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Burdensome Secrets: A Comparative Approach to Improving China's Trade Secret Protections

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INTRODUCTION

Information and know-how are crucial for businesses in developing and maintaining a competitive advantage in today's economy.[1] The important role of trade secrets has grown over the past few decades with the emergence of the global information society.[2] Intellectual property and other intangible assets account for as much as 75% of most organizations' value and sources of revenue.[3] Trade secrets are unique among intellectual property rights because they are highly pervasive and relevant for virtually all businesses; businesses frequently use trade secrets regardless of their industry or size, and trade secrets are crucial for maintaining competitive advantages.[4] Each year, trade secret theft costs multinational companies billions of dollars.[5] However, the exact cost of trade secret theft for US companies is uncertain because many of the victims do not become aware of the crime until years later.[6] Additionally, companies may not report the theft or intrusion because announcing a breach could tarnish a company's reputation and endanger its business relationships.[7] The increase in technology use—both by companies and the actors responsible for stealing trade secrets—is one factor contributing to the exponential increase in trade secret litigation that has occurred over the past few decades.[8] Additionally, "[t]he storage of data overseas 'has made

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1 LORENZO DE MARTINIS ET AL., STUDY ON TRADE SECRETS AND CONFIDENTIAL BUSINESS INFORMATION IN THE INTERNAL MARKET 1 (Apr. 2013), *available at* http://ec.europa.eu/internal_market/iprenforcement/docs/trade-secrets/130711_final-study_en.pdf.

2 *See id.*; *see also* CENTER FOR RESPONSIBLE ENTERPRISE AND TRADE, TRADE SECRET THEFT: MANAGING THE GROWING THREAT IN SUPPLY CHAINS 1 (2012) ("Over the past 30 years, international trade has increased more than sevenfold and represents a third of all global economic activity.").

3 *Trends in Proprietary Information Loss*, ASIS International, 37 (Aug. 2007), http://www.asisonline.org/newsroom/surveys/spi2.pdf.

4 de Martinis et al., *supra* note 1, at 1.

5 CENTER FOR RESPONSIBLE ENTERPRISE AND TRADE, *supra* note 2, at 1.

6 OFFICE OF THE NAT'L COUNTERINTELLIGENCE EXEC., FOREIGN SPIES STEALING US ECONOMIC SECRETS IN CYBERSPACE 3 (2011) [hereinafter ONCIX], *available at* http://www.ncix.gov/publications/reports/fecie_all/Foreign_Economic_Collection_2011.pdf.

7 *Id.*

8 CENTER FOR RESPONSIBLE ENTERPRISE AND TRADE, *supra* note 2, at 6.

intellectual capital theft more prevalent and prosecution much more difficult.'"[9]

A priority of the United States government is addressing the theft and transfer of innovative technology trade secrets overseas.[10] According to the United States Intellectual Property Enforcement Coordinator ("IPEC"),[11] trade secret theft and economic espionage against corporations based in the United States is accelerating.[12] The foreign competitors of these corporations are recruiting current and former employees of United States corporations to steal trade secret information and some of these competitors have ties to foreign governments.[13] Trade secret theft through cyber intrusion is affecting law firms, academia, and financial institutions in addition to United States corporations.[14] The United States government is going to continue to apply diplomatic pressure on foreign governments to discourage trade secret theft and to encourage them to strengthen their enforcement against trade secret theft.[15]

As a trade policy tool, IPEC enlists the United States Trade Representative ("USTR") to help promote international enforcement against trade secret theft in order to prevent unfair competition against United States companies.[16] Every year, the USTR

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[9] *Id.* at 6 (quoting MCAFEE, UNDERGROUND ECONOMIES: INTELLECTUAL CAPITAL AND SENSITIVE CORPORATE DATA NOW THE LATEST CYBERCRIME CURRENCY 5 (2011), *available at* http://www.ndia.org/Divisions/Divisions/Cyber/Documents/rp-underground-economies.pdf.

[10] U.S. INTELLECTUAL PROP. ENFORCEMENT COORDINATOR, 2013 JOINT STRATEGIC PLAN ON INTELLECTUAL PROPERTY ENFORCEMENT 9 (2013), *available at* http://www.whitehouse.gov/sites/default/files/omb/IPEC/2013-us-ipec-joint-strategic-plan.pdf.

[11] IPEC coordinates the work of the Federal government to prevent intellectual property theft. To accomplish this, IPEC works with "relevant Federal agencies, law enforcement organizations, foreign governments, private companies, public interest groups, and others to develop and implement the best strategies" to combat intellectual property theft. IPEC, *About IPEC*, http://www.whitehouse.gov/omb/intellectual property/ipec (last visited Jan. 29, 2015).

[12] U.S. INTELLECTUAL PROP. ENFORCEMENT COORDINATOR, ADMINISTRATION STRATEGY ON MITIGATING THE THEFT OF U.S. TRADE SECRETS 1 (2013), *available at* http://www.whitehouse.gov/sites/default/files/omb/IPEC/admin_strategy_on_mitigating_the_theft_of_u.s._trade_secrets.pdf.

[13] *Id.*

[14] *Id.*

[15] *Id.* at 3.

[16] *Id.* at 4.

conducts a review of the intellectual property rights and state of intellectual property enforcement in trading partners around the world.[17] The "Special 301" Report is published annually, reflecting the findings of the USTR's review.[18] The 2014 Special 301 Report again emphasized the need to protect trade secrets because the theft and other forms of economic espionage appear to be escalating.[19] In particular, the report reflected the United States' concern with the growth of trade secret theft in China and China's gaps in trade secret protection and enforcement.[20] The Special 301 Report stressed the difficulty of obtaining remedies for trade secret misappropriation under Chinese Law.[21]

The United States government is becoming increasingly concerned with trade secret theft occurring in China.[22] According to a 2011 report to Congress on foreign economic collection and industrial espionage prepared by the Office of the National Counterintelligence Executive ("ONCIX"), "Chinese actors are the world's most active and persistent perpetrators of economic espionage."[23] There has been a barrage of computer network intrusions originating in China.[24] Although cybersecurity specialists and other American private-sector firms reported these intrusions, the intelligence community has been unable to confirm who is responsible for the attacks.[25] Mandiant, an independent security firm, reported in 2010 that during the course of a business negotiation where a US

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[17] AMBASSADOR MICHAEL B.G. FROMAN, OFFICE OF THE UNITED STATES TRADE REPRESENTATIVE, 2014 SPECIAL 301 REPORT 6 (2014), *available at* http://www.ustr.gov/sites/default/files/USTR%202014%20Special%20301%20Report%20to%20Congress%20FINAL.pdf.

[18] *Id.*

[19] *Id.* at 16 ("The theft of trade secrets and other forms of economic espionage, which imposes significant costs on US companies and threatens the security of the United States, appears to be escalating.").

[20] *Id.*

[21] *Id.*

[22] *See* FROMAN, *supra* note 17 and accompanying text. China has been on the 301 Special Report Priority Watch List every year since 2005. *See* INT'L INTELLECTUAL PROP. ALLIANCE, CHART OF COUNTRIES' SPECIAL 301 PLACEMENT (1989-2013) AND IIPA 2014 SPECIAL 301 RECOMMENDATIONS (2014), *available at* http://www.iipa.com/pdf/2014SPEC301HISTORICALCHART.pdf.

[23] OFFICE OF THE NAT'L COUNTERINTELLIGENCE EXECUTIVE, *supra* note 6, at i.

[24] *Id.*

[25] *Id.*

Fortune 500 manufacturing company was seeking to acquire a Chinese firm, information was stolen from the company's corporate servers.[26] The US company lost sensitive data on a weekly basis and this may have helped the Chinese firm attain a better position in the negotiations.[27] Mandiant concluded that "'The Chinese government may authorize this activity, but there's no way to determine the extent of its involvement.'"[28]

In February of 2013, Mandiant published a follow up report in which they changed their assessment and concluded that "the groups conducting these activities are based primarily in China and that the Chinese Government is aware of them."[29] According to the report, the Advance Persistent Threat, which Mandiant refers to as APT1, is likely a Chinese government-sponsored actor and a unit of the People's Liberation Army known as Unit 61398 or the Second Bureau of the People's Liberation Army General Staff Department's Third Department.[30] The report also identifies the persona "Ugly Gorilla" as a hacker in the unit and concludes that the person behind the persona is a man named Wang Dong.[31] The report "details efforts by an arm of the People's Liberation Army starting in 2006 to systematically infiltrate 141 companies in over twenty major industries, including 115 US companies."[32] Hundreds of terabytes of data, including all forms of trade secrets, were stolen from these US companies.[33]

In May 2014, the United States charged state actors with economic espionage for hacking into computers and stealing trade se-

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[26] *Id.* at 5.

[27] *Id.*

[28] MANDIANT, APT1: EXPOSING ONE OF CHINA'S CYBER ESPIONAGE UNITS 2 (2013), *available at* http://intelreport.mandiant.com/Mandiant_APT1_Report.pdf (citing MANDIANT, M-TRENDS 2 (2010), available at https://dl.mandiant.com/ee/assets/pdf_mtrends_2010.pdf.).

[29] MANDIANT, APT1: EXPOSING ONE OF CHINA'S CYBER ESPIONAGE UNITS 2 (2013).

[30] *Id.* at 2–3.

[31] *Id.* at 52, 55.

[32] FROMAN, *supra* note 17, at 33 ("The industries targeted have been listed as 'strategic,' emerging industries that need to be fostered and encouraged as part of China's 12th Five Year Plan.").

[33] *Id.* at 13.

crets for the first time.[34] Five Chinese military hackers were indicted by a grand jury in the Western District of Pennsylvania on thirty-one counts, including economic espionage, trade secret theft, computer hacking, and other offenses against Westinghouse Electric Co., United States subsidiaries of SolarWorld AG ("SolarWorld"), United States Steel Corp ("US Steel"), Allegheny Technologies Inc. ("ATI"), the United Steel, Paper and Forestry, Rubber, Manufacturing, Energy, Allied Industrial and Service Workers International Union ("USW"), and Alcoa Inc.[35] These intrusions began as early as 2006 and in some of the cases, the information would have been particularly beneficial to Chinese companies at the time it was stolen.[36] One of the five defendants named in the indictment is Wang Dong a.k.a. "UglyGorilla."[37] He and the other defendants worked for the People's Liberation Army's General Staff, Third Department in Unit 61398.[38] The defendants sent "spearphishing"[39] messages to trick the recipients into giving them access to their computers.[40] Once the defendants had a foothold in a computer, they "performed a variety of functions designed to identify, collect, package, and exfiltrate targeted data."[41] However, it is unlikely that any of the defendants will actually face trial because China does not have an extradition treaty with the United

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[34] Press Release, U.S. Department of Justice, U.S. Charges Five Chinese Military Hackers for Cyber Espionage Against U.S. Corporations and a Labor Organization for Commercial Advantage (May 19, 2014), *available at* http://www.justice.gov/opa/pr/2014/May/14-ag-528.html.

[35] Indictment ¶¶ 5, 6(a)–6(f), 46, 55, 57, United States v. Dong, Crim. No. 14-118 (W.D. Pa. filed May 19, 2014). The indictment explains the particular intrusions and the events leading up to the intrusions against the six victims in further detail, with most of the victims having significant business interests relating to China. *Id.* ¶¶ 19-42.

[36] *Id.* ¶¶ 1–2.

[37] *Id.* ¶ 5.

[38] *Id.* The hacker Wang Dong a.k.a. "UglyGorilla" and Unit 61398 were mentioned in the 2013 Mandiant Report, which supports Mandiant's conclusion that this group was responsible for other cyber intrusions and that the Chinese government is aware of them. *See supra* notes 28–31 and accompanying text.

[39] Spearphishing messages are designed to look like email messages from colleagues and other trustworthy senders and encourage the recipient to open an attachment or click on a link. These attachments and links are also disguised. However, once the attachment or link is opened, malware is installed in the computer, which creates a backdoor providing access to the recipient's computer. Indictment, *supra* note 35, ¶ 11.

[40] *Id*.

[41] *Id.* ¶ 18.

States.[42] Consequently, trade secret owners must be afforded viable enforcement options in China.

The Chinese government was also implicated in a civil suit that settled in 2012.[43] Cybersitter LLC settled a $2.2 billion civil suit for an undisclosed amount.[44] The suit alleged that several computer makers colluded with the Chinese government to develop web-filtering software using code that was stolen from Cybersitter.[45] According to Cybersitter, the software that was allegedly stolen was the first filtering software to block both pornographic and violent online content.[46] Researchers at the University of Michigan determined that the Green Dam program, which was part of a plan announced by the Chinese government to filter pornographic, violent, and political content on computers within China, copied roughly 3,000 lines of code from Cybersitter's software.[47] A group of the Chinese companies involved filed motions to dismiss for a lack of personal jurisdiction, forum non conveniens, and for failure to join a necessary and indispensable party, but all of the motions were denied.[48] Default judgment was entered against the Chinese government because it did not appear and was not immune under the commercial activity exception to the Foreign Sovereign Immunities Act.[49] Interestingly, one of the defendants in the case, Zhengzhou Jinhui Computer System Engineering Co., had ties to a research center for China's military, the People's Liberation Army University.[50] Additionally, six days after the suit was filed, the law firm that filed the suit was hit with a similar cyber intrusion.[51] A forensic analysis of the attack determined that it probably origi-

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42 *See* 18 U.S.C. § 3181 (2012).

43 Edvard Petersson, *Lenovo, Computer Makers Settle Case Over Green Dam Software*, BLOOMBERG (Feb. 8, 2012), http://www.bloomberg.com/news/articles/2012-02-08/lenovo-computer-makers-settle-copyright-lawsuit-over-green-dam-software.

44 *Id.*

45 *Id.*

46 *Id.*

47 *Id.*

48 CYBERsitter, LLC v. P.R.C., 805 F. Supp. 2d 958, 962–63, 977 (C.D. Cal. 2011).

49 *Id.* at 974.

50 Michael Riley, *China Mafia-Style Hack Attack Drives California Firm to Brink*, BLOOMBERG (Nov. 27, 2012), *available at* http://www.bloomberg.com/news/2012-11-27/china-mafia-style-hack-attack-drives-california-firm-to-brink.html.

51 *Id.*

nated in China as well.[52] After filing the suit, Brian Milburn, whose company owns the software, also experienced highly unusual activity on his company's servers, which stopped two months after the parties reached a settlement agreement.[53]

Recent federal investigations and prosecutions indicate an emerging trend of trade secret theft and economic espionage on behalf of companies located in China.[54] The Department of Justice ("DOJ") prosecutes trade secret cases resulting from investigations by various government agencies, including the Homeland Security Investigations ("HSI"), the Federal Bureau of Investigation ("FBI"), the Department of Commerce's Bureau of Industry and Science ("BIS"), and the Pentagon's Defense Criminal Investigative Service ("DCIS").[55] Since 2008, a large number of these cases involved the theft of trade secrets from the United States to China.[56] For example, in January of 2013, a Chinese business owner and his employee pleaded guilty for conspiring to steal trade secrets from the Pittsburgh Corning Corporation on how to produce a particular type of insulation.[57] Both Ji Li Huang and Xiao Guang Qi were Chinese nationals and attempted to steal the secrets in order to compete with Pittsburgh Corning after Corning announced it would open a facility in China.[58] Huang attempted to gather the information by trespassing at the plant, recording videos, taking

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52 *Id.*

53 *Id.*

54 UNITED STATES INTELLECTUAL PROP. ENFORCEMENT COORDINATOR, 2011 U.S. INTELLECTUAL PROPERTY ENFORCEMENT COORDINATOR ANNUAL REPORT ON INTELLECTUAL PROPERTY ENFORCEMENT 30 (2012), *available at* http://www.whitehouse.gov/sites/default/files/omb/IPEC/ipec_annual_report_mar2012.pdf.

55 U.S. DEP'T OF JUSTICE, SUMMARY OF MAJOR U.S. EXPORT ENFORCEMENT, ECONOMIC ESPIONAGE, TRADE SECRET AND EMBARGO-RELATED CRIMINAL CASES (JANUARY 2008 TO THE PRESENT: UPDATED MARCH 26, 2014) 1 (2014), *available at* https://www.pmddtc.state.gov/compliance/documents/OngoingExportCaseFactSheet.pdf.

56 *See generally id.* (providing summaries of select cases of export enforcement, economic espionage, trade secret theft, and embargo related prosecutions handled by the DOJ from January 2008 through March 2014).

57 *Id.* at 26.

58 Press Release, United States Attorney's Office, Two Chinese Nationals Charged with Stealing Trade Secrets from Missouri Manufacturing Plant (Sept. 30, 1998), *available at* http://www.fbi.gov/kansascity/press-releases/2012/two-chinese-nationals-charged-with-stealing-trade-secrets-from-missouri-manufacturing-plant.

photos, and asking employees specific information about the insulation.[59] An advertisement was later published in the local newspaper soliciting someone with experience at Pittsburgh Corning to help develop a factory producing a similar in the Asian market.[60] A confidential source working with the FBI corresponded via email with the contact in the advertisement about the Pittsburgh Corning's confidential information.[61] Huang and Qi were arrested after a meeting with the confidential source in Kansas City, where they intended to pay $100,000 in exchange for the trade secrets.[62]

The United States government is not alone in the growing concern over trade secret theft in China. In 2009, McAfee[63] published a report about intellectual property vulnerabilities analyzing a survey conducted by the international research firm, Vanson Bourne.[64] The firm surveyed more than one thousand senior IT decision makers from several countries, including the US and China.[65] Exactly half of the respondents to the survey viewed China as the greatest threat to digital assets and 26% of the respondents surveyed had purposely avoided storing and/or processing data in China.[66] Slightly over 30% of the respondents found the United States to be threatening to digital assets, placing the United States in the middle of the list out of the countries reported.[67] Germany was perceived as the least threatening, with slightly less than 20% of respondents.[68] The respondents to the survey were primarily concerned with both the lack of privacy and intellectual property

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[59] Crabtree Aff. in Support of App. for Criminal Complaint ¶¶ 10–14, United States v. Huang, Crim. No. 12-0156-SWH-01/02 (W.D. Mo. 2012).

[60] *Id.* ¶ 15.

[61] *Id.* ¶¶ 16–48.

[62] *Id.* ¶¶ 49–51.

[63] Founded in 1987 and now part of Intel Security, McAfee is a global computer security company protecting millions of consumers, ranging from government agencies to home users. MCAFEE, CORPORATE FACTSHEET 1 (2014), *available at* http://www.mcafee.com/us/resources/brochures/br-mcafee-fact-sheet.pdf.

[64] MCAFEE, UNSECURED ECONOMIES: PROTECTING VITAL INFORMATION 1–2 (2009), *available at* https://www.cerias.purdue.edu/assets/pdf/mfe_unsec_econ_pr_rpt_fnl_online_012109.pdf.

[65] *Id.* at 2.

[66] *Id.* at 12–13, 14.

[67] *Id.* at 12.

[68] *Id.*

protection in China.[69] Two years later, McAfee published a follow-up report and China, Russia, and Pakistan were still regarded as the least safe for data storage, while Germany and the United States continued to be perceived among the safest.[70] This Note analyzes trade secret protections under Chinese Law and why, from a legal perspective, it is a growing area of concern. It will then compare China with the trade secret protections under the United States' common-law system and Germany's civil-law system. Finally, it will propose reforms to China's current system, in order to change current perceptions on trade secret protections in China.

I. TRADE SECRETS IN CHINESE LAW

The Anti-Unfair Competition Law is the primary source for trade secret law in China.[71] In China, a trade secret (or business secrecy) is defined as "any technology information or business operation information which is unknown to the public, can bring about economic benefits to the obligee, has practical utility and about which the obligee has adopted secret-keeping measures."[72] Article 10 of the Anti-Unfair Competition Law also provides three different ways a person can be held liable for trade secret misappropriation.[73] Liability can also extend to a third party "who clearly

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[69] *Id.* at 14.

[70] MCAFEE, UNDERGROUND ECONOMIES: INTELLECTUAL CAPITAL AND SENSITIVE CORPORATE DATA NOW THE LATEST CYBERCRIME CURRENCY 10 (2011), *available at* http://www.ndia.org/Divisions/Divisions/Cyber/Documents/rp-underground-economies.pdf.

[71] Benjamin Bai & Guoping Da, *Strategies for Trade Secret Protection in China*, 9 NW. J. TECH. & INTELL. PROP. 351, 355 (2011).

[72] Zhongua Renmin Gongheguo Fan Bu Zhengdong Jingji Fa (中人民共和国反不正当 争法) [Anti-Unfair Competition Law of the P.R.C.] (promulgated by the Standing Comm. Nat'l People's Cong., Sept. 2 1993, effective Dec. 1, 1993), art. 10 (China), *available at* http://www.wipo.int/wipolex/en/text.jsp?file_id=125970.

[73] *Id.* ("A business operator shall not use any of the following means to infringe upon trade secrets: (1) obtaining an obligee's trade secrets by stealing, luring, intimidation or any other unfair means; (2) disclosing, using or allowing another person to use the trade secrets obtained from the obligee by the means mentioned in the preceding paragraph; or (3) in violation of the agreement or against the obligee's demand for keeping trade secrets, disclosing, using or allowing another person to use the trade secrets he possesses." The Act defines a "business operator" as "a legal person or any other economic organization or individual engaged in commodities marketing or profit-making services ("commodities" referred to hereinafter includes such services)." *Id.* at art. 2.

knows or ought to know that the case falls under the unlawful acts listed in the preceding paragraph shall be deemed as infringement upon trade secrets . . . ."[74] Accordingly, the party alleging misappropriation must prove that:

> (1) the asserted trade secret is not publicly known;
> (2) the asserted trade secret has economic benefits and practical utility;
> (3) the trade secret owner has taken measures to protect the confidential nature of the asserted trade secret; and
> (4) there is misappropriation of the asserted trade secret by a wrongdoer or a third party.[75]

The first three of these elements that a party alleging misappropriation must prove are required to satisfy the statutory definition of a trade secret under the Anti-Unfair Competition Law.[76] The information that was allegedly misappropriated will not be protected unless it first qualifies as a trade secret.[77] After the party alleging misappropriation qualifies the information as a trade secret, it must then satisfy the fourth element and prove that there was some sort of misappropriation.[78] Additionally, this must all be accomplished through *admissible* evidence,[79] which can be a particularly difficult concept while litigating in China.[80] Provisions relating to the enforcement of trade secrets can also be found in the Contract Law (Article 43 and Chapter 18 Section 3), Company Law (Articles 149 and 150), Labor Law (Articles 22 and 102), and Labor Contract Law (Article 23).[81]

A. Administrative Action

Chinese Law provides three different avenues for trade secret holders to pursue claims against alleged trade secret misappropriation. One such avenue is for a trade secret holder to pursue admin-

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74 *Id.* at art. 10.
75 Bai & Da, *supra* note 71, at 356.
76 *Id.* at 355–56.
77 *See generally* Bai & Da, *supra* note 71.
78 *Id.*
79 *Id.* at 356.
80 *See infra* notes 100–105 and accompanying text.
81 Bai & Da, *supra* note 71, at 356–57.

istrative action against an alleged infringer. Under the Anti-Unfair Competition Law, trade secret misappropriation cases can be investigated by the offices of the Administration for Industry and Commerce ("AICs").[82] An important feature that is available to trade secret holders through administrative action is that the AICs have the authority "to order the return of drawings, blueprints, and other materials containing the trade secrets."[83] Additionally, if certain goods would disclose the trade secret to the public if they were made available, AICs have the authority to order the destruction of the goods manufactured using the trade secret.[84] In terms of other remedies, AICs have the authority to order an infringer to stop misappropriating the trade secret and to impose a civil fine ranging from RMB 10,000 to RMB 200,000.[85] Another advantage of an administrative proceeding is its speed; AICs will "act in a matter of days or even immediately" if the AICs is "presented with satisfactory evidence."[86] One of the major disadvantages for the trade secret owner is that AICs do not have the power to award damages.[87] Consequently, if damages are sought, the trade secret owner must instead turn to civil litigation.[88]

B. Criminal Action

A trade secret owner should consider seeking criminal prosecution whenever the owner has suffered "serious" or "exceptionally serious" losses due to the misappropriation of the trade secret by another party.[89] This is because in a criminal prosecution, the Chinese police will become involved and they have the power to seize any evidence relevant to the case.[90] Under the Criminal Law, the following acts cause "serious" or "exceptionally serious" losses:

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82 *Id.* at 361–62.
83 *Id.* at 362.
84 *Id.*
85 *Id*.
86 Daniel C.K. Chow, *Navigating the Minefield of Trade Secrets Protection in China*, 47 VAND. J. TRANSNAT'L L. 1007, 2018 (2014).
87 *Id.*
88 *Id.* at 359.
89 *Id.* at 364.
90 *Id.*

- acquiring a trade secret of another by theft, inducement, duress or other illegal means;
- disclosing, using, or allowing others to use a trade secret of another acquired by the above illegal means;
- disclosing, using, or allowing others to use a trade secret in breach of an agreement or a confidentiality obligation imposed by a legal owner; or
- acquiring, using, or disclosing a trade secret by a third party, when he knew or should have known that the trade secret has been misappropriated in any of the aforementioned ways.[91]

The acts resulting in criminal liability are strikingly similar to the civil liabilities under the Anti-Unfair Competition Law.[92] According to a 2004 Judicial Interpretation issued by the Supreme People's Court and Supreme People's Procuratorate, a loss is "serious" if it is more than RMB 50,000 and "exceptionally serious" if it is more than RMB 2,500,000.[93] A subsequent Judicial Interpretation was issued in 2007 and expanded the 2004 Judicial Interpretation to apply to entities as well.[94] Generally, criminal prosecution is very effective in trade secret misappropriation cases and is very desirable because the evidence seized by police can also be used in

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[91] *Id.*; *see also* Zhongua Renmin Gongheguo Xingfa (中 人民共和国 华 刑法) [Criminal Law of the P.R.C.] (promulgated by the Nat'l People's Cong., Mar, 14, 1997, effective Oct. 1, 1997), art. 219 (China).

[92] Bai & Da, *supra* note 71, at 356.

[93] Bai & Da, *supra* note 71, at 364–65; *see also* 最高人民法院、最高人民 察院 于 检 关 办理侵犯知 刑事案件具体 用 识产权 应 法律若干 的解 问题 释 [Interpretation of the Supreme People's Court & the Supreme People's Procuratorate Concerning Some Issues on the Specific Application of Law for Handling Criminal Cases of Infringement upon Intellectual Property Rights] (promulgated by the 10th Procutorial Comm. Of the Supreme People's Procuratorate, Dec. 8, 2004, effective Dec. 22, 2004) Fashi 19/2004 (China).

[94] Bai & Da, *supra* note 71, at 364–65; *see also* 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, Interpretation II of the Supreme People's Court & the Supreme People's Procuratorate Concerning Some Issues on the Specific Application of Law in Handling Criminal Cases of Infringement of Intellectual Property Rights, (promulgated by the 10th Procuratorial Comm. of the Supreme People's Procuratorate, April 5, 2007, effective April 5, 2007) Fashi 6/2007 (China).

administrative or civil litigation.[95] However, it is not easy to get the police interested in trade secret cases and they tend to be more interested in high profile cases.[96] Additionally, the police lack "expertise in trade secrets involving advanced technology," so they will have to entrust a "state owned technology research institute or consultancy organization" to determine the first two elements in a trade secret misappropriation claim.[97]

C. Civil Action

In 2007, the Supreme People's Court issued a Judicial Interpretation clarifying some of the issues that arose enforcing trade secrets under the Anti-Unfair Competition Law.[98] The Judicial Interpretation clarified some of the terms included in the Anti-Unfair Competition Law's definition of trade secrets, injunctions available in trade secret misappropriation cases, how to determine damages, defenses that can be raised, and the burden of proof in trade secret cases.[99] According to the Judicial Interpretation regarding the definition of trade secrets, information is considered "unknown to the public"[100] if the information is unknown to the personnel in the related field and the information is difficult to obtain.[101] Informa-

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[95] Bai & Da, *supra* note 71, at 364–65; *see also* Chow, *supra* note 86, at 1029 n.123 (noting that most defendants do not feel safe ignoring the investigatory powers of the Chinese police because the investigative powers are "backed by various coercive measures").

[96] Bing & Da, *supra* note 71, at 365 (according to the authors, it is beneficial to try to package any given trade secret case as high profile to increase the chances for criminal prosecution); *see also* Chow, *supra* note 86, at 1034 (providing that police "may have little interest in economic crimes, unless these economic crimes result in harm to the public . . . or threaten national security . . . .").

[97] Chow, *supra* note 86 at 1032; *see also infra* note 113 and accompanying text (listing the elements of a trade secret misappropriation claim).

[98] 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, [Interpretation of the Supreme People's Court on Some Matters About the Application of Law in the Trial of Civil Cases Involving Unfair Competition], Fashi 2/2007 (Sup. People's Ct. 2007) (China) [hereinafter Judicial Interpretation], *available at* http://www.asianlii.org/cn/legis/cen/laws/iotspcosmataolittocciuc1390/.

[99] *Id.* at arts. 9–17.

[100] This is the first element that must be proved to qualify information as a trade secret and also the first element a party alleging misappropriation must prove. Bai & Da, *supra* note 71, at 355–56.

[101] Judicial Interpretation, *supra* note 98, at art. 9. The Judicial Interpretation also includes a list of information that is not unknown to the public: (1) information that is

tion is considered to "bring about economic benefits to the obligee"[102] and have practical utility[103] if the information has any practical or potential commercial value, and can be used to enhance the competitive advantage of the owner.[104] Finally, regarding the definition of what constitutes a trade secret, the owner of the information has sufficiently maintained its secrecy[105] if the owner takes reasonable steps under the circumstances to prevent the divulgence of the information.[106] Additionally, courts shall ascertain whether the owner has taken confidentiality measures in accordance with the features of the related information carrier, the desire of the owner to maintain secrecy, how identifiable the confidentiality measures are, the difficulty for others to obtain the information by justifiable means, and other factors.[107]

The Judicial Interpretation also provides for two defenses to a claim of trade secret misappropriation: independent research and

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common sense or industrial practice for people in the related technical or economic field; (2) information that only involves the simple combination of dimensions, structures, materials and components of products, and can be directly obtained by observing the products by the relevant public after the products enter into the market; (3) information that has been revealed to the public in any publication or other mass media; (4) information that has been publicized through reports or exhibits; (5) information that can be obtained through other public channels; and (6) information that can easily be obtained with little cost. *Id.*

[102] This is the second element that must be proved to qualify information as a trade secret and also the part of the second element a party alleging misappropriation must prove. *See* Bai & Da, *supra* note 71, at 355–56.

[103] This is the third element that must be proved to qualify information as a trade secret and also part of the second element a party alleging misappropriation must prove. *Id.*

[104] Judicial Interpretation, *supra* note 98, at art. 10.

[105] This is the fourth element that must be proved to qualify information as a trade secret and also the third element a party alleging misappropriation must prove. Bai & Da, *supra* note 71, at 356.

[106] Judicial Interpretation, *supra* note 98, at art. 11.

[107] *Id.* The Judicial Interpretation also provided a non-exhaustive list of sufficient confidentiality measures: (1) limiting access to the classified information and disclosing it only to the related personnel who need to know the information; (2) locking up the carrier of the classified information; (3) indicate the confidentiality of the information on the carrier of the information; (4) adopting passwords or codes on the classified information; (5) implementing a confidentiality agreement; (6) limiting visitors to the classified machinery, factory, workshop or any other place, or imposing confidentiality agreements on visitors; and (7) any other reasonable measure guaranteeing the confidentiality of the information. *See id.*

reverse engineering.[108] Reverse engineering covers information that is obtained by dismantling, mapping, or analyzing the product when the product is obtained from public channels.[109] A party who acquires another's trade secret through illegitimate means[110] is not afforded the protections of the reverse engineering defense.[111] The Judicial Interpretation also places a high burden of proof on the plaintiff to successfully assert a claim of trade secret misappropriation.[112] The plaintiff must submit evidence that is sufficient to satisfy all of the statutory requirements under the Anti-Unfair Competition Law, evidence proving that the defendant is using similar or substantially similar information to the plaintiff's trade secret, and that the defendant has used unfair methods.[113]

The Judicial Interpretation also elaborated on the remedies available to trade secret owners through civil litigation. There are three acceptable methods for calculating damages awards in trade secret misappropriation cases: "(1) plaintiff's lost profits; (2) defendant's profits realized from the misappropriation; and (3) reasonable royalty."[114] Additionally, if the trade secret was made known to the general public, the damages awarded to the plaintiff shall be calculated according to the commercial value of the trade secret.[115] If a plaintiff successfully proves a claim of trade secret misappropriation, it is likely that a permanent injunction will be

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[108] *Id.* at art. 12.

[109] *Id.*

[110] Examples of what constitutes acquiring through illegitimate means are contained within the Anti-Unfair Competition Law are (1) obtaining the trade secret of another by theft, inducement, duress, or any other unfair means; (2) disclosing, using, or allowing others to use another's trade secret which was obtained by the aforementioned unfair means; or (3) disclosing, using, or allowing others to use a trade secret in breach of an agreement with the legal owner. *See supra* note 73 and accompanying text.

[111] Judicial Interpretation, *supra* note 98, at art. 12. So, for example, a party who obtains the trade secret of another by any means other than independent research and development or reverse engineering, and then claims that it was through reverse engineering, will not be afforded the reverse engineering defense. *See id.*

[112] *Id.* at art. 1.

[113] *Id.* at art. 14.

[114] Bai & Da, *supra* note 71, at 361.

[115] *Id.* (explaining that "[t]he commercial value of a trade secret shall be determined with reference to its research and development costs, proceeds from practicing the trade secret, the tangible benefits, the length of time during which the trade secret confers competitive advantages to the plaintiff, etc.").

granted.[116] However, in China, trade secret owners are no longer entitled to an automatic permanent injunction after they successfully prove misappropriation.[117] As Benjamin Bai and Guoping Da assert, "[g]enerally, the length of a permanent injunction will not be extended to the time when the trade secret becomes known to the general public, if at all."[118] Further, if the length of an injunction is unreasonable under the circumstances and the owner's competitive advantage is protected, a court may limit the scope and length of an injunction.[119]

D. Chinese Trade Secret Case Statistics

In 2013, Chinese courts of the first instance accepted 88,583 civil cases concerning intellectual property rights.[120] This is significant when compared to data from 2010, where Chinese courts of the first instance received 42,931 total civil cases concerning intellectual property rights, a 40.18% increase over 2009.[121] These are dramatic increases, especially because China has been the most litigious country for intellectual property disputes since 2005.[122]

2013 Civil IP Cases in China[123]

Type of Case	Number	Percent Change From 2012
Civil Cases (commenced)	88,583	+1.33%
Civil Cases (concluded)	88,286	+5.29%
Copyright	51,351	–4.64%

116 *Id.*
117 *Id.*
118 *Id.*
119 *Id.*; *see also* Judicial Interpretation, *supra* note 98, at art. 16.
120 SUPREME PEOPLE'S COURT OF THE PEOPLE'S REPUBLIC OF CHINA, INTELLECTUAL PROPERTY PROTECTION BY CHINESE COURTS IN 2013 (2013) [hereinafter SUPREME PEOPLE'S COURT], *available at* http://www.court.gov.cn/zscq/bhcg/201404/t20140425_195314.html.
121 *China's Intellectual Property Protection in 2010*, NAT'L INTELLECTUAL-PROPERTY STRATEGY (May 12, 2011), http://www.nipso.cn/onews.asp?id=11395.
122 Bai & Da, *supra* note 71, at 351.
123 SUPREME PEOPLE'S COURT, *supra* note 120.

Patent	9,195	–5.01%
Trademark	23,272	+17.45%
Unfair Competition (includes trade secret cases)	1,302	+15.94%
Technology Contract Agreements	949	+27.21%
Other	2,514	+13.91%

2010 Civil IP Cases in China[124]

Type of Case	**Number**	**Percent Change From 2009**
Civil Cases (commenced)	42,931	+40.18%
Civil Cases (concluded)	41,718	+36.74%
Copyright	24,719	+61.54%
Patent	5,785	+30.82%
Trademark	8,460	22.5%
Unfair Competition (includes trade secret cases)	1,131	–11.78%
Technology Contract Dispute	670	–10.31%
Other	1,966	+14.17%

[124] *China's Intellectual Property Protection in 2010*, *supra* note 121.

2013 Administrative IP Cases in China[125]

Type of Case	Number	Percent Change From 2012
Administrative Cases (commenced)	2,886	–1.43%
Administrative Cases (concluded)	2,901	Negligible
Copyright	3	None
Patent	697	–8.29%
Trademark	2,161	+0.51%
Other	25	+66.67%

[125] SUPREME PEOPLE'S COURT, *supra* note 120.

2013 Criminal IP Cases in China[126]

	Cases	**Persons Convicted**	**Percent Change From 2012**
Cases Filed	9,331	N/A	–28.79%
Criminal Prosecution (concluded)	9,212	13,424 (13,265 were given criminal sanctions)	–28% (cases) –13.49% (convictions)
Trademark Counterfeiting	1,546	2,462	N/A
Production and Sale of Counterfeit and Inferior Goods	1,496	2,221	N/A
Illegal Mfg. and Sale of Illegally Mfg.'d Marks of Registered Trademarks	350	589	N/A
Counterfeiting Patent	1	0	N/A
Copyright Infringement	1,499	1,490	N/A
Sale of Infringing Reproductions	15	33	N/A
Trade Secret Cases[127]	50		N/A
People Convicted for Trade Secret Misappropriation	71		N/A

[126] *Id.*

[127] Interestingly, the data for the number of trade-secret cases concluded and the number of persons convicted, 50% and 71% respectively, is exactly the same as the data provided in 2010. *Compare* SUPREME PEOPLE'S COURT, *supra* note 120, *with China's Intellectual Property Protection in 2010*, *supra* note 121.

2010 Criminal IP Cases in China[128]

	China	**Percent Change From 2009**
Criminal Prosecution (concluded)	3,942	+7.7%
People Prosecuted	6,001	+2.8%
People Convicted	6,000	+2.9%
Trade Secret Cases Sentenced	50	N/A
People Convicted for Trade Secret Misappropriation	71	N/A

128 *China's Intellectual Property Protection in 2010*, *supra* note 121.

2006–2012 Civil Trade Secret Cases in China[129]

Year[130]	Judgments	Duration of Proceedings[131]	Average Damages Claimed (RMB)	Average Damages Awarded (RMB)[132]	Average Costs Claimed (RMB)	Average Costs Awarded (RMB)	Injunction Ratio[133]
2012	14	7 (11)	300,000	95,000 (2)	0	0	40%
2011	38	9 (17)	1,670,993	397,377 (8)	89,986	26,002	35%
2010	47	5 (25)	1,314,496	273,635 (13)	34,494	6,640	47%
2009	52	8 (15)	6,839,600	209,250 (8)	23,367	21,646	39%
2008	55	9 (22)	732,030	215,511 (22)	15,709	14,656	48%
2007	63	7 (21)	505,789	309,758 (25)	7,701	3,040	63%
2006	52	6 (23)	822,323	423,856 (12)	14,736	4,245	39%

The data compiled for the 2013 civil, administrative, and criminal intellectual property cases in China yields some surprising results regarding trade secrets. Out of all of the civil intellectual

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[129] *CIELA Summary Report: Trend by Year*, CIELA http://www.ciela.cn/Search/TrendByYearResult.aspx?pageId=1&ppId=2&language=en&city=&court=&mainType=Unfair+Competition&subType=Trade+Secret&cause=&industry= (last visited Jan. 29, 2015). There is a discrepancy between the data provided SIPO and the data provided by CIELA. This is because the data used by CIELA only comes from judgments published by major IP courts around China. *See FAQ*, CIELA http://www.ciela.cn/Content2.aspx?pageId=10&ppId=10&language=en (last visited Jan. 29, 2015).

[130] *See also* Bai & Da, *supra* note 71, at 354–55 (illustrating the number of trade secret misappropriation cases per year from 1995–2005).

[131] Refers to the average time in months for proceedings to conclude. The number in parenthesis indicates the number of judgments used to calculate the data. *CIELA Summary Report: Trend by Year*, *supra* note 129.

[132] The number in parenthesis indicates the number of judgments used to calculate the data.

[133] Refers to the number of judgments in which in final injunction is awarded. This does not include data on either pre-trial injunctions or interim injunctions because judgments do not currently contain this data. *Id.*

property cases commenced in 2013, only 1,302 out of the 88,583 were about unfair competition, which is roughly 1.47% of the total number of cases.[134] Although this number represents a 15.94% increase since 2012, it is miniscule when you consider that trade secret cases only account for a percentage of that 1.47%.[135] There are similar results with respect to the criminal cases. Out of the 9,212 cases that were concluded, only 50 trade secret cases were sentenced.[136] This too accounts for a very small percentage of all of the criminal intellectual property cases, roughly 0.5%.[137] These numbers are even more startling when compared to the data from 2010. Out of all of the civil intellectual property cases commenced in 2010, only 1,131 out of the 42,931 were about unfair competition, which is roughly 2.6% of the total number of cases.[138] The percentage of actual trade secret cases is even smaller because they are contained within the unfair competition metric. Out of the 3,942 criminal cases that were concluded in 2010, only 50 trade secret cases were sentenced.[139] This too accounts for a very small percentage of all intellectual property cases, roughly 1.3%.[140] Although the total number of civil and criminal intellectual property cases has dramatically increased, the number of trade secret cases has remained relatively stagnant and accounts for smaller percentages.

II. EVIDENTIARY CONCERNS IN CHINESE TRADE SECRET LITIGATION

A. Specific Legal Obstacles for Trade Secret Owners

One possible reason for the significantly lower amount of trade secret cases in China as compared to other intellectual property cases is the difficulty for plaintiffs to actually prove misappropriation.[141] This section explores various evidentiary concerns in Chi-

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134 *See supra* note 123 and accompanying table.
135 *See id.*
136 *See supra* note 126 and accompanying table.
137 *See id.*
138 *See supra* note 124 and accompanying table.
139 *See supra* note 128 and accompanying table.
140 *See id.*
141 Bai & Da, *supra* note 71, at 351, 354.

nese trade secret litigation, including obtaining evidence, evidence preservation, and suggested reforms to Chinese civil procedure, and how it impacts trade secret enforcement.

Remedies available to trade secret owners through administrative, criminal, or civil enforcement are difficult to obtain under Chinese law.[142] This is the result of various deficiencies in China's Anti-Unfair Competition Law, most notably the constraints on gathering evidence for use in litigation.[143] Additionally, the Anti-Unfair Competition Law does not expressly authorize judges to issue certain provisional orders.[144] This is different from other Chinese intellectual property laws and these provisional orders are often critical to the success of a civil enforcement action.[145] Other weaknesses in China's civil enforcement system include "mechanisms for gathering evidence; procedures for obtaining preliminary injunctions; and the relative weight afforded certain kinds of evidence, as reflected in the overreliance on original documentary evidence over oral testimony."[146] Without changes to these areas, effective trade secret enforcement in China will continue to be a challenge.[147]

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[142] *See* FROMAN, *supra* note 17, at 32.

[143] *Id.*

[144] *Id.* Recent changes to China's Civil Procedure Law permit judges to issue preliminary injunctions, but not enough time has passed to determine whether these changes have been effective in practice. *Id.* However, there have been positive recent developments. *See infra* notes 182–97 and accompanying text.

[145] FROMAN, *supra* note 17, at 32. Provisional orders, such as preliminary injunctions, are particularly important in trade secret cases because they can prevent the defendant from continuing to use the information in question until a final judgment is rendered. This can prevent the defendant from utilizing the information to make a profit and, more importantly, limit the likelihood of any further dissemination of the information. *See infra* Part II.B.

[146] FROMAN, *supra* note 17, at 33.

[147] *Id.* There have been positive developments in reforming trade secret protection China. For example, at the twenty-fourth US–China Joint Commission on Commerce and Trade ("JCCT"), China's National Leading Group on Combating IPR Infringement and the Manufacture and Sales of Counterfeit and Substandard Goods committed to publish an Action Program on trade secret protection and enforcement. The program is expected to include concrete enforcement actions, improving public awareness about trade secrets, and requirements for strict compliance with trade secret laws. However, it is unclear whether this will have any significant positive impact. *See 24th US-China Joint Commission on Commerce and Trade Fact Sheet*, OFFICE OF THE UNITED STATES TRADE

If a company is unable to protect its trade secrets, it weakens the incentive for the company to develop new technologies in China and could lead a company to withhold its most advanced technologies from China.[148] Both of these factors could severely hamper China's innovation development.[149] The concern over trade secret protection in China has grown significantly since 2011 and the Chinese government has recognized the value of stronger trade secret protection.[150] However, despite the growing concern over trade secrets, Chinese officials still have limited experience in dealing with these issues because of the small number of trade secret cases brought before administrative and judicial bodies.[151] One of the problems trade secret owners have in misappropriation claims is that unlike other forms of intellectual property—such as patents and trademarks—trade secrets are not formally registered with government authorities and officials do not have "a formal written document to prove that a company holds a purported trade secret."[152]

Trade secret owners trying to protect their information in China often face the challenge of gathering and using evidence to prove infringement.[153] In civil proceedings, "plaintiffs must collect and submit their own evidence to meet their burden of proof regarding, *inter alia*, trade secret misappropriation and damages."[154] Because Chinese courts rarely accept evidence unless it is in its original form, documentary evidence is the only evidence that carries significant weight in court and limits the admissibility of witness testimony.[155] Because there is no US-style discovery under the

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REPRESENTATIVE, http://www.ustr.gov/about-us/press-office/fact-sheets/2013/December/JCCT-outcomes (last visited Jan. 29, 2015).

148 THE US-CHINA BUSINESS COUNCIL, RECOMMENDATIONS FOR STRENGTHENING TRADE SECRET PROTECTION IN CHINA 2 (Sept. 2013), *available at* http://www.uschina.org/sites/default/files/2013.09%20USCBC%20Recommendations%20for%20Strengthening%20Trade%20Secret%20Protection%20in%20China_0.pdf.

149 *Id.*

150 *See id.* at 1, 2.

151 *Id.* at 5; *see also supra* Part I.D. and accompanying text.

152 THE US-CHINA BUSINESS COUNCIL, *supra* note 148, at 5.

153 *Id.* at 6.

154 Bai & Da, *supra* note 71, at 363.

155 *See id.* at 363–64; *see also* Zonghua Renmin Gongheguo Min Shi Su Song Fa (中人民共和国 华 民事 法 诉讼) [Civil Procedure Law of the P.R.C.] (promulgated by the

Chinese system, a plaintiff would need to know about the existence of evidence before seeking an evidence preservation order.[156] Furthermore, illegally obtained evidence is inadmissible in court and could be grounds for reversal on appeal.[157] Consequently, the best strategy for trade secret owners is often to adopt strong preventive measures to avoid having to litigate in the first place.[158]

This evidentiary challenge often discourages companies from filing trade secret cases in China and can help explain the low numbers in the charts above.[159] According to the US-China Business Council, "these challenges foster a broad perception that trade secret enforcement is difficult in China, discouraging companies from bringing their products, services, and know-how to China, which prevents Chinese consumers and businesses from having access to the latest technologies."[160] Even if the parties are able to obtain this evidence, there is still a lack of clear information on how the evidence will be protected during and after a trial.[161] One of the most important features of a trade secret is that it is secret.[162] Consequently, trade secret owners will be reluctant to bring claims if they cannot be assured that the confidentiality of the information will be maintained both during and after the trial.[163] There is no guideline at the national level[164] and unless the verdict is in favor of the plaintiff, there is no clear obligation on courts to maintain the confidentiality of the information disclosed during trial.[165] This

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standing Comm. Nat'l People's Cong., Oct. 28, 2007, effective Oct. 28, 2007), art. 68 (China).

156 Chow, *supra* note 86, at 1028.

157 Bai & Da, *supra* note 71, at 363; *see also*, 最高人民法院关于民事诉讼证据的若干规定, Provisions of the Supreme People's Court on Evidence in Civil Proceedings (promulgated by the Jud. Comm. of Sup. People's Ct., Dec. 21, 2001, effective Apr. 1, 2002), at 68, Fa Shi 33/2001 (Sup. People's Ct. 2001) (China).

158 *See* Bai & Da, *supra* note 71, at 365; *see also* Chow, *supra* note 86 at 1038-39.

159 *See* THE US-CHINA BUSINESS COUNCIL, at 7.

160 *Id.*

161 *Id.*

162 *See id.* at 2.

163 *See id.* at 8.

164 The Jiangsu Higher People's Court released guidelines stating that all parties (including expert panelists) involved in a trade secrets case must sign a guarantee to the court not to disclose or use trade secrets disclosed during trial, but no such obligation exists on a national level. This is similar to a protection order. *See id.*

165 *Id.*

drastically escalates the risks of pursuing litigation and further dissuades trade secret owners from bringing trade secret misappropriation claims in Chinese civil courts.[166]

Two final areas of concern are evidence preservation and preliminary injunctions. Evidence preservation is a tool that is often used by trade secret owners to obtain evidence of misappropriation.[167] An evidence preservation order is a court ruling that requires a defendant to preserve and submit evidence to the court.[168] If the circumstances prescribed in Article 74 of the Chinese Civil Procedure Law apply, a party may seek such an order *ex parte*.[169] The judges usually enforce an evidence preservation order themselves and the court may demand the requesting party to post a bond.[170] These orders can be especially effective because the respondent is required to produce the relevant documentation and evidence on the spot and is not notified of the order in advance.[171] Any evidence that is obtained and verified by the court is admissible in the subsequent proceedings.[172] Because evidence preservation can be such a powerful tool, courts have tried to prevent its abuse by requiring the movant to first present some preliminary evidence, which as discussed earlier can be very difficult to obtain.[173]

Out of all of the intellectual property rights cases in 2013, China granted 77.78% of all preliminary injunction applications, 97.63% of preservation of evidence applications, and 96.97% of all preservation of property applications.[174] At first glance, these may seem like

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166 *See id.*

167 Bai & Da, *supra* note 71, at 363.

168 THE US–CHINA BUSINESS COUNCIL, *supra* note 148, at 8.

169 Bai & Da, *supra* note 71, at 363 (Article 74 provides: "Under circumstances where there is a likelihood that evidence may be destroyed, lost, or difficult to obtain later, the parties in the proceedings may apply to the People's Court for preservation of evidence. The People's Court may also on its own initiative take measures to preserve such evidence."); *see also* Zhongua Renmin Gongheguo Min Shi Su Song Fa (中华人民共和国民事诉讼法) [Civil Procedure Law of the P.R.C.] (promulgated by the Standing Comm. Nat'l People's Cong., Oct. 28, 2007, effective Oct. 28, 2007), art. 74 (China).

170 Bai & Da, *supra* note 71, at 363.

171 *Id.*

172 *Id.*

173 *See id.* at 363–64; *see also supra* note 155 and accompanying text.

174 SUPREME PEOPLE'S COURT, *supra* note 120.

effective enforcement measures based on the high rates of applications granted, but the rates appear to be deceptively high. In 2013, courts of the first instance accepted 88,583 total intellectual property cases.[175] However, out of those 88,583 cases, eleven cases involved applications for preliminary injunctions, 173 involved applications for evidence preservation, and forty-seven involved preservation of property.[176] So in reality, 0.012% of all intellectual property cases for 2013 involved applications for preliminary injunctions and out of that 0.012%, 77.78% of applications were granted.[177] Preservation of evidence applications comprised 0.195% of all intellectual property cases and of that 0.195%, 97.63% were granted.[178] Preservation of property applications comprised 0.053% of all intellectual property cases and of that 0.053%, 96.97% of applications were granted.[179]

Similarly, out of all of the intellectual property rights cases in 2010, China granted 97.46% of preservation of evidence applications.[180] As with the 2013 percentages, "pre-screening" by the Case Filing Division ("CFD") probably contributes to the high grant rate because they do not reveal how many cases were rejected by the CFD.[181] This perception changes if you compare the number of applications with the total number of civil cases admitted at first instance.[182] In 2010, there were 294 pretrial preservation of evidence applications and 42,931 intellectual property civil cases admitted at first instance.[183] This accounts for a mere .68% out of all of the cases filed in 2010.[184] This makes the chances of a trade secret owner obtaining this important tool look very bleak.

Preliminary injunctions in trade secret cases are particularly important because they enable a plaintiff to prevent a defendant

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175 *Id.*; *see also supra* note 123 and accompanying text.

176 SUPREME PEOPLE'S COURT, *supra* note 120.

177 *See id.*

178 *See id.*

179 *See id.*

180 Mark Cohen, *"Case Filing" In China's Courts and Their Impact on IP Cases*, China IPR (Mar. 24, 2012), *available at* http://chinaipr.com/2012/03/24/case-filing-in-chinas-courts-and-their-impact-on-ip-cases/.

181 *See id.*

182 *Id.*

183 *Id.*

184 *Id.*

from further using the information before a final judgment is rendered.[185] They also limit the likelihood of any further dissemination of the trade secret by the defendant.[186] However, obtaining a preliminary injunction is difficult in trade secret cases because it is much more difficult for a plaintiff to prove a likelihood of success on the merits of the case.[187] In China, it is unusual for a plaintiff to obtain a preliminary injunction for trade secret misappropriation.[188] The rate at which preliminary injunctions are granted suffers from the same inflation issues as applications for preservation of evidence. The reported grant rate for preliminary injunctions in civil intellectual property cases in 2010 was 89.74%.[189] There were a total of fifty-five pre-trial applications for preliminary injunctions in civil intellectual property cases, out of 42,932 total cases admitted at first instance.[190] According to these figures, only 0.12% of the civil intellectual property cases requested preliminary injunctions, which would probably be an even smaller number in regards to the total number of trade secret cases.[191] This appears even bleaker when compared to the 0.012% of civil intellectual property cases for 2013.[192] Consequently, preliminary injunctions are not as readily available as they seem and are yet another challenge facing a trade secret owner trying to enforce his rights.

B. Recent Reforms and Other Considerations

The Chinese Civil Procedure Law was recently revised and the new law went into effect in the beginning of 2013.[193] There were

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185 THE US–CHINA BUSINESS COUNCIL, *supra* note 148, at 8.

186 *Id.* This can be crucial for trade secret owners because even if the plaintiff prevails in a misappropriation action, a court can still order an injunction that lasts until the information becomes known to the general public, or, if that is unacceptable, for another period or scope determined by the court. Judicial Interpretation, *supra* note 98, at art. 16. If the information is disseminated because a preliminary injunction is not issued, it could severely limit the protection a prevailing party will receive.

187 Bai & Da, *supra* note 71, at 361.

188 *Id.*

189 Cohen, *supra* note 180.

190 *Id.*

191 *See id.*

192 *See supra* note 180 and accompanying text.

193 Mark Cohen, *Crossing the River by Feeling the IP Stones: How China's Civil Procedure System Benefits from Reforms Made in IP Civil Litigation*, China IPR (Nov. 8, 2012),

numerous reforms, including an article that obliges courts to make their judgments publicly available unless there are issues involving privacy, state secrets, or trade secrets.[194] One of the most important reforms for trade secrets is Article 100, which extended interlocutory injunctions to the Anti-Unfair Competition Law and consequently, trade secrets.[195] This was applied in *Eli Lilly v. Huang*,[196] a trade secret dispute between a US pharmaceutical corporation, its Chinese subsidiary, and a former chief researcher of that subsidiary.[197] Huang began his employment on May 3, 2012 and signed a confidentiality agreement with his employer.[198] A few months later on January 27, 2013, Huang downloaded twenty-one documents from the company's server, but was not authorized to do so.[199] Huang refused to delete the documents despite numerous requests by Eli Lilly and instead chose to resign.[200] Eli Lilly filed suit under the Anti-Unfair Competition Law, seeking injunctive relief and RMB 20,000,000 in damages.[201] In August 2013, the Shanghai First Intermediate Court issued an interlocutory injunction against Huang and Eli Lilly deposited RMB 100,000 as a security bond for the order.[202] By doing so, the court applied Article 100 of the new Civil Procedure Law and granted interim measures that used to only be available under patent, copyright, and trademark law.[203] This was a very important decision for trade secret owners, but the long-term effects of the new Civil Procedure Law are still unclear.

However, this may be the beginning of a new trend. In January of 2014, a Chinese subsidiary of Novartis was granted China's first

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http://chinaipr.com/2012/11/08/crossing-the-river-by-feeling-the-ip-stones-how-chinas-civil-procedure-system-benefits-from-reforms-made-in-ip-civil-litigation/.

194 *Id.*

195 Christine Yiu & Yijun Ge, *Eli Lilly v. Huang: Shanghai Court issues interlocutory injunction against breach of trade secret*, BIRD & BIRD (Aug. 21, 2013), http://www.twobirds.com/en/news/articles/2013/china/eli-lilly-v-huang-shanghai-court-issues-interlocutory-injunction-against-breach-of-trade-secret.

196 This decision is not publicly available and has not been published because it involves trade secrets and confidential information.

197 Yiu & Ge, *supra* note 195.

198 *Id.*

199 *Id.*

200 *Id.*

201 *Id.*

202 *Id.*

203 *Id.*

pre-suit injunction in a trade secret dispute.[204] In the case, a former employee downloaded roughly 880 documents from the company's database after he resigned, and later joined a competitor.[205] Novartis applied for the injunction "seeking to restrain the ex employee from disclosing, using, or allowing others to use the documents containing trade secrets and related confidential information."[206] The petition was accepted the same day it was filed and the injunction was issued within forty-eight hours.[207] The Shanghai First Intermediate Court issued the injunction—the same court that issued China's first in-suit preliminary injunction in *Eli Lilly v. Huang*.[208]

One final aspect to consider is the relative speed at which Chinese courts turn over intellectual property decisions. Overall, it seems that China has a shorter notion of time when it comes to intellectual property than the United States.[209] For example, trade secret owners should consider that Chinese employees tend to leave their current employment as frequently as once every two to three years.[210] In terms of litigation, there is a six-month time limit on a domestic intellectual property rights court proceeding of first instance.[211] The speed of these proceedings can be both beneficial and detrimental to trade secret owners. Faster proceedings mean that a trade secret owner can get a permanent injunction in a relatively short amount of time and can better protect its competitive advantage.[212] However, this "rocket docket" can also be detrimental in the sense that they only have six months for a type of high stakes case where the burden of proof on the plaintiff is relatively high and admissible evidence is difficult to obtain.[213]

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[204] Benjamin Bai, *Preliminary Injunctions in China: the Pendulum Has Swung Back!*, KLUWER PATENT BLOG (Apr. 30, 2014), *available at* http://kluwerpatentblog.com/2014/04/30/preliminary-injunctions-in-china-the-pendulum-has-swung-back/.

[205] *Id.*

[206] *Id.*

[207] *Id.*

[208] *Id.*

[209] *See* Mark Cohen, *China IP Time and The New York Minute*, CHINA IPR (Nov. 21, 2012), *available at* http://chinaipr.com/2012/11/21/china-ip-time-and-the-new-york-minute/.

[210] *Id.*

[211] *Id.*

[212] *Id.*

[213] *Id.*

C. China, Germany, and the United States

China, Germany, and the United States are all members of the World Trade Organization. Germany and the United States were among the first members and joined in January of 1995.[214] China did not become a member of the World Trade Organization until several years later in December of 2001.[215] All three countries are also bound by the minimum standards set out by the World Trade Organization's 1994 TRIPS Agreement.[216] Article 39 of the TRIPS Agreement concerns "undisclosed information" and establishes the minimum requirements for information to be protected under the Agreement.[217] Importantly however, the TRIPS Agreement does not provide a minimum requirement for adverse parties to obtain evidence or information from one another.[218] Judicial authorities only have the power to order that the opposing party produce the evidence and this is subject to the protection of confidential information.[219] Consequently, China's current evidentiary procedures are acceptable under the minimum standards set out by the TRIPS Agreement.

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[214] *Understanding the WTO: The Organization, Members and Observers*, WTO, http://www.wto.org/english/thewto_e/whatis_e/tif_e/org6_e.htm (last visited Jan. 29, 2015).

[215] *Id.*

[216] Agreement on Trade-Related Aspects of Intellectual Property Rights, Apr. 15, 1994, Marrakesh Agreement Establishing the World Trade Organization, Annex 1C, 1869 U.N.T.S. 299 [hereinafter TRIPS].

[217] *Id.* at art. 39 (The information is protected as long as it: "(a) is secret in the sense that it is not, as a body or in the precise configuration and assembly of its components, generally known among or readily accessible to persons within the circles that normally deal with the kind of information in question; (b) has commercial value because it is secret; and (c) has been subject to reasonable steps under the circumstances, by the person lawfully in control of the information, to keep it secret.").

[218] *See id.* at art. 43 ("The judicial authorities shall have the authority, where a party has presented reasonably available evidence sufficient to support its claims and has specified evidence relevant to substantiation of its claims which lies in the control of the opposing party, to order that this evidence be produced by the opposing party, subject in appropriate cases to conditions which ensure the protection of confidential information.").

[219] *Id.*

D. Trade Secrets in the United States

The applicable regulatory framework in the United States is slightly more complicated than in other countries. There is no binding federal civil law on trade secrets.[220] Instead, the National Conference of Commissioners on Uniform State Laws proposed the Uniform Trade Secrets Act ("UTSA") in 1979.[221] The UTSA[222] only has force of law through positive enactment by the states and all of the states (including Washington, DC; Puerto Rico; and the US Virgin Islands) except for Massachusetts and New York have adopted the act.[223] The states that have yet to enact the UTSA instead rely on common law to enforce trade secrets.[224] The UTSA provides a definition of trade secret and any type of information can be considered a trade secret as long as the definitional requirements are satisfied.[225] Although it has been the subject of debate, virtually all of the states now view trade secrets as an intellectual property right.[226]

In addition to the UTSA, through the Economic Espionage Act of 1996 ("EEA"),[227] the federal government protects trade secrets

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[220] Baker & McKenzie, *Study on Trade Secrets and Confidential Business Information in the Internal Market*, app. 1 at 134 (April 2013) *available at* http://ec.europa.eu/internal_market/iprenforcement/docs/trade-secrets/130711_appendix-1_en.pdf.

[221] UNIF. TRADE SECRETS ACT PREFATORY NOTE (amended 1985).

[222] For purposes of this analysis, the provisions of the UTSA will be treated as the trade secret law for the entire United States and will be viewed from a federal level. This makes the United States easier to compare with the legal systems of China and Germany and facilitates a more uniform analysis. Furthermore, every state has its own procedural and evidentiary rules, so it is much cleaner to compare the United States on a federal level where only the Federal Rules of Civil Procedure will apply to the appropriate analyses.

[223] Nat'l Conference of Comm'rs on Unif. State Laws, *Legislative Fact Sheet–Trade Secrets Act*, *available at* http://www.uniformlaws.org/LegislativeFactSheet.aspx?title=Trade%20Secrets%20Act. Although North Carolina has not adopted the UTSA, its Trade Secrets Protection Act is substantially similar to the UTSA. *See* N.C. GEN. STAT. §§ 66-152-66-157 (2014).

[224] Baker & McKenzie, *supra* note 220, at 134.

[225] *Id.*; *see also* UNIF. TRADE SECRETS ACT §1 (amended 1985).("Trade secret means information, including a formula, pattern, compilation, program, device, method, technique, or process, that: (i) derives independent economic value, actual or potential, from not being generally known to, and not being readily ascertainable by proper means by, other persons who can obtain economic value from its disclosure or use, and (ii) is the subject of efforts that are reasonable under the circumstances to maintain its secrecy.").

[226] Baker & McKenzie, *supra* note 220, at 135.

[227] 18 U.S.C. §§ 1831–39 (2012).

through criminal enforcement sections.[228] The act "is concerned in particular with economic espionage[229] and foreign activities to acquire US trade secrets[230]."[231] The EEA also explicitly calls for the court in any prosecution under the act to preserve the confidentiality of trade secrets by entering orders and taking other necessary and appropriate actions.[232] However, the EEA is only applicable to conduct occurring outside of the United States if the offender is a citizen or permanent resident alien or an organization organized under United States law, or if "an act in furtherance of the offense was committed in the United States."[233] The EEA does not provide for a private right of action, so a company seeking civil remedies for trade secret theft must generally look to state trade secret law, which typically is some form of the UTSA.[234] Additionally,

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[228] *See id.*

[229] Economic espionage occurs when an actor "intending or knowing that the offense will benefit any foreign government, foreign instrumentality, or foreign agent, knowingly- (1) steals, or without authorization appropriates, takes, carries away, or conceals, or by fraud, artifice, or deception obtains a trade secret; (2) without authorization copies, duplicates, sketches, draws, photographs, downloads, uploads, alters, destroys, photocopies, replicates, transmits, delivers, sends, mails, communicates, or conveys a trade secret; (3) receives, buys, or possesses a trade secret, knowing the same to have been stolen or appropriated, obtained, or converted without authorization; (4) attempts to commit any offense described in any of paragraphs (1) through (3); or (5) conspires with one or more other persons to commit any offense described in any of paragraphs (1) through (3), and one or more of such persons do any act to effect the object of the conspiracy." 18 U.S.C. § 1831(a) (2012).

[230] Trade secret theft occurs when an actor "with intent to convert a trade secret, that is related to a product or service used in or intended for use in interstate or foreign commerce, to the economic benefit of anyone other than the owner thereof, and intending or knowing that the offense will, injure any owner of that trade secret, knowingly— (1) steals, or without authorization appropriates, takes, carries away, or conceals, or by fraud, artifice, or deception obtains such information; (2) without authorization copies, duplicates, sketches, draws, photographs, downloads, uploads, alters, destroys, photocopies, replicates, transmits, delivers, sends, mails, communicates, or conveys such information; (3) receives, buys, or possesses such information, knowing the same to have been stolen or appropriated, obtained, or converted without authorization; (4) attempts to commit any offense described in paragraphs (1) through (3); or (5) conspires with one or more other persons to commit any offense described in paragraphs (1) through (3), and one or more of such persons do any act to effect the object of the conspiracy." 18 U.S.C. § 1832 (2012).

[231] ONCIX, *supra* note 6, at iii.

[232] 18 U.S.C. § 1835 (2012).

[233] *Id.* § 1837.

[234] *See id.* §§ 1831–39.

even if a criminal case is pursued under the EEA, a party can still enforce its rights through parallel civil litigation because the EEA does not displace or preempt any other remedies provided by state law for the misappropriation of a trade secret.[235]

In order to successfully commence a civil proceeding for trade secret infringement, a plaintiff must prove that: "(1) the plaintiff has a protectable interest in a trade secret; (2) such trade secret has been misappropriated; and (3) such misappropriation[236] has occurred by the defendant."[237] Under the UTSA, the remedies available to a plaintiff are injunctive relief for actual and threatened misappropriation, or damages and the two are not mutually exclusive.[238] Additionally, preliminary injunctions are available if the plaintiff can show in federal court: (1) a reasonable likelihood of success on the merits; (2) irreparable harm to the plaintiff; (3) balancing the plaintiff's and the defendant's hardships arising from granting or not granting the injunction is in the plaintiff's favor; and (4) the issuance of the injunction is in the public interest.[239]

Temporary restraining orders preventing the defendant from destroying evidence or data can also be obtained in federal court by

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[235] *Id.* § 1838 ("This chapter . . . shall not be construed to preempt or displace any other remedies, whether civil or criminal, provided by the United States Federal, State, commonwealth, possession, or territory law for the misappropriation of a trade secret . . . .").

[236] The UTSA provides the definition of "misappropriation" as: (i) acquisition of a trade secret of another by a person who knows or has reason to know that the trade secret was acquired by improper means; or (ii) disclosure or use of a trade secret of another without express or implied consent by a person who: (a) used improper means to acquire knowledge of the trade secret; (b) at the time of disclosure or use, knew or had reason to know that is knowledge of the trade secret was (1) derived from or through a person who had utilized improper means to acquire it; (2) acquired under circumstances giving rise to a duty to maintain its secrecy or limit its use; or (3) derived from or through a person who owed a duty to the person seeking relief to maintain its secrecy or limit its use; or (c) before a material change of his/her position, knew or had reason to know that it was a trade secret and that knowledge of it had been acquired by accident or mistake. UNIF. TRADE SECRETS ACT § 1.2 (amended 1985).

[237] Baker & McKenzie, *supra* note 220 at 135.

[238] *See* UNIF. TRADE SECRETS ACT §§ 2, 3 and cmts. (amended 1985).

[239] *See* Chrysler Motors Corp. v. Auto Body Panels, Inc., 908 F.2d 951, 952 (Fed. Cir. 1990).

proving the same requirements for a preliminary injunction.[240] Furthermore, temporary restraining orders can be issued *ex parte* if

> the plaintiff alleges under oath specific facts that clearly show that immediate and irreparable injury, loss, or damage will result to it before the defendant can be heard, and the plaintiff certifies in writing the efforts made to give notice and the reasons why it should not be required.[241]

Criminal actions are also available under federal law if the theft of trade secrets is related to or in products within interstate commerce.[242] However, in general, remedies are not available against a third party who obtained the information in good faith and is not subject to a confidentiality agreement, but once the party is given notice of the misappropriation, any continued use would become misappropriation under the UTSA.[243]

Litigation in the United States includes a pre-trial process known as discovery, which involves the parties exchanging information and potential evidence.[244] In the federal system, Federal Rule of Civil Procedure 26(b) generally governs the discovery process.[245] However, disclosure of trade secrets during discovery presents a particular problem in litigation.[246] The party from whom discovery is sought may move for a protective order from the court, which could require the trade secret not to be revealed or revealed in only a limited manner.[247] These protective orders often impose different levels of access restriction to confidential information and could limit access to the trade secret so it is only available to the attorney and prevent the other party's business from having access to it.[248] Additionally, Section 5 of the UTSA explicitly requires a

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240 Baker & McKenzie, *supra* note 217 at 136–37.
241 *Id.* at 137; *see also*, FED. R. CIV. P. 65(b)(1).
242 *See* 18 U.S.C. § 1832(a) (2012).
243 Baker & McKenzie, *supra* note 220, at 137.
244 *See* FED. R. CIV. P. 26(b).
245 *Id.*
246 Baker & McKenzie, *supra* note 220, at app. 6, 652.
247 *See* FED. R. CIV. P. 26(b).
248 Baker & McKenzie, *supra* note 220, at app. 6, 652.

court to protect the secrecy of an alleged trade secret.[249] When direct evidence is unavailable, a party may have to resort to proving trade secret misappropriation through circumstantial evidence.[250]

There is little statistical data available about trade secret litigation in the United States.[251] However, trade secret litigation in the federal courts[252] is growing exponentially, and at the projected rate, trade secret cases should double again by 2017.[253] The following chart covers the rough percentages of the outcomes of preliminary motions filed for civil trade secret cases in federal court from 1950–2008:

Outcome by Procedural Posture 1950–2008[254]

	Preliminary Injunction/TRO[255]	**Motion to Dismiss**	**Misappropriator's Motion For Summary Judgment**
Owner Prevailed	34.4%	57.6%	43.5%
Alleged Misappropriator Prevailed	60.1%	39.1%	51.0%

The primary value of looking at this data is for determining the change of success each party has at a particular procedural post-

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[249] *Id.* (requiring a court to "preserve the secrecy of an alleged trade secret by reasonable means, which may include granting protective orders in connection with discovery proceedings, holding in-camera hearings, sealing the records of the action, and ordering any person involved in the litigation not to disclose an alleged trade secret without prior court approval.").

[250] *See* Ajaxo Inc. v. E*TRADE Group, Inc., 37 Cal. Rptr. 3d 221, 247 (Cal. App. 6th Dist. 2005).

[251] Almeling et al., *A Statistical Analysis of Trade Secret Litigation in Federal Courts*, 45 GONZ. L. REV. 291, 293 (2010).

[252] For a statistical analysis of trade secret litigation in state courts, *see* David S. Almeling, Darin W. Snyder, Michael Sapoznikow, Whitney E. McCollum & Jill Weader, *A Statistical Analysis of Trade Secret Litigation in State Courts*, 46 GONZ. L. REV. 57 (2011).

[253] Alemling et al., *supra* note 251, at 293.

[254] *Id.* at 316.

[255] An owner requested a preliminary injunction or TRO in roughly one-third of trade secret cases, while roughly one half of misappropriators filed motions to dismiss or a motion for summary judgment. *Id.*

ure.[256] When compared to the data obtained from China in 2010 and 2013 by dividing the number of motion applications by the total number of civil intellectual property cases, the results are staggering. Just based on motions for preliminary injunctions and evidence preservation/temporary restraining orders, trade secret owners in the United States are likely to be more successful in obtaining these important tools than trade secret owners in China.

Pursuant to section 404 of the Prioritizing Resources and Organization for Intellectual Property Act of 2008 ("PRO IP Act"), the Department of Justice and the FBI provide data on the prosecution of intellectual property crimes, which includes trade secret theft and economic espionage under the EEA.[257]

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[256] *Id.*

[257] UNITED STATES DEP'T OF JUSTICE, PRO IP ACT ANNUAL REPORT FY 2012 1, 30 (2012), *available at* http://www.justice.gov/dag/iptaskforce/proipact/doj-pro-ip-rpt 2012.pdf.

DOJ Intellectual Property Crimes Prosecuted[258]

District Totals	FY2008	FY2009	FY2010	FY2011	FY2012
Investigative Matters Received by AUSAs	365	285	402	387	390
Defendants Charged	259	235	259	215	254
Cases Charged	197	173	177	168	178
Defendants Sentenced	242	223	207	208	202
No Prison Term	107	126	121	102	95
1-12 Months	48	35	38	27	46
13-24 Months	45	29	27	33	26
25-36 Months	20	6	10	17	15
37-60 Months	19	18	7	21	17
60+ Months	3	9	4	8	3

[258] *Id.* at 31. These numbers reflect criminal cases where the following charges were brought against a defendant: criminal copyright infringement, circumvention of copyright protection systems, economic espionage, theft of trade secrets, counterfeit labeling, criminal copyright infringement, live musical performance infringement, unauthorized recording of motion pictures, trafficking in counterfeit goods, and signal piracy. *Id.* at 30.

FBI Intellectual Property Investigations

	FY 2010[259]	**FY 2011**[260]	**FY 2012**[261]
Pending Investigations	486	499	460
Theft of Trade Secrets	94	100	106
Copyright Infringement (Software)	108	85	70
Copyright Infringement (Other than Software)	152	141	121
Trademark Infringement	55	54	49
Copyright Infringement (Signal Theft)	27	21	16
Counterfeit Aircraft Parts	21	24	17
Counterfeit Electrical Parts	11	22	17
Counterfeit Automotive Parts	3	7	11
Counterfeit Health Products	15	45	53

[259] FBI, PRO IP ACT ANNUAL REPORT 2010, 1–2 (2010) [hereinafter 2010 REPORT], *available at* http://www.justice.gov/sites/default/files/dag/legacy/2011/01/27/pro-ip-fbi-report.pdf.

[260] FBI, PRO IP ACT ANNUAL REPORT 2011, 1–2 (2011) [hereinafter 2011 REPORT], *available at* http://www.justice.gov/sites/default/files/dag/legacy/2012/01/31/fbi-pro-ip-rpt2011.pdf.

[261] FBI, PRO IP ACT ANNUAL REPORT 2012, 1–2 (2012) [hereinafter 2012 REPORT], *available at* http://www.justice.gov/sites/default/files/dag/legacy/2013/01/29/fbi-pro-ip-rpt2012.pdf.

	FY 2010[259]	FY 2011[260]	FY 2012[261]
Investigations Initiated	218	235	170
Arrests	66	93	111
Information / Indictments	73	79	66
Convictions	79	79	74

The data provided by the FBI shows a growth in the number of criminal trade secret investigations/cases in the United States. For the 2010 fiscal year, roughly 19% of the FBI's pending intellectual property investigations were for trade secret theft.[262] This grew to roughly 20% in the 2011 fiscal year[263] and to roughly 23% in the 2012 fiscal year.[264] However, the actual rate at which criminal intellectual property cases were concluded by the DOJ seems to be much slower than in China. For example, in 2013, China concluded 9,212 criminal cases for intellectual property infringement out of the 9,331 that were filed,[265] but in 2012, the DOJ only charged 178 cases out of the 390 investigative matters received by Assistant US Attorneys.[266]

One of the major drawbacks of a United States style discovery procedure is the potential for discovery abuse.[267] According to Chief Judge Randall Rader of the United States Court of Appeals for the Federal Circuit, the greatest weakness of the United States' court system is its expense and the driving factor for that expense is discovery excesses.[268] This is especially true for intellectual proper-

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[262] 2010 REPORT, *supra* note 259.

[263] 2011 REPORT, *supra* note 260.

[264] 2012 REPORT, *supra* note 261.

[265] *See supra* note 126 and accompanying text.

[266] *See supra* note 261 and accompanying text.

[267] For a model order proposing a solution to remedy this problem in patent cases, *see [Model] Order Regarding E-Discovery in Patent Cases*, UNITED STATES DISTRICT COURT, EASTERN DISTRICT OF TEXAS (2011), *available at* http://www.txed.uscourts.gov/cgi-bin/view_document.cgi?document=22218.

[268] Chief Judge Randall R. Rader, *The State of Patent Litigation*, E.D. Texas Judicial Conference, *available at* http://memberconnections.com/olc/filelib/LVFC/cpages/

ty cases, where in a 2010 report the Federal Judicial Center determined that cost of intellectual property cases was almost 62% higher than others.[269] This expense problem can be exacerbated when attorneys use discovery as a tactical weapon.[270] When used as a tactical weapon, plaintiff's attorneys often engage in open-ended "fishing expeditions" to burden defendants with costly discovery requests in the hope of forcing a quick settlement.[271] Discovery abuse is one of the biggest causes for delay and congestion in the judicial system and by some estimates, discovery costs now account for roughly 50% to 90% of the total costs for a case.[272]

E. Trade Secrets In Germany

"Germany is the forum of choice for European patent and trade secret litigation, but discovery there can be limited."[273] As a civil law country, Germany provides for numerous provisions on protecting trade secrets, which can be found in a variety of different codes and are scattered throughout German law.[274] The most relevant provision for trade secret law is Section 17 of the Act Against Unfair Competition,[275] which belongs under criminal law, but also serves as the basis for civil law claims.[276] There is no statutory definition of a trade secret under German law, but:

> [I]t is generally accepted that trade secrets incorporate (1) all information connected to the business

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9008/Library/The%20State%20of%20Patent%20Litigation%20w%20Ediscovery%20Model%20Order.pdf.

[269] *Id.*

[270] *Id.*

[271] John H. Beisner, *Discovering a Better Way: The Need for Effective Civil Litigation Reform*, 60 DUKE L.J. 547, 549 (2010).

[272] *Id.*

[273] Alexander Harguth & Tamara Fraizer, *Navigating Between German and US Discovery Provisions*, LAW360 (Sept. 23, 2011, 11:46 AM), http://www.law360.com/articles/270953/navigating-between-german-and-us-discovery-provisions.

[274] Baker & McKenzie, *supra* note 220, at app. 6, 167 *available at* http://ec.europa.eu/internal_market/iprenforcement/docs/trade-secrets/130711_appendix-6_en.pdf.

[275] China's trade secret law is similarly rooted in its Anti-Unfair Competition Law.

[276] Baker & McKenzie, *supra* note 220, at app. 6, 167; *see also* Gesetz Gegen den Unlauteren Wettbewerb [UWG] [Act Against Unfair Competition] Mar. 3, 2010, BGBL. I at 254, § 17 (Germany) *available at* http://www.gesetze-im-internet.de/englisch_uwg/englisch_uwg.html#UWGengl_000P17.

> which is (2) not public knowledge, (3) shall be expressively kept secret for the purpose of economic interest, whereas (4) the business owner needs to have a legitimate commercial interest in keeping the information secret.[277]

There is also a distinction between trade and business secrets: trade secrets relate to the commercial section of a business, while business secrets relate to the technical section of a business.[278] However, this distinction does not affect the level of protection offered because both enjoy the same protections.[279]

Under German law, trade secrets are not considered to be an intellectual property right.[280] This results in the distinction where intellectual property rights are "powerful 'real' rights whereas trade secrets are not protected as a 'right,' merely non-disclosure of the secret is protected."[281] Additionally, under German law the most important provisions protecting trade secrets are in the area of criminal law.[282] Consequently, the owner of a trade secret must rely on the public prosecutor in most cases, which can take a while because the prosecutor acquires the evidence and information himself.[283]

In Germany, the elements that must be established in order to commence legal proceedings differ for civil and criminal procedure.[284] In civil cases, the application and giving of evidence is of particular note to this analysis. When filing the application, the matter in dispute has to be precisely specified in a way so that the trade secret at issue can be identified.[285] German case law can help the trade secret owner because it provides some assumptions such as prima facie evidence that may assist him in protecting his trade secret.[286] Additionally, the plaintiff can often force the defendant to

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277 Baker & McKenzie, *supra* note 220, at app. 6, 192.
278 *Id.*
279 *Id.*
280 *Id.* at 194.
281 *Id.*
282 *Id.* at 195.
283 *Id.* at 195–96.
284 *Id.* at 200.
285 *Id.* at 201.
286 *Id.*

let him view certain products or documents, which usually arises from Sections 809 and 810 of the Civil Code and Section 142 of the Code of Civil Procedure.[287] Importantly, Section 811 of the Civil Code provides that the party demanding the presentation of the products or documents must also bear the risks and the costs associated with them, and that the party possessing the products or documents may refuse production until the costs are advanced and security is provided to mitigate the risks.[288] There are also certain circumstances where the defendant is obliged to provide relevant information under good faith, provided in Section 242 of the Civil Code.[289] Furthermore, in German procedure a party can only demand documents he is able to specifically identify, and cannot demand categories of documents, like in the United States.[290]

Preliminary injunctions are also available in German civil cases. The preliminary injunctions in Germany are fairly swift and a major advantage often associated with them is that there is no oral hearing.[291] Additionally, the plaintiff does not need to fully prove his case in order to enjoy the benefits of a preliminary injunction, but only has to provide prima facie evidence in order to demonstrate the likelihood of infringement. [292] However, one downside of the obtaining a preliminary injunction is that under Section 945 of the Code of Civil Procedure, a defendant can claim damages against a plaintiff if the preliminary injunction was unfounded, regardless of fault.[293] The remedies available in a civil proceeding are: "cease-and-desist orders, claims for injunctions, claims to render account of profits for the purpose of calculating damages, claims for damages, and claims to hand back or destroy the protected information."[294] However, "preliminary injunctions are only available for cease-and-desist claims as well as injunction claims, whereas

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[287] *See id.*; *see also* BÜRGERLICHES GESETZBUCH [BGB] [CIVIL CODE] §§ 809-810 (Ger.); ZIVILPROZESSORDNUNG [ZPO] [CODE OF CIVIL PROCEDURE] § 142 (Ger.).

[288] BÜRGERLICHES GESETZBUCH [BGB] [CIVIL CODE] § 811, ¶ 2 (Ger.).

[289] Baker & McKenzie, *supra* note 220, at app. 6, 201; BÜRGERLICHES GESETZBUCH [BGB] [CIVIL CODE] § 242 (Ger.)

[290] Baker & McKenzie, *supra* note 220, at app. 6, 32–33.

[291] *Id.*

[292] *Id.*

[293] *Id.*; ZIVILPROZESSORDNUNG [ZPO] [CODE OF CIVIL PROCEDURE] § 945 (Ger.).

[294] Baker & McKenzie, *supra* note 220, at app. 6 at 202.

damage claims and or claims for information cannot be asserted."[295]

Criminal proceedings are often initiated when a trade secret owner files a complaint with the prosecuting authorities.[296] This is fairly advantageous for the trade secret owner because one does not have to provide a lot of information because the authorities have the obligation to gather the evidence themselves.[297] One major advantage to this is that the trade secret owner could use the information gathered by the prosecutor in subsequent civil proceedings.[298] This is a tremendous advantage for the trade secret owner, especially when the owner does not have a sound means to support his arguments.[299] One of the only drawbacks of this approach appears to be that it could take the prosecutor some time to investigate all of the evidence.[300]

In Germany, civil proceedings in trade secret misappropriation cases usually last for nine to eighteen months from filing the claim to the decision in the first instance.[301] This timeframe can vary based on the amount of evidence that has to be taken.[302] Under German procedural law, the costs of the case depend on the value of the claim.[303] The value of the claim is determined by the commercial interest of the case and in typical cases is somewhere between € 100.000,00 and € 250.000,00.[304] Trial costs usually amount from €2.500,00 to € 5.000,00 for the first instance.[305] Statutory attorney fees usually range from € 4.000,00 to € 6.000,00 for each party in the first instance.[306] Additionally, the costs will usually shift from the winning party to the losing party.[307]

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295 *Id.* at 203.
296 *Id.* at 201.
297 *Id.*
298 *Id.*
299 *Id.*
300 *Id.*
301 *Id.* at 204.
302 *Id.*
303 *Id.*
304 *Id.*
305 *Id.*
306 *Id.*
307 *Id.* at 205.

German law also has some important measures in place for protecting the secrecy of the information both during and after the proceedings conclude. First, under German procedural law, written submissions are only disclosed to the judge and the opposing party.[308] In regards to the oral hearing, the parties can apply to exclude the public from the hearing, which is usually granted if a trade secret would be disclosed during the hearing and it would harm the trade secret owner if the general public knew the information.[309] The Germans also developed the "Düsseldorf Procedure," which allows for the swift securing of evidence all while ensuring that confidentiality is preserved.[310] Under the Düsseldorf Procedure, "the court orders independent proceedings for the preservation of evidence as an interim injunction which is handed to the defendant together with a statement of claim so there is no chance to destroy evidence."[311] While this is going on, only the attorneys and an authorized expert are allowed to inspect the evidence so that the parties themselves do not get notice of the trade secrets.[312] This procedure was originally developed for patent cases, but there are discussions to extend this type of procedure to trade secret cases because the principles are very similar.[313] Although the number of trade secret cases heard by the German courts each year is unknown, it is most likely lower in number than other intellectual property rights cases, such as patents, trademarks, and copyrights.[314]

F. Relations Between China and Germany

The Federal Republic of Germany and the People's Republic of China have had a diplomatic relationship with each other since 1972.[315] Germany regards China as its most important economic

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[308] *Id.*
[309] *Id.*
[310] *Id.*
[311] *Id.* at 205–06.
[312] *Id.* at 206.
[313] *Id.*
[314] *Id.* at 90.
[315] Auswärtige Amt (Federal Foreign Office), *China*, http://www.auswaertiges-amt.de/EN/Aussenpolitik/Laender/Laenderinfos/01-Nodes/China_node.html (last visited Jan. 31, 2015).

partner in Asia and is China's leading trading partner in Europe.[316] Likewise, "China views Germany both economically and politically as its 'gateway to Europe.'"[317] China and Germany already have a strong working relationship in place. For example, the Deutsche Gesellschaft für Internationale Zusammenarbeit ("GIZ") is an international enterprise owned by the German Federal Government, which promotes Germany's objectives in international cooperation for sustainable development.[318] The GIZ has been active in China for more than twenty-five years.[319] In January of 2000, representatives from the Federal Republic of Germany and the People's Republic of China signed the German–Chinese Agreement on the Exchange and Cooperation in Legal Matters.[320] This agreement served as the legal basis for the expansion and intensification of the mutual relationship between China and Germany in legal matters, and later merged into the German-Chinese Dialogue on the Rule of Law.[321] This serves as a foundation for the cooperation between both countries and an annual symposium has been held since its inception in 2000.[322] Notably, the eighth symposium held in Munich in 2008 focused on the effective protection of intellectual property and the tenth symposium held in Berlin in 2010 focused on unfair competition law, which serves as the basis for trade secret protections in both countries.[323]

China's Patent Law is also based on the patent laws of Germany and it has been recommended that China look to Germany to solve problems in areas of intellectual property, such as utility model abuse regarding utility design patents.[324] Additionally, offic-

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316 *Id.*

317 *Id.*

318 Gesellschaft für Internationale Zusammenarbeit, *About Us*, http://www.law-reform.cn/index.php?option=com_flexicontent&view=category&cid=2&Itemid=2&lang=en (last visited Aug. 24, 2014).

319 *Id.*

320 Gesellschaft für Internationale Zusammenarbeit, *German-Chinese Dialogue on the Rule of Law*, http://www.law-reform.cn/index.php?option=com_flexicontent&view=items&cid=5&id=316&Itemid=5&lang=en (last visited Aug. 24, 2014).

321 *Id.*

322 *Id.*

323 *Id.*

324 THOMAS T. MOGA, US CHAMBER OF COMMERCE, CHINA'S UTILITY MODEL PATENT SYSTEM: INNOVATION DRIVER OR DETERRENT, 25–26 (2012). *available at*

ers in China's intellectual property agencies also already have strong ties to Germany. For example, Tian Lipu, the former commissioner of the State Intellectual Property Office ("SIPO"), was a visiting scholar at the Max-Planck Institute for Foreign and International Patent, Copyright and Competition Law in Germany.[325] He also researched in the European Patent Office, the German Patent Office, and the German Patent Court on patent laws and system.[326] Given China's already strong ties to Germany, it should not be difficult for them to change their trade secret system to be more like the German model.

CONCLUSION

The current state of trade secret litigation is a growing concern for the private sector and foreign governments. Many companies are averse to storing their information in China because they are not confident in the legal protections or the available remedies.[327] This in turn tarnishes the global perception of the protections Chinese law affords to intellectual property rights and hurts the Chinese economy by excluding the most innovative technologies. Given the rise in trade secret misappropriation by Chinese nationals for the benefit of Chinese companies, trade secret owners in the United States need to have viable and effective methods to enforce their trade secret rights in China. Trade secret owners have several concerns regarding the enforcement of trade secret protections in China. They are primarily concerned ensuring that their trade secrets remain secret during and after court proceedings, the high burden placed on plaintiffs in trade secret misappropriation cases, and the remedies available to them, such as preliminary injunc-

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https://www.uschamber.com/sites/default/files/legacy/reports/1211_china_patent_paper.pdf.

[325] *Tian Lipu, Commissioner of the State Intellectual Property Office*, http://www.chinadaily.com.cn/m/ShangHaiIPAdmini/2014-10/17/content_18760173.htm (last visited Feb. 21, 2015).

[326] *Id.*

[327] *See* Bai & Da, *supra* note 71 at 365 (providing that the prevention of trade secret theft is the best protection in China due to the expense and difficulty in enforcing trade secret rights.); Chow, *supra* note 86, at 1048 ("As . . . this Article indicates, once the theft of the trade secret has occurred, the [Multinational Company] is left with few effective options under [China's] current legal system.").

tions. These concerns all seem to stem from the overall difficulty in obtaining evidence in trade secret cases. While China has certainly taken steps in the right direction with its recent reforms, it still can use some improvements.

The United States and Germany are regarded among the least threatening countries to trade secret owners. Both systems have their strengths and weaknesses, but China should try to adopt some of the German approaches in trade secret cases, especially when it comes to gathering evidence. While the discovery process in the United States is certainly effective, it is not a good fit for China for several reasons. First, the discovery process is incredibly expensive and time consuming. The courts of first instance in China open and close intellectual property cases in six months, which would still probably be in the discovery stage of similar litigation in the United States. While the United States has much better preliminary postures for trade secret owners than China, the system suffers from many drawbacks such as discovery abuse. The two legal systems are very different and carrying over the discovery process to a civil law country that is used to be extremely efficient is unlikely to work.

Modeling reforms after the German approach is a much more attractive option for China. First, this should be a relatively easy transition for China because China has strong ties to the German intellectual property system and has adopted other aspects of Germany's intellectual property laws. There are striking similarities between the two legal systems. Both are civil-law systems and both have their trade secret law grounded in unfair competition law. Both systems have a very fast docket: China's being six months, while Germany's is nine to eighteen months. Additionally, both provide criminal and civil avenues that trade secret owners can pursue in the event of misappropriation. These are strikingly similar as well: both systems allow for evidence obtained during criminal proceedings to be used in subsequent civil proceedings. However, Germany is more effective in several key areas that China should consider reforming. First, in Germany the prosecutors are much more open to taking trade secret cases in criminal proceedings. This change is key for China and should not be too difficult to implement. China should get their police more active in taking

trade secret cases, which would alleviate a lot of the evidentiary concerns because they have the resources and authority to do so. One potential downside is that this change may slow things up a bit, but that is a risk worth taking.

Second, China should be much more open to granting preliminary motions, such as preliminary injunctions and evidence preservation orders. While there have been recent changes to the Civil Procedure Law and China is beginning to grant more preliminary injunctions, it is still too early to tell if this will be a continuing trend. China could follow Germany's approach of allowing a defendant to recover damages if the preliminary injunction turns out to be unwarranted. This would help prevent plaintiffs from frivolously filing for preliminary injunctions and abusing this useful tool.

A final important change China could make is adopting something similar to Germany's Düsseldorf Procedure. The Düsseldorf Procedure is a very attractive option because it facilitates the swift recovery of evidence, while maintaining confidentiality for both parties. It would alleviate two of the major concerns trade secret owners have: First, It would allow the trade secret owners to obtain sufficient evidence to support a claim in the event of misappropriation. Second, it would ensure that if the trade secret owner did decide to file a claim, that his trade secrets would remain confidential and he would not risk disclosing them to the general public. One of the main reasons why trade secret owners choose not to litigate is that the risks of litigation often outweigh any possible benefits because owners face a very real risk of losing the confidentiality of their information. Adopting the Düsseldorf Procedure will help alleviate these concerns and will hopefully make trade secret holders more confident in China's trade secret enforcement.