THE SECRET TO CROSS-BORDER TRADE SECRET PROTECTION: HOW TO COLLABORATE TO ENFORCE YOUR CROSS-BORDER TRADE SECRETS

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Even when geopolitical tensions between China and the U.S.A. arise or seem more visible, US and Chinese businesses' research, development, manufacturing, distribution often overlap or occur in partnership, as well as in competition. Navigating trade secret protection, particularly in US-Chinese cross-border situations may be the key to achieving significant success or suffering near-catastrophic failure in international commerce. This article provides an introduction to the US's and China's respective trade secret laws, and where and how trade secret disputes involving US and Chinese parties might be addressed and resolved.

A. The US's and China's Jurisdiction over US-Chinese Trade Secret Disputes

1. US Courts' Decisions

US Courts have allowed US plaintiffs' commercial claims against Chinese parties to be litigated in the US where the defendant's actions occurred, at least in part, and the plaintiff was injured in the US.

In Austar International Limited v Austarpharma, LLC, 425 F.Supp.3d 336 (D.N.J. 2019), for example, the plaintiff (Austar International) alleged that the defendant stole the plaintiff's trade secrets related to 'developing solubilization techniques for poorly soluble drugs', and 'osmotic pump controlled-release technology, nano-solubilization technology, and liposomal formulation technology' (*ibid* at 343 and 362). The Court explained that it had jurisdiction because the non-resident defendant's conduct caused the plaintiff to feel 'the brunt of the harm caused by that tort' in New Jersey, as the 'technological products' in question 'were researched and developed in New Jersey'. The defendant's relevant employees including the defendant company's CEO, accused of 'gut[ting]' the plaintiff business that was incorporated and headquartered in New Jersey. Moreover, the defendant researched and developed its products, and harmed the plaintiff, in New Jersey (*ibid* at 361, n. 2, and 362). The Court further found that a related litigation in China was not duplicative of the New Jersey litigation because the Chinese suit 'would not protect Austar International's rights to seek redress for violations of the DTSA'. The remedies sought in the two suits were not identical: the defendant resided in New Jersey, and the New Jersey Court was better suited to address New Jersey and US law (*ibid* at 363-65) (it 'serves the public interest to ensure that a United States owner of intellectual property has a forum to seek redress for alleged misuse of that intellectual property by another United States citizen living here and by a foreign corporation' and the 'the very rationale and purpose of the DTSA is, of course, the protection of trade secrets from foreign encroachment').

In contrast, in Phillips Medical Systems (Cleveland) Inc., 2021 WL 3187709 (N.D.Ill. 2021), a federal court in Illinois considered claims that Chinese defendants, when working for the plaintiff in the US on the 'design of X-ray tube products', downloaded trade secrets which they used to develop a competing x-ray tube product in China (*ibid* at *3-*4). The Court rejected

claims that the 'compulsory attendance of witnesses' was not available for witnesses in China because those witnesses were employed by the defendant who was a party in the US suit (*ibid* at *6). Moreover, witnesses in China could be compelled to appear for depositions pursuant to the Convention on Taking of Evidence Abroad in Civil or Commercial Matters (the Hague Evidence Convention). Additionally, electronic discovery made cross-border production of documents relatively easy, and there was 'no indication that Plaintiffs will seek to inspect the ... defendants' premises' in China (*ibid* at *8-*9).

Thus, even where documents and witnesses are located in China, modern and electronic discovery and related discovery procedures, such as pursuant to the Hague Convention Treaty, eliminated or sufficiently reduced related geographic difficulties to allow suit to proceed in US Courts. In other words, although the US and China – and their respective witnesses and documents in a litigation between parties in both countries – are continents and oceans apart, US courts will retain jurisdiction over and allow such suits to proceed under US trade secret law because such law will not likely be applied in China at all or in a manner sufficient to protect US actors.

2. **Chinese Courts' Decisions**

Chinese courts have allowed plaintiffs to bring lawsuits in China against defendants who have no domicile in China, where plaintiffs provide evidence that the defendants' actions occurred in China.

In Xiamen hotel group company v. American Employee, the plaintiff claimed that its US employee stole the plaintiff's trade secrets by downloading them to his personal storage disk before leaving. The court of first instance held that the defendant 'did not use the office equipment located in China and the infringement was committed in the United States', so the defendant was not subject to the jurisdiction of the Chinese court. The court of second instance held, however, that the 'plaintiff and its employees ha[d] signed written confidentiality agreements which prohibited employees from downloading the company's information to personal disks or other storage devices', and plaintiff 'clearly informed technicians in writing that the location of the company's mailbox server and the place where trade secrets were stored are both in Xiamen when hired'. Therefore, the court decided that 'although defendant was not in China, he intentionally and illegally intruded into the server in China, so defendant was subject to jurisdiction of Chinese court'.

In contrast, in Jiaxing Zhonghua Chemical Co. Ltd. v. Rhodia Operations S.A.S, the plaintiff alleged that the defendant illegally obtained and disclosed plaintiff's environmental impact report which involved technical secrets. The court held that even though the plaintiff claimed that the report was stored and illegally acquired in Jiaxing City, the plaintiff 'did not provide sufficient evidence to prove infringement occurred in Jiaxing City, so the court has no jurisdiction over this case'.

In addition, when determining the jurisdiction of a Chinese courts, the principles of inconvenient lawsuit and of parallel lawsuit may also apply, and a Chinese court may reject plaintiff's lawsuit and direct the plaintiff to sue in a more 'convenient foreign court' if the following conditions are met: (1) a defendant requests that case would be more convenient for jurisdiction of a Chinese court; (4) a case does not involve the

interests of the Chinese state, citizens, legal persons or other organizations; (5) the main facts do not occur within the territory of China, meaning that Chinese law is not applicable, or if a Chinese court has great difficulties in determining the facts and applying the law; (6) foreign courts have jurisdiction over a case where it is more convenient to litigate. Additionally, where both Chinese court and foreign court have jurisdiction, if one party brings a suit in a foreign court and the other party brings a suit in Chinese court, the Chinese court may accept it. If the foreign court applies or the party concerned requests a Chinese court to recognize and implement judgment, it shall not be permitted, unless otherwise provided in the international treaties concluded or acceded to by both parties. If a judgment of a foreign court has been recognized by a Chinese court, and a party brings a suit with the Chinese Court over the same dispute, the Chinese court shall not accept it.

B. USING DISCOVERY FROM ONE JURISDICTION IN THE OTHER COUNTRY'S COURTS

1. Using US Discovery in Chinese Courts

*Nokia Technologies Oy, 2022 WL 788702, *1 (S.D.Ca. 2022) (Nokia) (citing 28 USC.A. § 1782(a))* states:

Under Title 28 section 1782 of the United States Code, "[t]he district court of the district in which a person resides or is found may order him to give his testimony or statement or to produce a document or other thing for use in a proceeding in a foreign or international tribunal.

Indeed, the 'party seeking discovery is not required to establish that the information it seeks would be discoverable under the foreign court's law or that the United States would permit the discovery at issue in an analogous domestic proceeding' (*ibid*). Although *Nokia* was a patent dispute, discovery may also be obtained, pursuant to 28 USC.A. § 1782, for trade secret disputes. On this, see: *Kulzer v Esschem, Inc.*, 300 Fed Appx. 88 (3rd Cir. 2010); *In Re Illumina Cambridge Ltd.*, 2019 WL 5811467 (N.D.Ca. 2019).

Nokia, furthermore, stated that a district court may authorize discovery under section 1782(a) where '(1) the person from whom the discovery is sought "resides or is found" in the district of the district court where the application is made; (2) the discovery is "for use in a proceeding in a foreign or international tribunal"; and (3) the application is made by a foreign or international tribunal or "any interested person"' (Nokia, at *1). Even if the statutory requirements are satisfied, a district court may exercise its discretion to deny the requested discovery, based on the following factors: (1) whether 'the person from whom discovery is sought is a participant in the foreign proceeding'; (2) the 'nature of the foreign tribunal, the character of the proceedings underway abroad, and the receptivity of the foreign government or the court' to US federal-court assistance; (3) 'whether the § 1782(a) request conceals an attempt to circumvent foreign proof-gathering restrictions or other policies'; and (4) whether the request is 'unduly intrusive or burdensome' (*ibid*).

Section 1782 broadly defines 'use', in a litigation proceeding outside of the US, as 'something that will be employed with some advantage or serve some use in [a foreign] proceeding'. In re Evenstar Master Fund SPC for and on behalf of Evenstar Master Sub-Fund I Segregated Portfolio, 2021 WL 3829991, *8 (S.D.N.Y. 2021). 'The intended "use" of such discovery need not be imminent, but rather, must be "within reasonable contemplation at the time" of the § 1782 petition' and 'tend[...] to prove one or more underlying claim before the foreign tribunal. [...] Because the statute does not "condone speculative forays" into foreign law, the "for use"' requirement also does not require that the requested materials be relevant or discoverable in the foreign proceeding (ibid [citations omitted]). The '"ultimate admissibility of the evidence is determined by the foreign tribunal" and the statute does not direct district courts to "engage in comparative analysis to determine whether analogous proceedings exist here"' (*ibid* [citation omitted]). Therefore, US Courts view the relevance of the desired discovery 'permissive[ly]' (*ibid*).

The mandatory criteria are straightforward. Discovery from a party (or not party) in the US may be obtained in a federal court located in the district where that party or non-party is located, even if only sought for use in a suit in another country, including Chinese courts 'which qualify' under the US statute 'as foreign tribunals' (*ibid* at *2).

The discretionary factors are equally interesting. For example, the non-party from whom discovery was sought in Nokia, was determined, based on a sworn statement of a Chinese attorney, to not be subject to such discovery in China (*ibid* at *2). Moreover, no evidence was presented to indicate that the Chinese would not allow the discovery obtained in the US to be used in the Chinese proceeding or that the party seeking discovery in the US was attempting to 'circumvent [China's] proof-gathering restrictions or other policies' (*ibid* at *2-*3). Lastly, although 'unduly intrusive or burdensome requests may be rejected or trimmed,' potential or actual trimming does not necessarily bar any discovery; it just may require the discovery demands to be reduced or altered, as often occurs when US litigation (*ibid* at *3).

Once these statutory requirements are met, the district court may grant 'discovery under § 1782 in its discretion ... "in light of the twin aims of the statute: providing efficient means of assistance to participants in international litigation in our federal courts and encouraging foreign countries by example to provide similar means of assistance to our courts"'. That discretion is informed by

(1) whether "the person from whom discovery is sought is a participant in the foreign proceeding;" "the nature of the foreign tribunal, the character of the proceedings underway abroad, and the receptivity of the foreign government or the court or agency abroad to US federal-court judicial assistance;" (3) "whether the § 1782(a) request conceals an attempt to circumvent foreign proof-gathering restrictions or other policies of a foreign country or the United States;' and (4) whether the request is "unduly intrusive or burdensome. (In *re Evenstar Master Fund SPC for and on behalf of Evenstar Master Sub-Fund I Segregated Portfolio, 2021 WL 3829991, *6 (S.D.N.Y. 2021)*).

That said, even documents located in a foreign jurisdiction (specifically including in China) may be discoverable pursuant to § 1782 (*ibid* at *12). Depositions of corporate representatives may

also be obtained, even if preparation for their testimony requires consultation with witnesses located in China (*ibid* at *15).

Lastly, on June 13, 2022, in *ZF Automotive U.S v. Luxshare, Ltd., 142 S.Ct. 2078 (2022)*, the US Supreme Court issued a ruling about whether Section 1782 could be used to obtain discovery for international arbitrations. The Court examined whether the phrase 'foreign or international tribunal' in § 1782 includes private adjudicative bodies or only governmental or intergovernmental bodies. Analyzing the text of the statute, the Court observed that the word 'tribunal' appears within the phrase 'foreign or international tribunal'. The Court noted that 'attached to these modifiers, "tribunal" is best understood as an adjudicative body that exercises governmental authority' (*ibid*). The Court added that this interpretation is supported for other reasons, including that: (1) the animating purpose behind § 1782 is comity, so enlisting US courts to assist private bodies would not serve this purpose; (2) extending § 1782 to include private bodies would be in tension with the Federal Arbitration Act (FAA), which only permits the arbitration panel to request discovery and does not allow pre-arbitration discovery; and (3) the arbitral tribunals at issue were not governmental or intergovernmental adjudicative bodies, since their authority derived solely from private agreement. Applying this standard, the Court determined that the arbitration was not before a 'tribunal' within the meaning of § 1782 because no government was involved in creating the panel or prescribing its procedure. Although the US Supreme Court's decision appears to narrow the universe of arbitrations for which § 1782 may be used, the question of whether and when an arbitral tribunal may be considered to 'exercise governmental authority' remains an open issue because the Court noted that '[n]one of this [analysis] forecloses the possibility that sovereigns might imbue an *ad hoc* arbitration panel with official authority' (*ibid).* In other words, while this decision changes the analysis regarding whether § 1782 discovery may be used in arbitrations, it may not change the result as foreign governments are often integral parts of companies from those countries. Therefore, the governmental support for or connection to a foreign actor may 'imbue an *ad hoc* arbitration panel with official authority'. Importantly, this decision only applies to arbitrations; it does not affect the application of § 1782 to disputes filed in courts.

2. **Using Chinese Discovery In US Courts**

There is no discovery procedure similar to that of the United States under the Chinese legal system. If a party intends to obtain evidence in China, it may do so by using the following approaches:

a. Collecting evidence through the Hague Evidence Convention

China and the US, as members of the Hague Evidence Convention, may apply its rules to conduct evidence collection in China. Under this convention, Chinese courts usually only allow access to documents that are 'directly and closely related to litigation disputes'. If an application might violate Chinese laws or endanger China's national sovereignty, security or public interests, the Court will limit the scope of evidence collection or refuse the application.

b. Collecting evidence through Chinese investigation agency or law firm
Foreign authorities or individuals are not allowed to collect evidence on Chinese territory by any means other than using the Hague Evidence Convention or diplomatic channels. In practice, however, a party sometimes seeks the assistance of a Chinese investigation agency or law firm to collect evidence, or arrange witnesses to make witness testimony in Hong Kong or other countries or regions. Since Chinese law does not enable non-Chinese parties in Chinese Courts to gather evidence on Chinese territory by any means other than using the Hague Evidence Convention or diplomatic channels, obtaining evidence in China to facilitate the execution of judgments based on such evidence in China may be difficult.

c**. Collecting evidence through a court order of evidence preservation or investigation and evidence collection**
Under the Chinese legal system, if a party wants to obtain evidence from an adversary or third party, it usually needs to apply to court for evidence preservation or investigation and evidence collection with the help of a court. However, the premise for the availability of this approach is that a corresponding litigation case has been brought to a Chinese court.

China has further strengthened its protections of data and data exit restrictions, and for cross-border provision of data information or personal information, China requires the approval of competent Chinese authorities with or without consent of the collected party.

C. CONCLUSION

Chinese–American commerce has vast economic potential, making proactive lawyering and use of the DTSA and § 1782 discovery investments as important as investment in intellectual property. Parties who are sued for trade secret misappropriation should move quickly to get proper legal advice. Proactive legal consultation and strategizing with regard to DTSA discovery in US Courts is critical for risk reduction, success, and return on investment.

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