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TRADE SECRETS

Three attorneys from the Jones Day law firm review the Federal Circuit's recent ruling that the International Trade Commission can exclude importation of goods made in China that misappropriate trade secrets.

Extraterritorial Misappropriation: Federal Circuit Affirms ITC Enforcement of Trade Secrets Against Imports From China



BY DAVID MAIORANA, PATRICK MICHAEL, AND JOHN EVANS

On Oct. 11, the U.S. Court of Appeals for the Federal Circuit affirmed the International Trade Commission's finding of a violation of Section 337 of the Tariff Act of 1930, 19 U.S.C. § 1337, in relation to the importation of certain railway wheels, predicated on misappropriation that occurred in China. In *TianRui Group Co. v. International Trade Commission*, 100 USPQ2d 1401 (Fed. Cir. 2011) (82 PTCJ 810, 10/14/11), the court confirmed that Section 337 permits exclusion of articles made by processes protected under domestic trade secret law where the underlying act of misappropriation occurs outside the United States.

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The court also articulated, for the first time, important choice of law principles for Section 337 investigations involving trade secrets, i.e., that such investigations are governed by federal common law and not state law. Finally, the court clarified that a domestic industry in Section 337 investigations involving non-statutory intellectual property rights does not require proof that the domestic industry practices the rights at issue.

This decision provides a powerful remedy for any company challenging imports into the United States that are derived from the misappropriation of their trade secrets—or potentially other unfair conduct—overseas.

Background

Amsted Industries Inc. is a U.S.-based manufacturer of cast steel railway wheels. Amsted owns several trade secrets relating to wheel production processes, including the ''ABC process,'' which it had licensed to several foundries in China. The ITC instituted Investigation No. 337-TA-655, *Certain Cast Steel Railway Wheels, Certain Processes for Manufacturing or Relating to Same and Certain Products Containing Same*, based on Am-

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sted's complaint that respondents TianRui Group Co. and TianRui Group Foundry Co. imported wheels into the United States that were made in China using the ABC process, allegedly misappropriated from Amsted.

TianRui allegedly acquired the secret ABC process in China by hiring employees away from one of Amsted's Chinese licensees after its own licensing negotiations with Amsted fell apart.

Early on, TianRui moved to terminate, i.e., to dismiss, arguing that the misappropriation occurred in China and that Section 337 does not apply to conduct outside the United States. The administrative law judge denied the motion, noting that the focus of Section 337 is not the misappropriation per se, but instead the nexus between unfair methods of competition and importation of the articles at issue.

On the merits, the ALJ found a violation of Section 337 under Illinois trade secret law, as well as general principles of trade secret law and the Restatement (First) of Torts. The evidence showed that TianRui's process was essentially identical to the ABC process, and that TianRui misappropriated the ABC process.

The ALJ also held it was not essential for Amsted to prove that it used the ABC process in the United States to satisfy the domestic industry requirement of Section 337. Rather, all Amsted needed to prove was that its domestic industry would be substantially injured by the imported wheels.

The commission affirmed without review and issued a limited exclusion order that barred the wheels from entry into the United States. TianRui appealed the commission's determination to the Federal Circuit.

The Majority Decision

A divided panel of the Federal Circuit affirmed.

The panel majority held that: (1) federal common law, and not state law, controls in Section 337 investigations based on trade secret misappropriation; (2) the ITC has authority under Section 337 to exclude the importation of products into the United States where those products were made using a trade secret misappropriated abroad; and (3) a complainant seeking to vindicate trade secret rights need not show that it exploits the trade secret in a domestic industry.

The ''Federal Common Law of Trade Secrets'' Governs Section 337 Investigations

The majority first addressed choice of law as a matter of first impression. In rejecting the application of Illinois trade secret law, the court held ''that a single federal standard, rather than the law of a particular state, should determine what constitutes a misappropriation of trade secrets sufficient to establish an 'unfair method of competition' under Section 337.'' Slip op. at 9. Section 337 reflects congressional policy relating to preventing unfair competition, rather than any state policies.

Further, Section 337 deals with international commerce, the province of federal law. While there is no federal common law of trade secret misappropriation, most states' trade secret laws are derived from the Restatement of Unfair Competition and/or the Uniform Trade Secrets Act, and thus, ''varies little from state to state.'' *Id.* at 10. Here, there was no dispute over the substantive law of trade secrets, which accorded with generally accepted principles ''as reflected in the Restatement, the Uniform Trade Secrets Act, and previous Commission decisions under section 337.''[1] *Id.* at 11.

Unfair Methods of Competition and Unfair Acts in the Importation of Articles Include Importation-Related Acts of Trade Secret Misappropriation That Occur Overseas

The panel diverged on the issue of ''extraterritoriality'' with respect to the relevant location of the conduct for a Section 337 analysis. The dissent described the case as involving ''conduct which *entirely* occurs in a foreign country.'' Dissent at 2 (emphasis in original). In rejecting this characterization, the majority explained that the misappropriation was ''merely a predicate to the charge'' and that the ''importation of articles'' into the United States provided a domestic nexus under Section 337. Slip op. at 15-16.

Federal statutes presumptively have no extraterritorial effect, absent a clear expression of congressional intent to the contrary. *E.E.O.C. v. Arabian American Oil Co.*, 499 U.S. 244, 248 (1991). That presumption, however, did not apply here for three reasons.

First, Section 337 applies to ''[u]nfair methods of competition and unfair acts in the importation of articles.'' 19 U.S.C. § 1337(a)(1)(A). Importation is inherently international conduct, like immigration, that Congress would not have addressed with a purely domestic statute. In both contexts, the focus is not on punishing the wrongdoer for acts abroad, but on precluding entry into the United States.

Second, the foreign conduct at issue was not purely ''foreign.'' Rather, the misappropriation was the first in a chain of acts that led to importation and domestic injury—and the latter two are required elements of a Section 337 claim. By requiring a showing of importation-related acts and considering domestic injury, the commission is not regulating foreign conduct; ''It only sets the conditions under which products may be imported into the United States.'' Slip op. at 15.

To hold otherwise would create a ''conspicuous loophole'' that allows misappropriators to circumvent trade secret laws simply by ensuring that their acts of misappropriation occurred outside the United States, a technicality that Congress surely could not have intended to create.

Third, the legislative history supported this interpretation. In a predecessor to Section 337, Congress chose the broader phrase ''unfair methods of competition'' rather than ''unfair competition,'' which has a narrower, specialized meaning. *See id.* at 17. Numerous commission and legislative reports evidenced the need to protect domestic industries from unfair import practices, beyond conventional anti-dumping remedies. *Id.* at 17-19.

The court further rejected TianRui's argument that the commission improperly applied domestic trade secret law to conduct in China. The touchstone of the commission's authority under Section 337 is importation into the United States and importation-related activities.

The commission enforces domestic law, e.g., patent, trademark, copyright, mask work, or trade secret, only

[1] While there was no conflict of laws in this case, the court did recognize that choice of law principles ''could be important in other cases.'' Slip op. at 11.

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in instances where some act related to importation is present, and only to the extent that importation affects the domestic market. Purely extraterritorial conduct, i.e., conduct that does not relate to importation into the United States, is beyond the Commission's jurisdiction. Indeed, nothing in the commission's determination prevented TianRui from selling its wheels in China or anywhere else outside the United States.[2]

Similarly, previous cases narrowing the extraterritorial application of United States patent law did not implicate the commission's authority under Section 337 regarding trade secret misappropriation. First, in *In re Amtorg Trading Corp.*, 75 F.2d 826 (C.C.P.A. 1935), the Court of Customs and Patent Appeals[3] held that Section 337 did not enlarge the scope of substantive patent law, which (at the time) did not provide that the importation of a product made overseas using a U.S. patented process was infringing. Trade secret misappropriation was not at issue in *Amtorg*, and in any event, *Amtorg* was later superseded by statute, 19 U.S.C. § 1337a. Second, *Amgen Inc. v. U.S. International Trade Commission*, 902 F.2d 1532 (Fed. Cir. 1990), addressed a statutory provision specific to patents, Section 337(a)(1)(B), and has no bearing on the commission's authority over ''unfair methods of competition and unfair acts in the importation of articles'' pursuant to Section 337(a)(1)(A).

Third, *Microsoft Corp. v. AT&T Corp.*, 550 U.S. 437 (2007), dealt with the application of U.S. patent law, 35 U.S.C. § 271(f), in connection with the sale of computers in a foreign country, which again is ''inconsistent with the congressional purpose of protecting domestic commerce from unfair methods of competition in importation such as trade secret misappropriation'' under Section 337(a)(1)(A). Slip op. at 25.

Proving Domestic Industry for Non-Statutory Intellectual Property Rights Does Not Require Proof of Exploitation of the Rights at Issue

The majority also rejected the claim that Amsted was required to prove that it practiced the intellectual property rights (the misappropriated trade secrets) in a domestic industry, i.e., that Amsted had to prove the ''technical prong'' of domestic industry.

Section 337 includes different provisions for statutory and non-statutory intellectual property rights. Statutory rights, e.g., patent, trademark, copyright, etc., require that ''an industry in the United States, *relating to the articles protected by the patent, copyright, trademark, mask work or design concerned*, exists or is in the process of being established.'' 19 U.S.C. § 1337(a)(2) (emphasis added). This is known as the ''technical prong'' of domestic industry in Section 337 investigations, under which a complainant must demonstrate that its domestic industry exploits the rights at issue.

Non-statutory rights, on the other hand, do not require ''technical prong'' proof, but rather a showing that the unfair import practices cause, or threaten to cause, a domestic injury. 19 U.S.C. § 1337(a)(1)(A). While some legislative history supported the claim that ''technical prong'' proof was needed for non-statutory rights, the statutory rights were the only provisions so limited.

Further, requiring strict ''technical prong'' proof was not consistent with the commission's broad and flexible approach to determining domestic industry in view of the realities of the marketplace. Thus, injury to an ''industry in the United States'' was sufficiently established under Section 337(a)(1)(A) by showing that the imported products could directly compete with the domestic products of the trade secret holder.

The Dissent

In Judge Kimberly A. Moore's dissenting view, the commission's interpretation of Section 337 punished TianRui for foreign conduct. Dissent at 1-2. The conduct at issue, according to Moore, was ''*entirely*'' in a foreign country and was presumptively beyond the reach of United States law. Had Amsted's trade secrets been stolen in the United States, then Section 337 might bar later importation. But, because none of the unfair acts happened in the United States, there was no violation of U.S. law to support a determination that Section 337 had been violated.

Describing the majority opinion, Moore states: ''The potential breadth of this holding is staggering.'' Dissent at 3. Moore cautioned that this finding might be the thin end of the wedge, inviting broader scrutiny into foreign business practices that United States courts might consider ''unfair.'' *Id.* at 4.

She argued that the unfair act at issue was not the importation of wheels. There was nothing inherently unfair about the wheels. Their presence in the United States was not unlawful, unlike the immigration statutes relied on by the majority.

Moore found no indication that Congress intended Section 337 to apply to acts outside the United States. Nothing in Section 337 itself hinted at extraterritorial intent. Without a statutory hook, she argued, there can be no extraterritorial application.

As to the majority's point about importation as an inherently international transaction, Moore disagreed. Immigration statutes and other statutes applying to international conduct generally include express language authorizing extraterritorial application.

In Moore's view, this case presented basically the same facts that led the Court of Customs and Patent Appeals to its conclusion in *Amtorg*, that Section 337 (at the time) did not reach imports made using patented processes outside the United States. In that case and in this one, the imported products were not themselves in violation of United States law. Manufacture in China does not violate United States law. And, the fact that Congress added 19 U.S.C. § 1337a specifically to address process patents (and not other intellectual property rights) indicated that Congress did not extend the

[2] Although the commission does not apply foreign law, the majority also noted that there was no apparent conflict between Chinese trade secret law and the law applied by the commission, nor was there any conflict with Article 39 of the Agreement on Trade-Related Aspects of Intellectual Property Rights, a multilateral treaty governing trade secrets protection to which China is a signatory. Slip op. at 21. As such, there was no international dichotomy that would create tension regarding the legality of TianRui's actions and counsel against rewarding exclusionary relief. *Id.* The court's willingness to find no conflict of laws between the commission's general principles of trade secret law and TRIPS could have far-reaching implications, as all 153 members of the World Trade Organization, including China, are TRIPS signatories.

[3] The Court of Customs and Patent Appeals was the predecessor to the Federal Circuit.

reach of Section 337 as to other forms of intellectual property.

Neither did Moore believe that the legislative history cited by the majority indicates clear congressional intent for extraterritoriality. One of the purposes of Section 337 was to provide an efficient way for domestic rights holders to address unfair import practices at their source at Customs, rather than in piecemeal fashion by customer suits throughout the United States. Avoiding multiple suits, she reasoned, was the basis for comments about addressing unfair practices used by those residing outside the jurisdiction of the United States.

Moore's main issue with the majority's decision was that foreign law generally governs foreign conduct. Whether U.S. and Chinese trade secrets laws are in accord is of no consequence; it is not for the commission to apply Chinese law in determining whether Section 337 has been violated.

In any case, policy counseled against the majority's decision. Moore noted that Amsted could have obtained a process patent to secure the protections of Section 337, or by not seeking to license its proprietary ABC process to a foreign entity. She cautioned that the majority's decision, by affording broader protection for trade secret misappropriation under Section 337, would incentivize inventors to avoid public disclosure through the patent system.

She concluded that net results of Amsted's benefit were reduced disclosure, reduced competition, and increased prices for American consumers.

Implications of *TianRui* Applicable Trade Secret Law: Stay Tuned

The first interesting aspect of *TianRui* is the Federal Circuit's endorsement of federal common law of trade secret misappropriation, a law that, strictly speaking, does not exist at this time.

In fact, Congress has recently considered, but did not take final action on, an amendment to the Currency Exchange Rate Oversight Reform Act that would have created a new federal civil cause of action for trade secret misappropriation. *See* 112 Cong. Rec. S6229-30, SA729 (2011). As it stands today, however, the vast majority of states have adopted the UTSA in one form or another, but a minority that includes several very important states (Massachusetts, New Jersey, New York, and Texas) follows the Restatement.

And, even apart from substance, states' various trade secret laws differ substantially in terms of statutes of limitation (e.g., two years (Texas) to five years (Illinois)) and forms of available relief. The parameters of the new federal common law of trade secrets, however, have yet to be decided. Given the outcome of this case and the potential for fundamental legislative changes, there are bound to be significant developments in the coming years.

The Rise of Trade Secrets: Leveling the Playing Field in the U.S. Market

TianRui is also significant because it sends a clear message that trade secret rights in the United States market cannot be avoided by off-shoring unfair conduct, and it provides U.S. companies with a remedy at the ITC when they suspect their trade secrets have been stolen overseas and are being used to manufacture products for importation into the United States.

Although sound reasoning supports both the majority and dissent's analysis, the majority's approach is more consistent with the purposes of Section 337. At its core, Section 337 places domestic and foreign competitors on equal footing by applying U.S. intellectual property laws to imports in largely the same way that those laws apply to domestic competitors.

If foreign competitors are not subject to the same market constraints, they have an unfair advantage over the rest of the market, including the rights holder and also all other domestic competitors. Indeed, Section 337 authorizes investigation into a broad range of import-related conduct; it is not limited to intellectual property violations. For example, in *Certain Welded Stainless Steel Pipe and Tube*, Inv. No. 337-TA-29, U.S.I.T.C. Pub. No. 863 (Feb. 1978), the commission acted against predatory pricing, prohibiting 11 foreign firms from manufacturing and importing products that those firms had priced below the average variable cost of production without commercial justification.

The majority's decision accords with the nature of trade secret misappropriation and its status as a continuing tort. Misappropriation starts with a wrongful disclosure, but the tort also occurs every time the secret is used thereafter.[4] When the ultimate product of a stolen process is imported into the United States, there is a coherent chain of related conduct that is intentionally directed at the U.S. market. The commission has long had jurisdiction under Section 337 for such conduct.

Importation into the United States also avoids the issue of extraterritoriality by establishing a domestic nexus. The majority correctly observed that importation necessarily includes at least some foreign activity that culminates in a domestic act, i.e., entry into the United States of certain articles.

And, as the majority noted, nothing in the commission's determination prevented TianRui from selling its wheels in China (although Chinese law might).[5] Neither does the commission regulate activity in China. The commission does not regulate and has no power to regulate foreign respondents' conduct outside the United States. The Commission's exclusion order merely bars articles from entry into the United States. *TianRui* reaffirms the age-old principle that ''the act of importation . . . is not a vested right, but an act of grace.'' *In re Orion Co.*, 71 F.2d 458, 465 (C.C.P.A. 1934).

TianRui also reinforces what many recognize to be a rise in the importance of trade secrets and trade secret enforcement for the U.S. market. Indeed, in enacting the Economic Espionage Act of 1996, Congress expanded intellectual property protection to trade secrets, expressly recognizing that ''proprietary economic information'' is ''an integral part of America's economic well-being'' and of ''growing importance.'' *See, e.g.*, H.R. Rep. 104-788, at 4 (1996).

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[4] *See, e.g.,* UTSA § 1(2) (' '*Misappropriation*' means: . . . disclosure *or use* of a trade secret of another without express or implied consent . . .'') (emphasis added); *see also, e.g.*, *Certain Garment Hangers*, Inv. No. 337-TA-255, Initial Determination, 1987 ITC LEXIS 85, at *177-78 (June 17, 1987) (finding no violation of Section 337 where respondents had access to alleged trade secrets, but there was no evidence that they used the alleged trade secrets).

[5] China's trade secret law is governed by Article 10 of the Anti-Unfair Competition Law of the People's Republic of China (1993).

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And many commentators, echoing a concern expressed in Moore's dissent, argue that the recently enacted Leahy-Smith America Invents Act of 2011 incentivizes inventors to keep their innovations secret. As the importance of trade secrets continues to rise, provided *TianRui* remains good law,[6] we can expect to see an increase in Section 337 investigations at the ITC based on unfair competition, including trade secret misappropriation.

Conclusion

The Federal Circuit's decision in *TianRui* has important implications for domestic and foreign entities alike. *TianRui* reaffirms the commission's power to regulate imports that violate U.S. trade secret law.

Trade secret protection cannot be circumvented because the misappropriation occurs overseas, which substantially strengthens domestic rights holders' positions in the market. Similarly, *TianRui* reminds foreign importers that entry into the U.S. market requires compliance with Section 337, which protects United States industries from a broad range of unfair competition.

[6] TianRui may seek *en banc* review at the Federal Circuit or petition for certiorari at the United States Supreme Court. Given the Supreme Court's continued interest in intellectual property cases, the potential foreign-policy implications of the *TianRui* decision, and the strong dissent, this case may meet the factors of ''certworthiness'' for Supreme Court review.