

## Trade Secret Protection in USMCA and Its Implications for Korea



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The United States-Mexico-Canada Agreement (USMCA), which was signed on November 30, 2018, is the result of a renegotiation of the North American Free Trade Agreement (NAFTA) by its member states. During the negotiation process of the USMCA, one of the goals for the United States was to modernize NAFTA into a 21st century trade agreement, including an extensive amendment to the intellectual property (IP) chapter. Although NAFTA was the first international trade pact to include commitments to protect intellectual property rights, the US government assesses that the 24-year-old NAFTA was insufficient to reflect the rapid evolution of technological innovation and growth in the digital economy. For the most part, the IP chapter in the USMCA mirrors the IP chapter in the Trans-Pacific-Partnership (TPP), from which the United States withdrew in January 2017, except for some revisions to reincorporate suspended provisions and add additional requirements. This shows that the United States' goal in the TPP – the global standardization of the US IP system – has continued in the USMCA. Indeed, the Trade Promotion Authority, under which recent US agreements were negotiated, explicitly states the negotiating objective of promoting intellectual property rules that "... reflect a standard of protection similar to that

found in United States law.”

The USMCA contains a high-standard and comprehensive IP chapter. It is the first trade agreement to include strong enforcement provisions for all of the following issues: strengthening border measures, enforcement against counterfeits and piracy occurring on a commercial scale, meaningful criminal penalties for pirated movies online and satellite/cable theft, and broader protection for trade secrets. The agreement also introduces for the first time a term of copyright protection of life plus 70 years, or 75 years after first authorized publication, and mandates strong protection for biologics patents and digital content copyrights, such as a data protection term of 10 years for biologics and TPM/RMI provisions.

The most notable feature of the IP chapter in the USMCA is that it includes a separate section for trade secrets in which strong standards of protection are set out. The provisions on trade secret protection in the USMCA are modelled on the United States’ Defend Trade Secrets Act of 2016 and Uniform Trade Secrets Act, prohibiting a party from limiting the term of protection for trade secrets and requiring parties to provide for civil remedies and criminal penalties. The chapter also prohibits actions that impede the voluntary licensing or transfer of trade secrets and requires judicial procedures to prevent disclosure of trade secrets during the litigation process.

In particular, protection against the misappropriation of trade secrets at the government level has been strengthened. The agreement includes the expression “trade secret theft by state-owned enterprises” and penalties for the unauthorized disclosure of trade secrets by government officials. It appears that the United States intends to build new norms as it currently faces several issues related to the technologies of fourth industrial revolution, such as technology thefts and forced technology transfer.

These provisions about trade secret protection are much stronger than the IP chapters within Korea’s existing FTAs or the CPTPP. Compared to the USMCA, the CPTPP lacks a number of provisions in the area of trade secret protection, such as for civil procedures and remedies, prevention of disclosure of trade secrets during the litigation process, prohibition of impeding the licensing of trade secrets, and penalties for government officials who disclose trade secrets without authorization. The KORUS FTA and Korea-EU FTA do not have any enforcement provisions that explicitly mention trade secrets. However the United States is expected to emphasize the strong protection of trade secrets in future trade agreements and will likely

work to include similar provisions for trade secret protection during ongoing FTA negotiations with the EU and Japan.

As seen in the US-China trade war, the misappropriation of trade secrets has become a sensitive issue in international relations and carries the potential to trigger trade conflicts. Thus, it is necessary to examine closely whether Korea's domestic legislation is in line with that in major countries and review the effectiveness of law enforcement. Korea has set up a legal basis for civil and criminal procedures against trade secret theft through the Unfair Competition Prevention and Trade Secret Protection Act, but the effectiveness of the act has been questioned due to the strict approval requirements for trade secrets and low compensation for damage. The Act states that sensitive material must "be treated as confidential with reasonable efforts" to be acknowledged as a trade secret, but in many cases remedies are not provided for the infringement of a trade secret due to a wide lack of sufficient awareness in companies, especially small and medium sized enterprises, and poor systems for the protection of trade secrets. Even in cases where the infringed material has been established as a trade secret, the courts have limited compensation to a maximum of the actual damages incurred. Compared to the high R&D cost and efforts associated with acquiring trade secrets, these compensations are often considerably low.

Last year the National Assembly approved a revised bill which reduces approval requirements for trade secrets and introduces punitive damages starting from June 2019. The expression of "with reasonable efforts" in the definition clause for trade secrets was removed, and a new punitive damage system was introduced, allowing the court to impose up to three times the actual damage assessed if the court rules that the infringement was intentional. Also, in addition to the illegal acquisition, disclosure, and use of trade secrets, i) unauthorized re-lease outside designated areas, ii) failure to comply with orders to return and delete, iii) acquisition through unlawful means, iv) re-acquisition and use of an illegally released trade secret have been added to the list of acts that constitute trade secret infringement. In addition, the penalty against the misappropriation of trade secrets has been increased from a maximum ten years sentence or maximum fine of 100 million won to maximum fifteen years sentence or 1.5 billion won.

The revised bill is expected to provide wider eligibility for trade secrets and effective compensation for trade secret theft. It will provide comprehensive protection for trade secrets, which are the culmination of massive efforts and investment, and significantly contribute to an advance in Korea's IP protection system to the level of major countries. Of course, there re-

mains the concern that the Supreme Court of Korea is yet to issue a long-awaited definitive ruling on the assessment of trade secret validity, and a larger body of legal precedents will have to be accumulated to clearly establish the legal principles and methodology to concretely assess damage amounts – including how to distinguish between fixed and variable costs, the assessment of marginal profits, and the calculation of contribution rates – which should be followed by further analyses of whether the revised act will significantly contribute to effective protection of trade secrets, or whether additional measures will be required. **KIEP**