Client Alert.

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Trade Secret Law Goes Global – and Federal.

Federal Circuit Approves ITC's Sweeping Power to Block Imports Based on Trade Secret Misappropriation outside the U.S.

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TianRui Group Co. Ltd., et al. v. International Trade Commission, Slip Op. 2010-1395 (Fed. Cir. Oct. 11, 2011) (Bryson, J., joined by Schall, J.) (Dissent by Moore, J.).

Earlier this month, the Federal Circuit issued an opinion with potentially far-reaching consequences for American companies' trade secret enforcement efforts. In *TianRui Group Co. Ltd., et al. v. International Trade Commission*, the court held that the International Trade Commission (ITC) can prevent the importation of products made by trade secret processes developed in the United States—even when the misappropriation took place exclusively abroad. In so ruling, the Federal Circuit has arguably given trade secret owners broader power than patent owners to protect intellectual property overseas provided they can meet the statutory domestic injury requirement.

THE UNDERLYING ITC ACTION

Complainant Amsted is an American company that uses a secret process to make cast steel railway wheels. Amsted licenses a different secret process to companies overseas, including companies in China. In 2005, defendant TianRui, a Chinese company, sought to license Amsted's process. When negotiations between the companies broke down, TianRui hired former employees of an Amsted licensee, also in China, to manufacture wheels using Amsted's confidential process in China. Amsted filed an action with the ITC to block TianRui's importation of these wheels into the United States. Finding that TianRui had misappropriated Amsted's trade secrets under Illinois trade secrets law (Amsted is an Illinois company, as was TianRui's American distribution partner), the ITC issued an exclusion order. The appeal to the Federal Circuit followed.

THE FEDERAL CIRCUIT DECISION

Section 337 of the Tariff Act of 1930, 19 U.S.C. § 1337, gives the ITC authority to block importation to the U.S. of items violating U.S. patents, trademarks, or copyrights if a domestic industry protected by intellectual property laws exists or is in the process of being established. § 1337(a)(1)(B-E). But a lesser-used provision also gives the ITC authority over "[u]nfair methods of competition and unfair acts in the importation of articles . . . into the United States" provided that the effect of the conduct is to injure an industry in the United States. § 1337(a)(1)(A). The statute does not define unfair competition or acts, and the ITC has held that Section 337(a)(1)(A) covers a variety of non-statutory unfair acts, including trade secret misappropriation.[i] Prior cases, however, have dealt with unfair acts occurring at least in part in the United States.[ii]

In *TianRui*, however, the Federal Circuit held for the first time that Section 337(a)(1)(A) has extraterritorial reach over trade secret claims, affirming the ITC's power to exclude TianRui's products, notwithstanding that the unfair conduct—TianRui's acts in obtaining and using Amsted's trade secret—occurred entirely in China. Despite the general presumption

that U.S. laws do not have extraterritorial reach, the majority (Judges Bryson and Schall) reasoned that the purpose of Section 337 (to prevent domestic injury from importation of products made using unfair methods of competition) justified applying the statute to activities conducted abroad. The majority also affirmed the ITC's finding that TianRui's use of the process in China could "destroy or substantially injure an industry in the United States" as §1337(a)(1)(A)(i) requires. Although neither Amsted nor any other American company uses the secret process in the United States, the court determined that the fact that TianRui's wheels *could* compete with those produced by Amsted sufficed for the domestic injury requirement.

In another first, the *TianRui* majority held that Section 337 unfair competition-based actions are governed by federal, rather than state, law. The court reasoned that because the statute's concern is distinctly federal—the goods' importation—and its remedy also federal, that a federal rule of decision must apply. The court did not specify what the source of that law might be, although it noted that the Uniform Trade Secrets Act (UTSA) and the Restatement of Unfair Competition have been adopted in almost every state. The court was satisfied that TianRui's actions constituted misappropriation under any version of the law, but admitted the choice of law issue "could be important in other cases."

In a vigorous dissent, Judge Moore faulted the majority for expanding Section 337 to cover "conduct which *entirely* occurs in a foreign country" in violation of the presumption against extraterritorial application of U.S. law. Judge Moore suggested that "the breadth of [the] holding is staggering" and that the majority's reasoning would allow the ITC to block imports based on other business conduct abroad, such as Chinese manufacturers paying workers less than U.S. minimum wage.

THE LONG-TERM IMPACT?

If the *TianRui* decision stands (without facing an en banc challenge, for example), it would appear to provide a new tool for enforcing trade secret rights based on acts that might otherwise be beyond the reach of U.S. courts. As the facts underlying the case illustrate, increasing globalization (including a globally mobile workforce) can give rise to circumstances where there is little a trade secret owner can do to prevent unauthorized disclosure and use. The decision can thus perhaps be seen as part of the response to the growing concern about valuable intellectual property rights being eviscerated by use abroad. (This concern has also manifested itself in the growing rate of cases—and convictions—under the Economic Espionage Act, and the proposal to provide a private right of action under that Act.)

The long-term impact of the other part of the court's holding—"federalizing" trade secret law, at least for purposes of cases in the ITC—is harder to predict. As the court noted, "trade secret law varies little from state to state," but other law on methods of unfair competition may not. It remains to be seen, moreover, whether the ITC (or the Federal Circuit) will consider itself bound by the principles of the UTSA, which was intended to bring order to a chaotic legal landscape, where different claims, with different standards, different remedies, and different statutes of limitation could be applied to the same conduct.

Last but not least, as noted above, there are circumstances in which the decision arguably provides even greater extraterritorial protection for trade secret holders than for patent owners. As the court acknowledged, the Supreme Court has cautioned that the presumption against extraterritorial application of U.S. law "applies with particular force in patent law." *See Microsoft Corp. v. AT&T Corp.*, 550 U.S. 437 (2007). Distinguishing *Microsoft*, the court noted that "there is no parallel federal civil statute regulating trade secret protection," and thus "no statutory basis for limiting the Commission's flexible authority under section 337(a)(1)(A) with respect to trade secret misappropriation." It is true that Section 337

requires trade secret owners, unlike patent, copyright, or trademark owners, to establish that the foreign misconduct is causing domestic injury. The statute does not, however, require a showing that the trade secret is being used by a domestic industry (and in fact, Amsted's trade secret was not being used in the United States). In the future, if the *TianRui* decision stands, the ITC may provide a powerful forum for intellectual property owners who believe their trade secrets have been misappropriated by use abroad.

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[i] *See In re: Orion Co.*, 71 F.2d 45822 C.C.P.A. 149, Treas. Dec. 47123, T.D. 47123, 21 USPQ 563 (C.C.P.A. 1934) (explaining that in the context of section 337 actions, what constitutes unfair competition is a matter of common law).

[ii] *See Certain Apparatus for the Continuous Production of Copper Rod*, Investig. No. 337-TA-52, USITC Pub. No. 1017, 206 U.S.P.Q. 138, * 74-*97 (1979) (affirming ALJ's finding of unfair acts and related cease-and-desist and exclusion orders where complainant, an American company, alleged foreign company had taken its confidential information in violation of a secrecy agreement between them after American company's engineers revealed the secret to the foreign company).