

A Brief Look at the IP chapter of the First Phase of US-China Trade Deal

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Although politics surrounding the US-China Trade deal are now a bit unstable, the intellectual property (IP) chapter in particular reflects some important principles that may well guide US-China relations regardless; they are important for what they do, and do not, include.

Unlike other US trade agreements, the 'IP Chapter' appears as the first chapter of the US-China Agreement, signaling the significant US interest in protecting and enforcing its IP rights in China and China's commitment to IP enforcement. The Agreement places more onus on China to protect and enforce IPRs. For example, in provisions related to trade secrets, which are the first IP rights referred to in the chapter, the Agreement provides that the US 'emphasizes trade secret protection' and China 'regards trade secret protection as a core element of optimizing the business environment.'

In general, the IP Chapter consists of eleven sections that cover broad issues related to trade secrets, patents, IP enforcement, e-commerce, geographical indications, trademarks, copyright and related rights, among others. The Chapter is designed to drive China's compliance with the substantive and procedural practice of US IP law. Compared with the recent US trade deals with Mexico and Canada (USMCA) as well as the earlier version of the Trans-Pacific Partnership Agreement, it is quite surprising that the US-China IP Chapter has not a single reference to international IP treaties such as the Berne and Paris Conventions nor the Agreement on Trade-Related Aspects of Intellectual Property Rights (TRIPS). Moreover, it is astonishing that the IP Chapter has borrowed none of the language of TRIPS or international IP agreements in general, including their built-in flexibilities, exceptions or limitations, which carve out necessary regulatory space. The lack of reference to multilateral commitments also comes as a surprise taking into account scholarly views that China could take a more assertive role at the World Trade Organization (WTO). In the light of this background, the table below highlights some of these provisions.

Overview of the Provisions Trade Secrets and Confidential Business Information

- (i) The definition of ‘confidential business information’ is very broad. CBI ‘concerns or relates’ to trade secrets and almost any other information of commercial value, the disclosure of which can have the effect of causing ‘substantial harm’ to the ‘competitive position’ of the complainant (note 1 to the chapeau of Section B).
- (ii) Prohibited acts concerning trade secret misappropriation include ‘electronic intrusions’, ‘breach or inducement to breach a duty of confidence’ and ‘unauthorized disclosure after acquiring a trade secret’ (Art. 1.4).
- (iii) Once the holder of a trade secret provides prima facie evidence, including circumstantial evidence of a reasonable indication of trade secret misappropriation, the burden of proof will shift to the accused party in civil proceedings (Art. 1.5). This provision is unprecedented in US FTAs.
- (iv) There should be no requirement to establish actual loss as a prerequisite to initiate a criminal investigation for trade secret misappropriation (Art. 1.6). In the long term, China will have to eliminate the requirement of ‘great loss’ as a threshold for criminal enforcement (Art. 1.7).
- (v) Like many other US FTAs, the US-China trade deal establishes that there should be ‘criminal procedures and penalties’ available for ‘theft, fraud, physical or electronic intrusion and unauthorized or improper use of a computer system’ for trade secret misappropriation (Art. 1.8). China should prohibit the unauthorized disclosure of trade secrets during any criminal, civil, administrative or regulatory proceedings (Art. 1.9). Agencies and other authorities shall also have limited access to trade secrets.

Pharmaceutical-Related Intellectual Property

- (i) China is obliged to permit pharmaceutical patent applicants to reply with supplemental data to satisfy relevant requirements of patentability, sufficiency of disclosure and inventive step during patent examination, patent review and judicial proceedings (Art. 1.10).
- (ii) China should create a system of ‘pre-market notification’ that gives prior notice to the patent holder, licensee or holder of marketing approval about those seeking to market products (generic version) during the term of the applicable patent, approved product or method of use for seeking approval (Art. 1.11).

Patents

- (i) China commits to provide patent term adjustment for unreasonable delays by the granting authority for four years from the date of filing the application in China or three years after the request for examination of the application – whichever is later (Art. 1.12).
- (ii) China should provide similar adjustments for a new pharmaceutical product that is approved for marketing in China for not more than five years or may limit the resulting effective patent term to no more than 14 years from the date of marketing approval in China (Art. 1.12).

Geographical Indications

- (i) The geographical indication (GIs) provision in the IP Chapter is relevant because of the recently concluded EU-China bilateral agreements in which parties agree to protect 100 European GIs in China and 100 Chinese GIs in the EU. The agreement is likely to be enforced before the end of 2020. In this context, the US-China trade deal accentuates three points:
- China agreed that ‘pending or future requests’ from other trading partners on GIs will not undermine the market access for US exports to China of goods and services using trademarks and generic terms (Art. 1.15).
 - China allows the US and other trading partners the necessary opportunities to raise the disagreement on GIs listed in agreement with another trading partner (Art. 1.15).
 - China commits to the standards listed in the agreement to determine whether a term is ‘generic’ in China. One such standard is China’s commitment to pursue Codex Alimentarius standards (Art. 1.16).

Piracy and Counterfeiting on E-Commerce Platforms

(i) The chapeau of Section E includes an odd formulation. It not only aims to reduce piracy and counterfeiting by providing enforcement against e-commerce platforms, but simultaneously aims at ‘reducing barriers, if any, to making legitimate content available in a timely manner to consumers and eligible for copyright protection’. It either reads as eliminating barriers to the provision of content (which is a controversial topic on e-commerce negotiations) or as reducing pirated content.

(ii) The measures that China should take to reduce online infringement include ‘notice and takedown’ in a similar spirit as the US Digital Millennium Copyright Act but in a much shorter version. China commits to require ‘expeditious takedowns’ and ‘eliminate liability for takedown notices submitted in good faith’, among others (Art. 1.13).

(iii) ‘Major e-commerce platforms’ can have their operating licenses revoked if they repeatedly fail to combat the sale of counterfeited or pirated goods. The term ‘major e-commerce platform’ is not defined. (Art. 1.14).

Border Measures and Enforcement at Physical Markets

(i) The US and China ‘will endeavor’ to reduce trade of counterfeit or pirated goods, including exports or ‘in transit’ goods. (Art. 1.21).

(ii) China, however, is bound to several concrete measures to train customs officials and increase border enforcement for goods that are exported or ‘in transit’ (Art. 1.21). Similarly, China commits to increase enforcement actions against copyright and trademark infringement at physical markets (Art. 1.22). In both cases, China is bound to publish quarterly updates of its enforcement actions.

Software

(i) The US and China agree to ensure that government agencies and all entities that the government ‘owns or controls’ install and use only licensed software. To make this provision effective, China commits to establish annual audits by independent third parties and publish the results online (Art. 1.23). One implication is that this could apply to state-owned enterprises.

Trade Marks

(i) The US and China commit to ensure adequate and effective protection and enforcement of trademark rights, particularly against bad faith (Art. 1.24).

In a future post we will address some of the broader issues of changes in China law to effect these obligations, and the questions of enforcement, without which these obligations carry little weight.

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