SUTHERLAND

LEGAL ALERT

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A Runaway Train? Citing Secret Stolen by Chinese Competitor, ITC Derails Import of Railway Wheels, and Federal Circuit Affirms

Overseas manufacturers have long known that their products manufactured abroad can be excluded from importation into the U.S. if they infringe U.S. patents, trademarks or copyrights. But a new decision by the U.S. Court of Appeals for the Federal Circuit has expanded the list of acts that can result in the exclusion of articles from import to the U.S. market. Under this decision, trade secret misappropriation that occurred completely outside the U.S. can lead to the exclusion of those articles, if other statutory requirements are met, including the domestic industry requirement. Moreover, any trade secret misappropriation will be judged under a body of U.S. common law.

The controversial panel decision of the Federal Circuit in *TianRui Group Co. et al. v. ITC et al.*, No. 2010-1395 (Fed. Cir. Oct. 11, 2011) (2-1 decision, Bryson, J., writing for the majority, joined by Schall, J.; Moore, J., dissenting) elicited an extensive dissenting opinion and has prompted broad commentary. All participants in the overseas manufacturing process – U.S. companies that arrange for manufacture of their goods abroad using trade secret processes or methods, their overseas partner manufacturers, and the overseas manufacturers that compete with them – need to understand the impact of this ruling on their business practices.

Applying Section 337 Outside the Statutory IP Context

The vast majority of unfair practices in import trade investigations at the U.S. International Trade Commission (ITC) involve claims of patent, trademark or copyright infringement. But outside the statutory IP context, the statute also declares unlawful "unfair methods of competition and unfair acts in the importation of articles" into the U.S. Trade secret misappropriation has long been recognized as one such unfair method of competition, but cases asserting it at the ITC are exceedingly rare, and the law is not well-developed. The Federal Circuit in *TianRui* has provided some clarity to the law by reaching three conclusions: (a) the ITC has the authority to investigate a trade secret misappropriation that occurred in a foreign country and to exclude the goods produced by such misappropriation; (b) the ITC should apply federal common law of trade secret misappropriation instead of the law of any particular U.S. state or of the country where misappropriation occurred; and (c) the ITC may exclude goods even if the threatened domestic industry does not actually use the trade secret at issue.

First Stop – ITC

In this case, Amsted Industries, a U.S. manufacturer of cast steel railway wheels, accused China-based TianRui Group of violating Section 337 of the Tariff Act of 1930 by importing wheels manufactured in China using Amsted's trade secret manufacturing process. Amsted alleged that its trade secrets were misappropriated by TianRui employees who formerly worked for Amsted's official Chinese licensee, Datong ABC Castings Company. The ITC Administrative Law Judge (ALJ) found "overwhelming direct and circumstantial evidence" that TianRui obtained its manufacturing process by misappropriating Amsted's trade secrets.

TianRui moved to terminate the ITC proceedings on the ground that the alleged misappropriation occurred in China and that Congress did not intend for section 337 to be applied extraterritorially. The ALJ denied TianRui's motion because the facts presented a sufficient nexus between the imported

articles and the unfair methods of competition. The ALJ also rejected TianRui's argument that Chinese courts would provide a better forum for Amsted's complaint.

TianRui alternatively argued that there was no "domestic industry" that could be injured by the misappropriation of Amsted's process because Amsted no longer practiced that process in the United States. The ALJ rejected this argument as well, holding that Amsted satisfied the domestic industry requirement because its railway wheel business would be substantially injured by the importation of TianRui wheels. The ITC decided not to review the ALJ's initial determination and issued a limited exclusion order. TianRui appealed.

Next Station – Federal Circuit

The Federal Circuit considered two questions on appeal: (1) whether section 337 authorizes the ITC to apply domestic trade secret law to conduct that occurs in part in a foreign country; and (2) whether the imported TianRui cast steel railway wheels would injure a domestic industry when no domestic manufacturer currently is practicing the protected, trade secret manufacturing process.

A New Federal Common Law of Trade Secret Misappropriation

The Federal Circuit began its analysis by considering the substantive trade secret law that applies in a section 337 investigation. 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" or "unfair acts" in importation. This new federal common law of trade secrets is reflected in widely recognized authorities such as the Restatement of Unfair Competition and the Uniform Trade Secrets Act. In determining that a federal common law of trade secrets applies, the court noted that the choice of law was not determinative in this case because the facts establishing the misappropriation were clear and uncontested.

ITC Can Exclude Articles on the Basis of Trade Secret Misappropriation Abroad

In this case, the acts of trade secret misappropriation occurred abroad. TianRui argued that section 337 does not permit the ITC to exclude articles based on foreign misappropriation of trade secrets. The Federal Circuit disagreed. While recognizing the general rule against extraterritorial application of U.S. law, the majority held that section 337 does permit the ITC to consider conduct that occurs abroad in determining whether imports that were the products of, or otherwise related to, that conduct were unfairly competing in the domestic market.

Domestic Industry Need Not Use the Misappropriated Trade Secret

The Federal Circuit also considered whether Amsted Industries met the requirement of an injury to a domestic industry under section 337, even though it was not practicing the trade secret domestically. The majority concluded that this element was established, because section 337 contains different requirements for statutory IP (*e.g.*, patents, copyrights and trademarks) than for other, non-statutory unfair practices in importation (*e.g.*, trade secret misappropriation).

Under the statute, the "domestic industry" requirement in unfair competition cases lacks the requirement that the domestic industry be one "relating to" the non-statutory IP. At the same time, however, in unfair competition cases the injury to the domestic industry must be more extensive than in statutory IP cases. In "unfair competition" cases, the importation of the accused articles must destroy, substantially injure or

prevent the establishment of an industry in the U.S., or restrain or monopolize trade, or threaten to cause any of these injuries. No similar proof of actual or threatened injury exists for statutory IP rights, for which the owner need prove only that a domestic industry relating to articles protected by the statutory IP exists or is in the process of being established. *Compare* 19 U.S.C. § 1337(a)(1)A) *to* 19 U.S.C. § 13379a)(2).

Applying the "threaten to destroy or substantially injure" standard, the Federal Circuit found that the ITC did not err in holding that the domestic industry requirement was satisfied in this case because "the imported TianRui wheels could directly compete with wheels domestically produced by the trade secret owner" and that type of competition "is sufficiently related to the investigation to constitute an injury to an 'industry' within the meaning of section 337(a)(1)(A)."

A Dissent and Likely Motion for Rehearing

Judge Moore dissented, stating that there is no indication in section 337 that Congress intended it to apply to wholly extraterritorial unfair acts. The dissent concluded that section 337 does not reach the misappropriation and use of trade secrets in China, even if the product of the misappropriated process is ultimately imported into the United States. The dissent seems to suggest that Amsted should have obtained a process patent rather than maintaining a trade secret, because the statute is clear that the extraterritorial acts in this case are subject to section 337 if the process is protected by a patent. Of course, this reasoning ignores a key benefit of trade secret protection: unlike a patent, a trade secret does not expire so long as it continues to have commercial value and remains secret.

Given the importance of these issues to the parties, and to other market participants, a motion for rehearing or rehearing *en banc* is a virtual certainty, and each side can be expected to try to recruit *amici curiae* to support their arguments.

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If you have any questions about this Legal Alert, please feel free to contact any of the attorneys listed below or the Sutherland attorney with whom you regularly work.

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