of the binding 2007 Supreme People’s Court Interpretation.⁵⁸ This provision provides that the defense of reverse

research and development, transfer, licensing, reverse engineering, succession, etc., it should provide proof.

⁵⁵ George W. Jordan III & Lisa Ryan, *Comments Regarding the SPC’s Six (6) Draft Judicial Interpretations and Guidance* 5 (Am. Bar Assoc., July 17, 2020), <https://chinaipr2.files.wordpress.com/2020/06/aba-ipl-and-sil-joint-letter-to-uspto-on-china-jiguidance-final.pdf>.

⁵⁶ Anti-Unfair Competition Law 2019, *supra*, note 27, art. 9.

⁵⁷ 2020 Draft Interpretation, *supra* note 31, art. 8 (“If the alleged infringer claims that it obtained the alleged infringing information through research and development, transfer, licensing, reverse engineering, succession, etc., it should provide proof.”).

⁵⁸ Interpretation on Law of Unfair Competition, *supra* note 30, art. 12 (provides that: “Reverse Engineering referred to in the preceding paragraph means to obtain the related technical information on the products in technical methods by way of disassembling, mapping or analyzing the products obtained from public channels. Any party concerned that knows the business secrets of someone else by unjustifiable method and then claims its acquisition as lawful in excuse of reverse engineering, that claim shall not be supported.”).

engineering does not apply to a case in which the party has knowledge of the secret through unjustifiable means. This important provision by the Supreme People's Court should serve as guidance in determining whether such defenses are based on wrongful acquisitions or not. The former should not be allowed, thus limiting the defensive options of draft article 8 to the latter. In this context, article 8 of the 2020 Draft Interpretation complements and expands the shift of the burden of proof foreseen by article 32 of the AUCL.

The above-described disputes about this provision, and maybe the fact that it may indeed provide a regime more favorable to that of article 32 of the AUCL, may have been enough reasons for the Supreme People's Court to delete it from the final adopted version of the 2020 Interpretation. The issue concerning the reverse engineering exception in the draft article 8 was so compelling that not only did the court not include the provision in its final text but felt compelled to override any possible critic by adding in article 14(3) of the 2020 Interpretation. Article 14(3) provides that any claim by the accused that he had obtained the secret by reverse engineering is barred if it is proved that he had obtained the business secret through illicit means. Article 14(1), however, restated the principle that self-development and reverse engineering are lawful means of acquisition of knowledge of a secret if carried out with lawful means.⁵⁹

Even assuming that the draft article 8 was eventually contained in the actual adopted version of the 2020 Interpretation, it would not have been relevant to the implementation of China's commitment under article 1.5(b) of Phase I Agreement. If we indeed compare article 8 of the 2020 Draft Interpretation with article 1.5(b) of Phase I Agreement we note that article 8 of the draft interpretation heightens the threshold to shift the burden of proof of "public knowledge" (or secrecy/confidentiality in the vice versa) to the alleged infringer by adding two more requirements ("opportunity" and "High Risk").⁶⁰ It can be safely stated that the requirement of article 1.5(b) of Section B, Chapter I of the Phase I Agreement has not been yet implemented and that it is an even higher threshold than that which will be implemented via the 2020 Draft Interpretation.

In spite of the remaining uncertainties, the implementation of article 32 of the AUCL in combination with articles 12 and 13 of the 2020 Interpretation as well as other corollary provisions of the Interpretation has finally provided grounds for lightening the rights holder's burden of proof in trade secret theft cases in China. Things can be further improved, and the implementation of the existing provisions will likely give an indication of the direction of future improvements. For now, the new set of provisions will likely reduce the discretion of the judges and provide more stable parameters for their decision-making processes. These new sets of provisions and practices will likely improve the quality of the judicial protection of trade secrets in civil proceedings in China.

⁵⁹ 2020 Interpretation, *supra* note 24, art. 14.

⁶⁰ 2020 Draft Interpretation, *supra* note 31, art. 8.

B. Actual Loss, Great Loss and the Threshold for Obtaining Criminal Enforcement in China

The Phase I Agreement provides that China must eliminate the requirement of the right holder to prove actual loss in order to access criminal enforcement.⁶¹ On the way to such change, China is given the opportunity to keep using the current threshold system but under the condition that it can clarify the standards of “great loss” provided by the Criminal Law. Afterwards, China would be able to transition to a system where access to criminal enforcement for trade secret infringements is not conditioned on proof of losses of any kind.

Whether the second phase will happen and under what conditions is not yet foreseeable. In this section, we concentrate on the issue of the current state of the thresholds to accede to criminal enforcement in trade secret infringement cases. In the conclusions to this section, we will go back briefly to the issue of the final goal of the Phase I Agreement to have China eliminate any kind of such thresholds.

Article 219 of the Criminal Law of the People’s Republic of China stipulates that only in case of a “great loss” does a trade secret theft reach the threshold for criminal liability.⁶² Also, when, aside from such great loss, the infringement has caused

⁶¹ Phase I Agreement, *supra* note 14, art. 1.7(1).

⁶² (中华人民共和国刑法 (1997 年修订)) [Criminal Law of the People’s Republic of China] (promulgated by the Standing Comm. Nat’l People’s Cong., Mar. 13, 1997, effective Oct. 1, 1997), art. 219, https://www.spp.gov.cn/spp/fl/201802/t20180206_364975.shtml (China) [hereinafter Criminal Law of the PRC]. Article 219 of the Criminal law, as translated by the author, provides that:

Whoever commits any of the following acts of infringing on business secrets and thus causes heavy losses to the obligee shall be sentenced to fixed-term imprisonment of not more than three years or criminal detention and shall also, or shall only, be fined; if the consequences are especially serious, he shall be sentenced to fixed-term imprisonment of not less than three years but not more than seven years and shall also be fined:

- (1) obtaining an obligee's business secrets by stealing, luring, coercion or any other illegitimate means;
- (2) disclosing, using or allowing another to use the business secrets obtained from the obligee by the means mentioned in the preceding paragraph; or
- (3) in violation of the agreement on or against the obligee's demand for keeping business secrets, disclosing, using or allowing another person to use the business secrets

Whoever obtains, uses or discloses another's business secrets, which he clearly knows or ought to know falls under the categories of the acts listed in the preceding paragraph, shall be deemed an offender who infringes on business secrets.

"Business secrets" as mentioned in this Article refers to technology information or business information which is unknown to the public, can bring about economic benefits to the obligee, is of practical use and with regard to which the obligee has adopted secret-keeping measures.

"Obligee" as mentioned in this Article refers to the owner of business secrets and the person who is permitted by the owner to use the business secrets

“especially serious consequences,” it triggers longer jail terms.⁶³ Neither of the terms “great loss” and “especially serious consequences” were defined in the Criminal Law or the 1993 AUCL.

Article 7 of the December 2004 Interpretation of the Supreme People's Court and the Supreme People's Procuratorate on Certain Issues Concerning the Specific Application of Law in Hearing Criminal Cases of Infringement of Intellectual Property Rights⁶⁴ was the first provision to address the definition of the “great loss” and “especially serious consequences” terms.⁶⁵ Article 7 provides that a loss of over RMB500,000 (approximately 73,000 USD), is deemed a “great loss” and a loss higher than RMB2,500,000 (approximately 361,000 USD), is defined as an “especially serious consequence(s)” as prescribed in article 219 of the Criminal Law.⁶⁶ However, none of the provisions defined “loss” or “consequences”, making access to criminal enforcement in trade secret cases hinge on the individual determinations by each police officer with jurisdiction over the claims. This lack of clear standards is reflected in the very low number of criminal trade secret cases. Statistics from China People's Court and China Market Supervision Administration (MSA) show that from the beginning of 2009 to the end of 2018 there were only 176 criminal trade secret cases against almost 1,700 civil cases.⁶⁷ The data seems to prove China's critics right. Access to criminal enforcement for trade secret infringement is unduly difficult and the system is recognized as weak, even by Chinese legal authors,⁶⁸ given the lack of proper and clear guidelines as to the definition of the “great loss” threshold.

The Phase I Agreement points to this specific issue as the most critical to be tackled if China wants to provide rights holders with a balanced, consistent, and fair

⁶³ *Id.* art. 219.

⁶⁴ (最高人民法院、最高人民检察院关于办理侵犯知识产权刑事案件具体应用法律若干问题的解释) [Interpretation of the Sup. People's Ct. and the Sup. People's Procuratorate on Several Issues Concerning the Application of the <Law on Handling Criminal Cases of Infringement of Intellectual Property Rights> [2004]] (promulgated by the Judicial Comm. of the Sup. People's Ct., Dec. 8, 2004, effective Dec. 22, 2004), art. 7, http://www.ccl.cn/zdal/front/find_by_idDetailDemos.do?id=4121152 [hereinafter Interpretation on Criminal Cases of Infringement].

⁶⁵ *Id.* art. 7. Article 7, by way of the author's translation, provides that:

Whoever commits any of the acts as prescribed in Article 219 of the Criminal Law, with the amount of loss caused to the owner of the commercial secret which is more than RMB500,000, shall be deemed to have "caused heavy losses to the commercial secret obligee", and shall be sentenced to a fixed-term of imprisonment or criminal detention of not more than three years for the crime of infringing commercial secret, and/or be imposed with a pecuniary fine. 2. If the amount of losses caused to the commercial secret obligee is more than RMB2,500,000, the person shall be deemed to have caused "especially serious consequences" as prescribed in Article 219 of the Criminal Law, and shall be sentenced to a fixed-term of imprisonment of not less than three years but not more than seven years for the crime of commercial secret infringement, and shall be concurrently imposed with a pecuniary fine.

⁶⁶ *Id.* art. 7.

⁶⁷ *Laws and Regulations*, PKULAW.COM, <https://pkulaw.com/> (last visited Jan. 14, 2021) (data sourced and collated from the judicial cases database of Pkulaw.com, a website owned and managed by Chinalawinfo Co. Ltd., a company established by the Legal Information Center of Peking University).

⁶⁸ Mark Cohen, *An Update on Data-Driven Reports on China's IP Enforcement Environment*, CHINAIPR (July 13, 2020), <https://chinaipr.com/category/trade-secret/>.

trade secret protection system. Defining great loss will reduce the arbitrary discretion of the decision makers, which seems to be one of the main reasons why access to criminal enforcement in trade secret cases is denied in China.

1. *First attempts at defining Great Loss*

Already in the 1993 AUCL the concept of actual loss was defined as referring to both direct and indirect losses.⁶⁹ Article 20(1) of the 1993 AUCL included, among the actual losses, the cost to investigate the infringement of the trade secret.⁷⁰ Still, more issues remained opened at that time. The AUCL and the case law had not yet clarified whether development costs or the value of the trade secret were included in the indirect losses, or other costs to repair to the damage suffered, besides those for the investigation of the infringement. An important clarification came with the 2007 Interpretation of the Supreme People's Court. Article 17 of that interpretation stipulated that in case of infringement of a trade secret, the commercial value of the secret shall be ascertained in light of such elements as the research and development costs, the income from implementing this business secret, possible benefits, and the time for maintaining the competitive advantage.⁷¹ This provided an extremely favorable method of calculation of losses in trade secret cases that could have applied also to the definition of "great loss" of article 219 Criminal Law. The provision was so favorable that it expressly equated actual loss with the value of the trade secret.

However, this AUCL provision as interpreted by the Supreme People's Court was not used to interpret the foundation of the requirement of "great loss" as a threshold of criminal liability. This is not surprising given the very strict and formal compartmentalization of the legal and administrative system in China and the very nature of the criminal process. The AUCL concerns civil rights and liabilities and its employment was circumscribed to that sphere of law. Also, the police, as the initiator of criminal enforcement in trade secret cases, have an interest in keeping the standard vague in order to maintain discretion and the power to intervene according to its corporative interests. Others argue that the high thresholds make criminal cases too complex so that police and public prosecutors are discouraged by taking on such matters, also considering how low IP crimes rank in their internal structure.⁷²

In effect, police officers charged with determining whether a case is meritorious of criminal enforcement must put on a lawyer hat, but they do not really have one. Asking them to make preliminary evaluation of complex accounting evidence presents a real challenge. They are also conscious that their work will be then scrutinized by the public prosecutor, a jurist, before it makes it to the criminal court. This is a far more complex process when compared to more straightforward proceedings against trademark counterfeiters.

⁶⁹ Law Against Unfair Competition 1993, *supra* note 4, art. 10(3).

⁷⁰ *Id.* art. 20(1).

⁷¹ Interpretation on Criminal Cases of Infringement, *supra* note 64, art. 7.

⁷² MARTIN K. DIMITROV, PIRACY AND THE STATE: THE POLITICS OF INTELLECTUAL PROPERTY RIGHTS IN CHINA 156 (2009).

In all these years there was no progress until 2010. In a set of provisions issued that year,⁷³ the Supreme People's Court attempted to provide a clearer definition of great loss so as to provide a stable threshold for the commencement of criminal enforcement. According to the 2010 Provisions, great loss is incurred if the rights holder can prove that: (1) the violation caused a loss of over 500,000 RMB to the trade secret holders or, in case loss cannot be proven, that illegal gains from the infringement are over 500,000 RMB; (2) that the violation led the trade secret holders to bankruptcy; or (3) there are other circumstances under which great losses is caused to the trade secret holders.⁷⁴

The provision, however, did not provide any hint as to whether "loss" should be defined in accordance with the AUCL or not. This was no progress. Again, it was left to the police, or the criminal court to make such determination on a case-by-case basis. The addition of an alternative method for calculating the threshold of great loss, i.e., the illicit profit of the infringer (no. 2 above), is of limited benefit in trade secret cases for several reasons. First, it is subordinated to the proof from the rights holder, so it was impossible for him/her to calculate its own losses. Second, in an enforcement system like that of China, there is no discovery, and it will be almost impossible to obtain evidence of sold infringing products and determine the illicit profit without accessing the accounting books of the infringer. Also, considering that it is possible that infringers may keep flawed or inaccurate accounting books, especially under-declaring earnings and revenues, it will be very difficult for a rights holder to provide evidence of meeting such thresholds before having initiated infringement proceedings and having involved a judge first to collect and preserve evidence. But if it is necessary to go through a judge first, the purpose of having a quick police enforcement is defied. Last but not least, it was disputed whether the cost to commit the crime should be deducted from the revenues when calculating the illicit profit. Including the crime cost in the calculation would further reduce the chances of reaching the stated threshold.⁷⁵

To make access to criminal justice even more difficult, the Draft Provisions added another very strict criterion: proof that the rights holder is bankrupt.⁷⁶ First, it is not clear whether this is a mandatory requirement working in conjunction with the other threshold requirements, or if it is an alternative to the latter. A reading of the provision would fortunately make it one of alternative circumstances rather than one that is required in all circumstances. Second, it is not explained in the Provisions whether the rights holder should file for bankruptcy before applying for criminal enforcement or only provide accounting evidence of actual or imminent insolvency. It seems that the criteria were put there with the clear purpose of making the Provisions practically inapplicable. In sum, the provisions appeared to be appeasing the critics by providing some more guidance as to the definition of great loss but making sure that in practice

⁷³ (最高人民法院公安部关于公安机关管辖的刑事案件立案追诉标准的规定(二)) (2010年5月7日) [Provisions on the Standards for Filing Criminal Cases Under the Jurisdiction of the Public Security Organs for Investigation and Prosecution (II)] (promulgated by the Sup. People's Procuratorate and Ministry of Public Security, May 7, 2010, effective May 7, 2010), art. 73, <https://wipo.int/en/text/350755> [hereinafter 2010 Provisions].

⁷⁴ *Id.*

⁷⁵ Dong Shitong & Sheng Huanghuang, *How to determine the "significant loss" in the crime of infringing on trade secrets*, XINHUANET.COM (June 25, 2019), http://www.xinhuanet.com/legal/2019-06/25/c_1124665586.htm.

⁷⁶ 2010 Provisions, *supra* note 73, art. 73(3).

the provision had no effective application. Thus, the critics and political pressure from the West kept coming.

This explains why the issue came up again with the Phase I Agreement. Article 1.7 of the Phase I Agreement provides that China will undertake to lower the thresholds for the commencement of criminal enforcement.⁷⁷ In particular, it stipulates that China shall allow the claimant to fulfill the “great loss” requirement set forth by article 219 of the Criminal Law of China by including in the calculation the remedial cost incurred by the right holder to mitigate the damage to the business caused by the trade secret theft.⁷⁸

The 2020 Interpretation did not address this issue in spite of the renewed critics and the provisions of the Phase I Agreement. The implementation of a clearer standard for the acceptance of criminal cases is a critical feature for the effective protection of trade secrets in China. Only criminal liability and the certainty and consistency of criminal punishment can deter from trade secret infringement. Civil and administrative remedies can only partially reduce the impact of a trade secret violation, but can hardly make it good, lacking thus a real deterring effect. As long as criminal enforcement is left to the discretion of the acting police officer with jurisdiction over a potential claim, all the other improvements will have a lesser significance and a minor impact on how trade secrets are effectively protected in China.⁷⁹

2. Recent Jurisprudence and Corrective Intervention of the Supreme People’s Court in July 2020

At the end of 2019 there were a number of criminal cases involving trade secret theft in which both the police during the initial investigative phase, and the criminal courts later, began applying, by analogy, some of the provisions of the AUCL we mentioned above. In particular, they started to apply the definition of actual loss in the AUCL to criminal cases in order to determine whether the great loss threshold for the case acceptance had been achieved.

In the judgment issued in 2019, the Qingdao Intermediate Court in the case *Qingdao Yunlu Advanced Materials Technology Co v. Jiang*⁸⁰ found that the case value could be determined by the proof provided by the plaintiff for lost license fees. The same evidence was provided by the plaintiff to the police and the prosecutor that had accepted it to measure the value of the case.

On September 30, 2019 the Beijing No. 1 Intermediate People’s Court, acting as an appeal court issued a judgment in the matter *Beijing Fuxing Xiaocheng Electronic*

⁷⁷ Phase I Agreement, *supra* note 14, art. 1.7.

⁷⁸ *Id.*

⁷⁹ Overall, trade secret cases amount to merely 7% of all IP cases in China in the last year. This statistic confirms that most trade secret violations remain undetected and no complaints are filed, especially when foreign right holders are involved, due to their lack of trust in the Chinese enforcement system when it comes to trade secrets.

⁸⁰ *Crime of “Amorphous Strip” Infringement of Commercial Secrets*, QDMC.GOV.CN (July, 8, 2020), <http://www.qdmc.gov.cn/gb2312/plhb/anli/20200708615.html>. (It is not possible to collect more precise data on this case because the court has not published the whole judgment and case records in order to protect the secrets contained therein).

Technology Co., LTD v. Wu Qinghai et Al.⁸¹, liquidating the rights holder's R&D cost as indirect losses. More interestingly, the rights holder had provided the police and the public prosecutor audit reports to prove such cost when applying for a criminal investigation and enforcement. This means that the police had accepted this evidence and had considered actual indirect losses as a base to prove and calculate "great loss" under article 219 Criminal Law and accepted the case because such losses amounted to more than the 500,000 RMB threshold indicated in the 2010 provisions of the Supreme People's Court.

As recently as December 2019 the Intermediate People's Court of Huizhou, acting as an appeal court in the case of trade secret theft by former employees of Huaxing Ltd.⁸², expanded the definition of indirect losses when it liquidated the damage compensation owed to the rights holder to include the cost for labor and market intelligence to create a secret technical solution to the related production plan as part of development cost. Like in the previous case in Beijing, the same evidence had been filed by the rights holder with the police to prove that it had suffered a "great loss." The police accepted that evidence and the case.

Also, in most cases in 2019, both the police and the procurators involved in the initial enforcement phase tended to appoint local specialized and accredited auditors to calculate the claimed "great losses", thus showing initiative and awareness of the need for external technical support in determining losses.⁸³

The above cited cases showed that in spite of the uncertainties and the higher probatory burden of the 2010 Provisions examined in the preceding paragraphs, police and judges still adopted more flexible approaches that appeared to extend the use of the criteria of "actual loss" from the AUCL to the determination of "great loss" of article 219 of the Criminal Law. This speaks for an increased awareness, even at lower administrative levels, of the need to reduce discretionary assessments and increase consistency and transparency in the decision-making process in response to external pressure and criticism.

Aware of this evolving situation, coupled with the lack of clarity in recent case law and China's commitments within the Phase I Agreement, the Supreme People's Court issued in July 2020, a month after the 2020 Draft Interpretation, a formal document

⁸¹ (2019)京 01 刑终 329 号 [Beijing Fuxing Xiaocheng Electronic Tech. Co., Ltd. v. Wu Qinghai et al.], (2019) Jing 01 Xing Zhong No. 329 (Beijing No. 1 Intermediate People' Ct. 2019) (China).

⁸² ((2018)粤 13 刑终 361 号) [Huaxing Ltd., A Case Involving Trade Secret Theft], (2018) Yue 13 Xing Zhong No. 361 (Intermediate People's Ct. of Huizhou 2018) (China).

⁸³ See ((2019)京 0109 刑初 106 号) [Beijing Jingdao Co. Ltd. v. Tian X], (2019) Jing 0109 Xing Chu No. 106 (Mentougou District Court of Beijing 2019) (China). In this case it is reported that after the initial complaint by the victim, the police appointed Beijing Tongda Law Center for Judicial Expertise to verify the economic loss to the rights holder. See also (商业秘密保护规定 (征求意见稿)) [Provisions on the Protection of Trade Secrets] (promulgated by the State Admin. For Market Reg., Sept. 4, 2020, rev'd Oct. 18, 2020) (Draft for Comment), art. 22, http://www.moj.gov.cn/news/content/2020-09/04/zlk_3255345.html [hereinafter Provisions on Protection of Trade Secrets] (article 22 provides for a broader set of circumstances for the parties to lawfully introduce expert opinions in trade secret infringement cases. For example, rights holders and alleged infringers can entrust a lawfully qualified expert to check whether the right holder's information is known to the public. Also, expert opinions can be introduced to comments on substantive matters such as the determination of whether the information used by the alleged infringer is substantially similar to the information of the right holder, etc. The Market Supervision and Management Department, the agency in charge of administrative enforcement will have the final decision on whether to admit and how to evaluate the probatory value of each expert opinions.).

we have already called the 2020 Provisions⁸⁴ in which the court, coming back to the criteria listed in the 2010 Provision, revisits them, including the softening of the bankruptcy requirement at point 3 of the 2010 Provisions. The July 2020 Provisions stipulate that the rights holder must prove that the violation of its trade secrets has either caused bankruptcy (like already provided back in 2010) or a shut down due to business difficulties.⁸⁵

More importantly, the same document finally deals directly with the issue of how to determine the threshold of “great loss” in article 219 of the Criminal Law. In particular, according to this very recent draft of the Supreme People’s Court, the amount of loss or illicit profit as originally specified in the 2010 Provisions may be determined in the following manners:⁸⁶

(1) If the rights holder's trade secret was obtained by improper means and has not been disclosed, used or allowed to be used by others, the amount of loss can be determined according to the reasonable license fee for the trade secret. This seems to cover the case of a hacker or a third party or competitor that illicitly acquires the trade secret. Given that there was no use, the loss is equaled to the revenues that could have been generated if the secret had been lawfully licensed.

(2) In case of disclosing, using or allowing others to use the trade secrets which were obtained by unfair means, the amount of loss can be determined according to the rights holder’s loss of sales profits caused by the infringement. In case the foresaid loss of sales profits is lower than the trade secret’s reasonable license fee, the loss of the right holder could be determined according to the reasonable license fee of the trade secret. This case is similar to the one before, with the major difference that there is use of the misappropriated secret. Like before, there is no breach of a direct confidentiality stipulation. Both the hypothetical license fees or the loss of sales profit are to be used to determine whether the 500,000 RMB threshold has been reached or not.

(3) In case of disclosing, using or allowing others to use the trade secrets in their possession in violation of the agreement or the rights holder’s requirements for keeping trade secrets, the amount of loss can be determined according to the loss of sales profits suffered by the right holder caused by the infringement.

(4) If the trade secret is known to have been obtained by improper means, or by violating the agreement or the rights holder’s request to keep or disclose the trade secret, the amount of loss suffered by the rights holder could be determined in accordance with the loss of sales profits of the rights holder due to the infringement.

(5) Property or other property benefits obtained by disclosing or allowing others to use trade secrets shall be deemed as illegal income.

All of the above provisions seem to limit the calculation of “loss” to direct losses in the traditional sense, i.e., loss of profit. The Court then goes on to specify that the loss of sales profits of the rights holder resulting from the infringement as specified at numbers 2), 3) and 4), may be determined based on the total amount of reduction in the rights holder’s sales volume caused by the infringement multiplied by the reasonable profit of each product of the rights holder.⁸⁷ If the total amount of reduction in sales volume cannot be determined, the loss of sales profits can be determined by

⁸⁴ 2020 Provisions, *supra* note 25.

⁸⁵ *Id.*

⁸⁶ *Id.*

⁸⁷ *Id.*

multiplying the sales volume of infringing products by the reasonable profit of each product of the rights holder.⁸⁸ If the amount of loss of the right holder cannot be determined, it can be determined by multiplying the sales volume of the infringing product by the reasonable profit of each infringing product.⁸⁹ It is evident that the Court has applied here the provisions applicable to patent infringements.

However, the same Provisions add a corrective: if the trade secret has been disclosed to the public or destroyed due to the infringement, the amount of loss may be determined according to the commercial value of the trade secret.⁹⁰ The commercial value of a trade secret can be determined by comprehensively considering factors such as research and development costs and the benefits of implementing the trade secret.⁹¹ Also, the expenses incurred in the adoption of remedial measures by the rights holder to reduce the direct commercial loss caused by the infringement, or the security measures taken to restore the safety of the computer information system, shall be included in the rights holder's loss.⁹² This provision applies to all cases of trade secret infringement.

Therefore, the criteria to determine the threshold to prove "great loss" and thus accede to criminal enforcement in cases of trade secret infringement in China according to the latest thinking of the Supreme People's Court can be summed up as follows: a) if the trade secret is stolen but not lost, the loss is determined by the lost profit caused by that infringement (direct loss only) plus recovery and remedial measures (limited indirect loss); or b) if the trade secret has been lost and publicly disclosed or destroyed, the loss is determined by direct and full indirect losses altogether.

With these Provisions the Supreme People's Court has provided a more reliable and clearer standard to separate severe infringements from less serious ones. In particular, it draws a line between types of trade secret infringement violations. On one side are the cases where the trade secret has not been lost or divulged to the public and on the other, the more severe infringement cases where the trade secret is destroyed or lost by now being in the public knowledge. For the less severe infringements, the loss required to be proved to access criminal enforcement is based on loss of profit. This will require the right holder to prove very high losses in order to trigger criminal liabilities. This should redirect cases with lower economic value to civil or administrative enforcement avenues. However, if the trade secret is destroyed, and is no longer usable, or made public and therefore everybody can now use it with impunity, which is held equal to being destroyed, then the right holder is given the right to include full indirect losses into the calculation of the threshold in order to initiate criminal enforcement. Unlike patents, a lost trade secret is no longer exclusively enjoyable and therefore, the mere loss of profit would not suffice to cover its real losses, which is the overall commercial value of the secret including research and development and labor cost. In practice, in these more severe cases, it should be

⁸⁸ *Id.*

⁸⁹ 2020 Provisions, *supra* note 25.

⁹⁰ *Id.*

⁹¹ 2020 Draft Interpretation, *supra* note 31, art. 19. This interpretation of "commercial value" is now embodied in art. 19 of the 2020 Interpretation in relation to civil claims.

⁹² 2020 Provisions, *supra* note 25.

easier for the right holder to prove the required 500,000 RMB great loss and access criminal justice.

With these Provisions the Supreme People's Court attempts to balance the economic interests of the rights holders with the economy of the justice system in China, by requiring that only meritorious cases deserve criminal enforcement, while preserving a certain flexibility in determining such merit in a fair manner. This does apparently address the requirement of the Phase I Agreement by finally providing a definition of "great loss." Whether this will lead to an increase in the number of criminal cases, especially those involving foreign elements, remains to be seen. In spite of the guidance, uncertainties about the provision remain. First of all, the definition of "known to the public," which is required to claim indirect losses to determine whether the threshold of "great loss" is met, is not better defined. Would that include the case where the secret is available in a freely marketed product that can also be reverse engineered by anybody? What about the case in which the stolen secret is licensed or transferred to a third party in good faith? Had article 8 of the Draft Interpretation been confirmed in the final adopted version of the 2020 Interpretation, there may also have been conflict with this provision. For example, article 8 of the 2020 Draft Interpretation of the Supreme People's Court made reverse engineering, licensing, or other contractual acquisitions of trade secrets lawful and not susceptible to liability for trade secret infringement.⁹³ That provision did not specify whether such exceptions are void when the secret which is the object of such transactions are acquired illegally. This may be another reason why article 8 of the 2020 Draft Interpretation was deleted from the final text.

Considering that the Court already used by analogy the Patent Law to determine the "great loss" threshold, it seems logical that the same law and regulations could be used to interpret the terms "known to the public." The 2010 Patent Examination Guidelines can provide guidance. In case the secret is published in commercial brochures, exhibition materials, photos on websites, technical articles, product descriptions, the presumption that it is known to the public is absolute.⁹⁴ Anybody can potentially read those publications. In the case of the use of trade secrets, the disclosure to the public can occur by making, selling, using, importing, exchanging, presenting, demonstrating, exhibiting, and making other similar uses.⁹⁵ Speculations about how to interpret "known to the public" ended however in August 2020 with the adoption of the final text of the 2020 Interpretation that can be safely used to interpret also the 2020 Provisions. Article 4 of the 2020 Interpretation, which was not initially included in the 2020 Draft Interpretation provides a clearer definition of "known to the public."⁹⁶ This new provision provides that information is known to the public when (1) The information belongs to common sense or industry practice in the field; (2) The information only involves the size, structure, material, simple combination of components, etc., and can be obtained directly by relevant personnel in the field by observing the listed products; (3) The information has been publicly disclosed in public publications or other media; (4) The information has been disclosed through public

⁹³ 2020 Draft Interpretation, *supra* note 31, art. 8.

⁹⁴ China National Intellectual Property Administration, Guidelines for Patent Examination pt. II, ch. 3, art. 2.1.2.1 (2010), http://www.gechengip.com/information/gfpe2010_en.htm.

⁹⁵ *Id.* pt. II, ch. 3, art. 2.1.2.2.

⁹⁶ 2020 Interpretation, *supra* note 24, art. 4.

reports, exhibitions, etc.; (5) Relevant persons in the field can obtain the information from other public channels. Also, article 14(3) of the 2020 Interpretation excludes the case in which knowledge is obtained through illegal actions and wrongdoings, such as reverse engineering on secrets illegally obtained.⁹⁷

Another issue that will need clarification is whether the requirement of bankruptcy or shutting down the company as a consequence of the loss of the trade secret is in addition to or alternative to great loss. In the author's view, it should be the second case. Adding such a requirement to the already complex proof of great loss would greatly limit access to criminal enforcement and defy the efforts of defining "great loss." Many businesses may lose a trade secret, have great losses, but not be bankrupt or shut down. The bankruptcy or shut down of a whole production line should not be a requirement as a way to prove the "destruction" and complete loss of the trade secret. For this reason, it will hopefully be read as an alternative presumption to prove great loss. A company that goes bankrupt because of a trade secret loss can indeed be presumed to have suffered a great loss. Again, we will need to see how judges will apply this provision once finally adopted.

In conclusion we can make two remarks. First of all, we can state that with the draft 2020 Provisions the Supreme People's Court has attempted to fulfill China's obligations from the Phase I Agreement. The Supreme People's Court has now provided a reliable and fair method to calculate great loss thus reducing the discretion possessed by police, prosecutors, and criminal judges when accepting trade secret complaints.

Whether and when China will move to the final phase of eliminating the requirement to prove a loss in order to accede to criminal enforcement remains uncertain. The author believes that such a change will not come any time soon; or if it will ever come at all. First of all, the Phase I Agreement does not pose any deadline. Even the fulfillment of the first step (clarification of the threshold of "great loss") had no deadline. The fact that China, through the Supreme People's Court promptly reacted by issuing regulations to fulfill that commitment, does not mean that they will be so quick in fulfilling the second step. There are reasons to think so. First of all, China had an immediate interest to appease the U.S. and reduce the political pressure, while at the same time ensuring better reciprocal treatment for its businesses abroad. Defining "great loss" was just a step away, given the trend of the 2019 case law and the AUCL amendments. The clarification also better rationalized the distribution of cases providing a more efficient way for the judicial and police branches to manage cases. China in sum had a direct and immediate interest in doing that change.

However, we do not see any such interest in opening access to criminal enforcement to all cases by removing the proof of loss as a gate keeper. This would require a complete reform of the administrative and criminal enforcement of IP rights in China. In the actual system, criminal cases are reserved for complex infringements, while smaller cases of infringement are to be enforced through administrative proceedings. Allowing criminal enforcement in all cases would not only alter the balance with the parallel administrative enforcement procedures but would require a more fundamental change to the current structure of criminal prosecution in China.

⁹⁷ 2020 Interpretation, *supra* note 24, art. 14(3).

Unlike the US, China utilizes an inquisitorial criminal model,⁹⁸ where action is initiated at the discretion of the Public Security Bureau (the police). Also, China does not adopt the principle of mandatory criminal prosecution (like in Italy for instance), leaving to the prosecuting bodies room for some discretion as to the initiation of a criminal investigation. Although a reform of the criminal prosecution of trade secret cases is surely desirable, it would have to be undertaken in a way as to include all IP rights and not only trade secrets..

I also do not see why the U.S. would want such a change. Eliminating the threshold will simply move the clock backward to a system where mere discretion is the sole parameter for case selection. Eliminating the “great loss” threshold could in the end result in the return of politically driven choices by the enforcers that will be bound by no criteria to determine which case deserves criminal enforcement. A radical elimination of the “great loss” threshold would risk reducing the trade secret enforcement mechanism to a boomerang. It may work in the U.S., but it does not work in China.

Finally, China’s monetary threshold to access criminal enforcement that the injured prove that they had a loss of about US\$65,000. This threshold is not high. It is fairly low. What was missing before was the way to measure it and therefore the police and judges had discretion in calculating it. Now, with the proposed change in the 2020 Draft Interpretation of the Supreme People’s Court, we have a fair and reliable tool to make that evaluation and quite frankly, most cases involving foreign companies will meet the threshold easily. If we eliminated this and we told the police to accept every case, the police will do that but will use an arbitrary form of discretion in deciding whether to pass the case to a prosecutor. They will likely close most of the files for fear that the case does not present enough severity to pass the scrutiny of the public prosecutor.

China has taken a great step forward with the 2020 Interpretation and 2020 Provisions and for now that should suffice. We should test it and see how it will work out in practice before considering whether to push China to take the final step of eliminating the loss threshold.

C. Trade Secret Abuses and Theft by Public Officials During Formal Administrative or Judicial Proceedings

The U.S. is not the only nation to complain about opaque administrative practices in China regarding the requirement of foreign rights holders to disclose confidential business information in order to obtain licensing or authorization to conduct business

⁹⁸ Mike P.H. Chu, *Criminal Procedure Reform in the People’s Republic of China: The Dilemma of Crime Control and Regime Legitimacy*, 18(2) Pac. Basin L.J. 157, 159 (2000). In contrasting the inquisitorial and adversarial criminal justice systems, the authors states: “The inquisitorial system involves the state vigorously pursuing the facts and serving as the investigator. The state under this circumstance is the prosecutor who collects the facts, as well as the independent and impartial judge who is actively involved with the investigations and fact-findings.” The Inquisitorial criminal justice systems are generally identified with the civil law tradition (although with exceptions like Italy), while the adversarial system, known also as the accusatory system, is generally associated with the common law tradition.

in China. The EU has formally complained about such practices of hidden trade secret theft and forced IP transfer in its 2020 Report on IP protection in third countries.⁹⁹

There are no specific provisions in the Interpretation addressing the issues raised by article 1.9 of the Phase I Agreement. This is not surprising because the interpretation only addresses judicial litigation of trade secrets disputes. Such an interpretation would not be the right tool to regulate, for instance, the liability of government officials involved in joint venture approval proceedings, or those involved in import license or product homologation proceedings. However, the draft could have at least addressed the judicial liability in mishandling or violating confidential trade secrets disclosed for litigation purposes.

Article 21 of the Interpretation addresses the specific issue in which the trade secret information and evidence filed in a trade secret infringement proceeding, which has been classified as confidential, is illicitly leaked by one of the litigating parties. In particular, article 21 provides that, if the parties or a third party apply in writing to the People's Court to take confidential measures to protect evidence and materials involving the trade secrets of the parties or outsiders, the People's Court shall take the necessary confidentiality measures during the litigation activities, for instance, in evidence exchange, cross-examination, and court trial.¹⁰⁰ If one of the parties violates the stipulated confidentiality measures and discloses trade secrets or uses them outside of litigation activities or allows others to use the trade secrets obtained in the litigation, that party shall bear tort and possibly, criminal liability.¹⁰¹ It is remarkable to see that no specific liability is foreseen in case the leak comes from the judge or any court employee involved in the case. The issue of court liabilities already emerged in relation to certain provisions drafted by the Supreme People's Court in April 2020 regarding the disclosure of experimental data in administrative court proceedings concerning the invalidation and reexamination of pharmaceutical patents, raising doubt about the limits and risk related to the courts' handling of highly confidential documents in sensitive litigation.¹⁰² In sum, for now, this is another missed chance to further implement provisions of the Phase I Agreement and to improve the transparency of the judicial proceedings in China. We will need to wait for the legislative intervention or for more court interpretations, likely in the area of the law of administrative proceedings to see if article 1.9 of the Phase I Agreement will be fully implemented by the Chinese side.

D. Preliminary Relief

Article 1.6 of Chapter I, Section B of the Phase I Agreement requires China to provide prompt and effective measures to prevent the use of misappropriated trade

⁹⁹ European Commission, *Report on the Protection and Enforcement of Intellectual Property Rights in Third Countries* 18 (Staff Working Document (2019) 452 final/2, Aug. 1, 2020), https://trade.ec.europa.eu/doclib/docs/2020/january/tradoc_158561.pdf.

¹⁰⁰ 2020 Interpretation, *supra* note 24, art. 21.

¹⁰¹ *Id.*

¹⁰² Paolo Beconcini, *The Chinese Supreme People's Court Intervenes on Patent Issues, with Focus on Pharmaceutical Experiments*, NAT'L L. REV. (May 22, 2020), <https://www.natlawreview.com/article/chinese-supreme-people-s-court-intervenes-patent-issues-focus-pharmaceutical>.

secrets.¹⁰³ In particular, China must provide that use or attempted use of misappropriated secrets fulfills the “urgency” requirement for the issuance of a preliminary injunction by a court, based on the specific facts and circumstances of each case.¹⁰⁴ The 2019 amendment to the AUCL did not add any provision on preliminary injunctive relief or stoppage of acts of infringement of trade secrets. However, trade secrets are now listed among the constitutionally granted civil rights in the latest amendment of the General Principles of Civil Law, and as such they enjoy the same remedies of any other IP rights.¹⁰⁵ Therefore, the Supreme People’s Court Provisions on Several Issues Concerning the Application of Law in Examining Cases Involving Act Preservation in Intellectual Property Disputes of December 2018 are applicable to trade secrets as well.¹⁰⁶ This is clear from article 6 of the 2018 Provisions that stipulates the following:

If, under any of the following situations, failure to take immediate act preservation measures is serious enough to harm the applicant's interests, such situation shall be considered to be the ‘urgent situation’ as mentioned in Article 100 or 101 of the Civil Procedure Law: 1. trade secrets of the applicant are to be illegally disclosed.¹⁰⁷

Article 101 of the Civil Procedure in particular provides for pre-litigation acts of preservation:

Where an interested party whose legitimate rights and interests, due to an emergency, would suffer irreparable damage if the party fails to petition for property preservation promptly, may, before instituting a lawsuit or applying for arbitration, apply to the people's court at the locality of the property, the domicile of the party on which the application is made, or the people's court with jurisdiction over the case, for the property preservation measures. The applicant shall provide security for such application; where the party fails to provide such security, the court shall reject the application.¹⁰⁸

To maintain these measures the applicant will have to file a lawsuit within 30 days.

Article 15 of the 2020 Interpretation of the Supreme People’s Court takes on article 6 of the 2018 Interpretation and slightly expands its scope. The new provision

¹⁰³ Phase I Agreement, *supra* note 14, art. 1.6.

¹⁰⁴ *Id.*

¹⁰⁵ General Provisions of the Civil Law of the People’s Republic of China (promulgated by the Twelfth Nat’l People’s Cong., March 15, 2017, effective October 1, 2017), ch. V, art. 123, <http://www.npc.gov.cn/englishnpc/lawsofthepc/202001/c983fc8d3782438fa775a9d67d6e82d8.shtml> [hereinafter General Provisions of the Civil Law].

¹⁰⁶ Provisions of the Supreme People’s Court on Several Issues Concerning the Application of Law in the Review of Act Preservation in Intellectual Property Disputes, Judicial Interpretation No. 21 [2018] (promulgated by the Judicial Comm. of the Sup. People’s Ct. Nov. 26, 2018, effective Jan. 1, 2019), http://www.lindapatent.com/en/law_patent/803.html.

¹⁰⁷ *Id.* art. 6.

¹⁰⁸ Civil Procedure Law of the People’s Republic of China (promulgated by the Standing Comm. Nat’l People’s Cong., April 9, 1991, amended June 27, 2017), art. 101, <http://cicc.court.gov.cn/html/1/219/199/200/644.html> [hereinafter Civil Procedure Law 2017].

allows trade secret rights holders to file a request with the civil court for a preliminary protective measure (including an order to do or not to do something or to stop, refrain to do something) if the alleged infringer is trying to or has already disclosed, used, or allowed others to use the alleged trade secret and if failure to take such measures would make it difficult to enforce the judgement or result in other losses to the right-holder.¹⁰⁹ The rights holder must post a bond as guarantee that his request is made in good faith.¹¹⁰ The court will then have to make a decision on the request within 48 hours of its submission. The circumstances specified in the preceding paragraph belong to the circumstances stated in articles 100 and 101 of the Civil Procedure Law.¹¹¹

So overall, China had already started implementing provisions for preliminary measures to protect rights holders from the dissemination and publication of stolen trade secrets. Article 15 of the 2020 Interpretation seems to fulfill China's obligations under the Phase I Agreement.

Does this mean that Chinese courts will more liberally grant requests for preliminary injunctions? Although Chinese courts have been traditionally reluctant to grant preliminary injunctions (although in Chinese the expression is translatable in action or behavioral preservations rather than preliminary injunctions) due to a number of reasons (fear to take on earlier responsibility, trials in China being faster than in other countries) the odds of getting such injunctions may increase compared to the past. We will need to monitor this issue and come back to it in a year to see whether the mentioned provisions have really brought about a concrete change to this disputed issue.

VII. OTHER IMPORTANT PROVISIONS IN THE DRAFT INTERPRETATION

Although the 2020 Draft Interpretation of the Supreme People's Court has not fully addressed all of the U.S.'s government's grievances in the Phase I Agreement, the draft does contain a number of positive improvements to the interpretation and application of the provisions of article 9 of the Unfair Competition Law on the protection of trade secrets.

For example, article 7 of the 2020 Interpretation further defines the requirement of article 9(4) of the Unfair Competition Law, clarifying that the secret has to have "commercial value" intended as the real or potential market value that can bring about

¹⁰⁹ 2020 Interpretation, *supra* note 24, art. 15.

¹¹⁰ *Id.*

¹¹¹ Civil Procedure Law 2017, *supra* note 108, art. 101. This article in particular provides for pre-litigation acts of preservation, stating that:

Where an interested party whose legitimate rights and interests, due to an emergency, would suffer irreparable damage if the party fails to petition for property preservation promptly, may, before instituting a lawsuit or applying for arbitration, apply to the people's court at the locality of the property, the domicile of the party on which the application is made, or the people's court with jurisdiction over the case, for the property preservation measures. The applicant shall provide security for such application; where the party fails to provide such security, the court shall reject the application.

a competitive advantage to its holder.¹¹² This replaces the less favorable and stricter requirement of the 1993 AUCL that a trade secret had to bring economic benefit.¹¹³

Article 1 of the Interpretation lists the kinds of materials that can form technical and commercial secrets.¹¹⁴ The 2020 Draft Interpretation contained an article 5 that has been deleted from the final text of the adopted 2020 Interpretation. This article 5 of the Draft Interpretation contained further stipulations about the type of commercial secrets that qualify for legal protection.¹¹⁵ The first paragraph of this article provided that only customer information resulting from a sorting and processing of data such as the name, address, contact information, trading habits, transaction content, and specific needs of specific customers may constitute business information referred to in paragraph 4 of article 9 of the Anti-Unfair Competition Law. The provision echoed the Supreme People's Court decision in *Da Keer* back in December 2019.¹¹⁶ If confirmed in the final adopted text of the Interpretation, the second paragraph of article 5 would have excluded from the scope of trade secret protection contracts, invoices, and vouchers with specific customer information or claims that the claimant has maintained a long-term transactional relationship with a specific customer.¹¹⁷ The

¹¹² 2020 Interpretation, *supra* note 24, art. 7:

¹¹³ Law Against Unfair Competition 1993, *supra* note 4, art. 10(3). In reality, the requirement of the 1993 AUCL had already been changed by the Supreme People's Court Interpretation of 2007, whereby in its Art. 10 it provided that information that has practical or potential commercial value and can be used to bring a commercial advantage to the right holder fulfills the requirement of Art. 10(3) of the AUCL in that it provides an economic benefit.

¹¹⁴ 2020 Interpretation, *supra* note 24, art. 1. Article 1 provides that:

Information related to technology such as structures, raw materials, components, formulas, materials, samples, styles, propagation materials of new plant varieties, processes, methods or steps, algorithms, data, computer programs and related documents can be determined to constitute the technical information referred to in Article 9 Paragraph 4 of the Anti-Unfair Competition Law.

The People's courts may determine that information related to business activities, such as creativity, management, sales, finance, plans, samples, bidding materials, customer information, and data, constitutes the business information referred to in paragraph 4 of Article 9 of the Anti-Unfair Competition Law.

See Anti-Unfair Competition Law 2019, *supra*, note 27, art. 9(4) (enumerating the kinds of materials that can form technical and commercial trade secrets: Information relating to science and technology such as structure, raw materials, components, formulations, materials, styles, processes, methods or their steps, algorithms, data, computer programs and relevant documents may constitute the technical information referred to in paragraph 4 of Article 9 of the Anti-Unfair Competition Law. Creative ideas, management, marketing, finance, plans, samples, bidding materials, data and customer information related to business activities may constitute the business information referred to in paragraph 4 of Article 9 of the Anti-Unfair Competition Law.).

¹¹⁵ 2020 Draft Interpretation, *supra* note 31, art. 5.

¹¹⁶ (麦达可尔(天津)科技有限公司、华某1兴科技(天津)集团有限公司侵害商业秘密纠纷再审民事判决书(2019)最高法民再268号) [Mai Da Keer (Tianjin) Tech. Co., Ltd. v. Huayang Xinxing Technology (Tianjin) Group Co., Ltd., Civil Judgment for Retrial of Trade Secret Infringement Dispute], (2019) Sup. Fa Min Zai No. 268 (Sup. People's Ct. 2019) (China), <http://tonghanggongsi.com/Case/detail/id/3473.html>.

¹¹⁷ Provisions on Protection of Trade Secrets, *supra* note 83, art. 5. These draft provisions provided a broader scope of examples of commercial/operative secrets compared to the Draft Interpretation of the Supreme People's Court. Article 5(3) of these provisions reads:

latter portion of this article 5 of the Draft Interpretation has now been incorporated in article 2(1) of the 2020 Interpretation, while the first paragraph has been reproduced in Article 1(3) of the 2020 Interpretation without reference to “information formed after sorting and processing.” This seems to simplify the admissibility of evidence, reducing the level of elaboration of the same, that was not further defined in article 5 of the draft, and leaving to the judges of the specific case to weigh each piece of evidence according to the case circumstances.

Article 10 of the draft interpretation provides a gap filler in cases where confidentiality obligations do not derive from the law or a contract, recognizing that such obligations can be reconstructed from the principle of good faith, from the purpose of the contract and its negotiation, or the local business habits and customs that the alleged infringer knew or should have known given the circumstances.¹¹⁸

Article 16 provides that where other natural persons, legal persons, and unincorporated organizations other than business operators infringe on trade secrets, and the right holder claims the civil liability of the infringer in accordance with article 17 of the Anti-Unfair Competition Law, the People's court shall support it.¹¹⁹ Interestingly, the original draft version of the second paragraph of this article also provided that where an employee or ex-employee breaches a confidentiality agreement and infringes on the trade secret of the right holder, the rights holder is allowed to “choose to assert liability for breach of contract or liability for tort according to law.”¹²⁰ The provision was not well formulated and could have caused an undue burden to right holders. While, in most western jurisdictions a plaintiff would be able to assert both claims in the same lawsuit, in China the claimant would have to file two separate lawsuits for each cause of action. But was this provision imposing the election of a cause of action to the exclusion of another? Nonetheless, the Court decided to cut that short and delete this second paragraph from the final text.

Another few articles in the 2020 Interpretation address procedural issues. This is the case of the articles dealing with the coordination between criminal and civil proceedings running parallel for the same violation. For instances, these articles allow for the retrieval of evidence from the parallel criminal proceedings (article 22(2)) and for the stay of the civil proceedings (article 25).¹²¹

Article 24 provides that after the right holder has proved that the infringer is benefiting from the infringement but cannot access the infringer's accounting books and data related to the infringement of trade secrets, the people's court may order the infringer to disclose the accounting books and information. If the infringer refuses to provide it without justifiable reasons or does not provide it truthfully, the People's court may determine the benefits obtained by the infringer from the infringement

The operating information in these regulations refers to all kinds of information related to the business activities of the right holder, including but not limited to management know-how, customer lists, employee information, supply information, production and marketing strategies, financial data, inventory data, strategic planning, purchase prices, Information such as profit model, base price in bidding and content of tender documents.

¹¹⁸ 2020 Draft Interpretation, *supra* note 31, art. 10.

¹¹⁹ *Id.* art. 16.

¹²⁰ *Id.* art. 16(2).

¹²¹ 2020 Interpretation, *supra* note 24, art. 22(2) & 25.

based on the claims and evidence provided by the right holder.¹²² This grants trade secrets the same amount of discovery protection that has been previously granted to trademarks, patents, and copyrights.

Article 27 of the draft requires the rights holder to include the specific alleged trade secret as well as evidence of measures it has taken to protect confidentiality.¹²³ This provision is in line with the general judicial trend of improving and increasing the use of preliminary reliefs in IP disputes.¹²⁴

The 2020 Draft Interpretation did provide a definition of commercial value of trade secrets. Defining commercial value is critical for the determination of the validity of a “trade secret” claim.¹²⁵ As discussed in Section B of this article, a definition of commercial value previously had to be extrapolated from different statutory provisions and court interpretations. The 2020 Interpretation, aware of the regulatory gap and in coordination with the 2020 Provisions on the definition of “great loss” as threshold for the determination of criminal liability, provides now a definition of “commercial value.” Article 19 of the 2020 Interpretation provides that: 1) commercial value shall be considered by the court when deciding the compensation for the infringement of a trade secret that is disclosed to the public; 2) that when determining the commercial value of such trade secret the people's court shall consider factors such as the cost of research and development, the benefits of implementing the trade secret, the available benefits, and the time span needed by the right holder to maintaining a competitive advantage.¹²⁶

In regard to damage compensation, the 2020 Draft Interpretation contained a draft article 24 concerning the apportionment of the value of a trade secret as part of a whole technical solution.¹²⁷ The draft article 24 provided that if the technical information belongs to part of a technical solution or the product that infringes the trade secrets is a part of another product, the damages should be determined based on the proportion and role of the involved technical information within the entire technical solution. Alternatively, damages should consist of the value of the infringing products and the proportion and role of the infringing products in the profit of the entire finished products. If the trade secret is business information, the amount of compensation for infringement shall be reasonably determined based on factors such as the effect of the business information on the profits obtained from the act of infringing trade secrets. Interestingly, this provision was not embodied in the final text of the Interpretation.

¹²² *Id.* art. 24

¹²³ *Id.* art. 27.

¹²⁴ *Supreme People's Court Previews Judicial Interpretation of Trade Secret Protection Provisions for Public Comment*, LEXOLOGY (June 22, 2020), <https://www.lexology.com/library/detail.aspx?g=c1fe8d41-9d1e-4056-8f33-7dddbb902482> (“On December 14, 2018, the SPC issued a set of judicial interpretations for preliminary injunctions in IP and competition cases. Notably, Chinese law allows a right holder to request a preliminary injunction either before or after the filing of a complaint.”).

¹²⁵ Anti-Unfair Competition Law 2019, *supra* note 27, art. 9(4). Article 9(4) of the AUCL provides that: “For the purpose of this Law, commercial secrets refer to any technical information, operational information or commercial information which is not known to the public and has *commercial value*, and for which its obligee has adopted measures to ensure its confidentiality.” (emphasis added).

¹²⁶ 2020 Interpretation, *supra* note 24, art. 19.

¹²⁷ 2020 Draft Interpretation, *supra* note 31, art. 24.

VIII. CONCLUSIONS

Statistics from China People's Court and China Market Supervision Administration (MSA) show that from the beginning of 2019 to July 2020, there have been 405 recorded trade secret cases in China. This shows an increase of about 50% on an annual basis compared to the number of cases filed between 2009 and 2018 which amounted to a total of 1,848. However, of these 405 cases, only four were criminal cases. This shows that, in spite of the very large increase in cases filed, only 1% of them are criminal cases, while the majority are civil cases.¹²⁸ Based on these very basic statistics, we can say that access to criminal enforcement in trade secret theft matters has remained a chimera for most rights holders. Clarifying and lowering the thresholds for access to criminal enforcement will be the best way to ensure more effective protection to rights holders.

However, in 2019 there were 41 criminal cases concerning the theft of trade secrets and 9 cases through June 2020.¹²⁹ This shows that things have started changing. The AUCL amendment in 2019 has indeed opened the floodgates. The case law we briefly examined above shows that police, procurators, and judges have taken the initiative to engineer better and more efficient ways to help rights holders gain access to criminal enforcement.

The recent interventions of the Supreme People's Court, together with the AUCL amendment of 2019, seem to provide hope for a further increase in the number of criminal cases. The extension and the reinforcement of what constitutes protectable secrets, the expansion of the definition of infringers to include hackers and cyber thieves, the harsher liabilities and punishment of third parties wrongly obtaining the stolen secret, along with the provisions lightening the burden of proof of the rights holder, and eventually the lowering and clarification of the thresholds to obtain criminal enforcement, seem to be all very favorable to rights holders and satisfy, to a substantial extent, the commitments China has taken with the Phase I Agreement. We can safely state that there was no better time than this one to enforce trade secrets in China. All things considered, and in spite of the remaining doubts on how such changes will really be implemented by the courts, especially when foreign elements are involved, China has at least in part, responded to its critics and taken swift and concrete action to meet expectations.

However, discussions between China and the U.S., and the latter's grievances, will likely continue for the foreseeable future as one of the most critical issues remained unaddressed in spite of the hyperactivity of the Chinese Supreme People's Court: that of the forced disclosure and transfer of trade secrets and technology by pressuring foreign companies into joint venture with local competitors, restricting technology licensing terms, and by illicit practices of public officials in administrative

¹²⁸ The article has refrained from providing statistics for administrative enforcement because administrative punishment decisions are presented in the official website of each involved Market Supervision Administration (MSA), which would require a very extensive and time-consuming compiling work, because there is no centralized database to include all these administrative decisions. Also, many decisions issued before 2015 are not available online.

¹²⁹ *Laws and Regulations*, PKULAW.COM, <https://pkulaw.com/> (last accessed Jan. 14, 2021) (data sourced and collated from the judicial cases database of Pkulaw.com, a website owned and managed by Chinalawinfo Co. Ltd., a company established by the Legal Information Center of Peking University).

proceedings for the approval of licenses, homologations, import permits. Such practices, in tandem with policies exclusively subsidizing Chinese businesses and their intellectual property, affect foreign businesses' market access and does not afford them a level playing field with Chinese competitors. China is acknowledging this issue and has taken specific commitments on forced technology transfer both in the Phase I Agreement and more recently in the EU-China Comprehensive Agreement on Investments (CAI).

However, a drastic change of direction on these issues is not imaginable any time soon. Meeting such commitments will require China to implement complex reforms involving the overlapping and unclear jurisdiction of different administrations, redefine the role, and further reform the structure of State-Owned Enterprises ("SOE's") in order to concretely promote and create equal market access, while safeguarding SOE's competitiveness in a more open and fairly regulated market.¹³⁰ In a recent speech at the 25th Collective Study of the Political Bureau of the Central Committee of the Communist Party at the end of November 2020, General Secretary Xi Jinping stressed two important guiding principles for the next reform of intellectual property with Chinese characteristics: 1) Intellectual property is subordinate and functional to China's achievement of independent innovation; 2) that in this function, China needs to switch from quantitative to qualitative IP production.¹³¹ From this speech it is evident that the above enumerated commitments China has taken, will be implemented in a form and at a pace that will suite the current innovation and economic development policies of the country.

In areas of common interests, we can expect quick changes. A recent example is the circular issued by the China Intellectual Property Administration phasing out patent filing subsidies to local Chinese enterprises with the goal of switching from a quantitative policy of patent filings (the Great Wall of patents) to a more quality oriented one.¹³² Eliminating incentives should help reducing junk filings of utility patents and designs merely embodying prior art and filed with the sole purpose of capturing subsidies and tax rebates. Another possible area where interests align is that concerning the stepping up of anti-counterfeiting enforcement. Xi Jinping's call to crack down on counterfeiters by stepping up criminal enforcement is functional to his restructuring and modernization of the supply chain to serve its Dual Circulation

¹³⁰ See Anonymous, *The Longer Telegram: Toward a new American China Strategy*, ATLANTIC COUNCIL, <https://www.atlanticcouncil.org/content-series/atlantic-council-strategy-paper-series/the-longer-telegram/> (last visited Feb. 15, 2021); ELIZABETH C. ECONOMY, *THE THIRD REVOLUTION: XI JINPING AND THE NEW CHINESE STATE* 108–115 (Oxford Publ'g 2019). In spite of Xi Jinping and the CPC external profession of deepening opening-up reform, the reality of China's return to a more leftist, Marxist-Leninist ideological tendencies, seems reflected in the policy of consolidating state control over SOE's and to bolster their strategic preeminence in order for China to acquire a dominant market position in key sectors and to propel China towards technological independence, while at the same time capping expectations and lowering the tolerance threshold for successful and independent privately owned enterprises.

¹³¹ *Xi Jinping's Speech at the 25th Study Session of the Political Bureau of the Central Committee*, XINHUA NEWS AGENCY (Dec. 1, 2020), http://www.gov.cn/xinwen/2020-12/01/content_5566183.htm.

¹³² 关于进一步严格规范专利申请行为的通知, 国知发保字[2021]1号, effective from January 27, 2021, see the link: https://www.cnipa.gov.cn/art/2021/1/28/art_75_156439.html.

policy¹³³ and strengthen internal demand as a driver for China's future economic development.¹³⁴

In areas of more open conflicting interests, reform in the direction indicated by the recent agreements will face more challenges, especially at a time where relations between China and the U.S. are frayed and the direction of possible policy realignments under the new U.S. administration are still unclear. We can be sure for now that on the issue of forced technology transfer, including trade secrets, the situation will remain uncertain and a reason for tensions.

What does that mean for foreign rights holder? It means that while they will be likely better protected against unfaithful employees and prying competitors, they will remain extremely vulnerable to the byzantine complexities of the administrative apparatus of the PRC and will be further subjected to demands to release valuable IP in exchange for licenses, permits, and the right to do business in and with China.

Form the enforcement standpoint, foreign holders of trade secrets should now be less hesitant in enforcing their trade secret rights in China. The hesitation of foreign businesses to litigate trade secret theft in China is explainable by decades of bad publicity of the Chinese enforcement system. Although trade secret cases will remain complex cases due to the lack of a transparent discovery system and for the need to meet certain thresholds to obtain criminal enforcement, the planned amendments seem to soften such hurdles, favoring rights holders. Ultimately, whether the amended system will work to the benefit of foreign rights holders will depend on the latter's will to test it. Policymakers should also welcome an increase of enforcement in China as the best way to test whether they have indeed been successful in changing it for the better.

The outlook for the protection of foreign trade secrets in China is quite positive at present, but we still need to remind foreign practitioners and companies that China has a peculiar litigation system. The lack of a discovery process forces foreign rights holder to invest on substantial pre-litigation preparatory work, including investigations, analysis, and evidence acquisition. Also, and very importantly, is how a rights holder will organize itself internally to protect and secure its trade secret rights from leaks and theft (confidentiality, contracts, employment policies, software, know-how creation and development processes etc.). In fact, many of the presumptions for shifting the burden of proof of infringement rely on the ability of the rights holders to show he had taken appropriate measures to protect its secrets.

In conclusion, while policymakers will continue work on bilateral relations and improvements of the China IP macro system, rights holders need not focus on those issues, but rather on what the real law is and how to effectively use it to win cases and obtain protection. As always, look at how the law is and as how is should be when making decisions to enforce trade secrets in China.

¹³³ Frank Tang, *What is China's dual circulation economic strategy and why is it important?*, SCMP (Nov. 19, 2020, 5:30PM), <https://www.scmp.com/economy/china-economy/article/3110184/what-chinas-dual-circulation-economic-strategy-and-why-it>.

¹³⁴ CONG. RSCH. SERV., CHINA'S 14TH FIVE-YEAR PLAN: A FIRST LOOK (Jan. 5, 2021), <https://crsreports.congress.gov/product/pdf/IF/IF11684>.