International Protection of Trade Secrets - ITC Wields the "Hammer of Thor"

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Domestic industries in the U.S. now have a powerful tool to protect their trade secrets against international misappropriation. The tool – the International Trade Commission's ability to block imports – perhaps has been there but not nearly with the authority now being wielded. Much like how the Emperor of China gave "Bao Gong" authority to mete out justice, the Federal Circuit has given the ITC authority to use its "Hammer of Thor" to stop international trade secret misappropriation. The Court of Appeals for the Federal Circuit recently upheld an ITC decision regarding misappropriated trade secrets in *TianRui Group Company v. International Trade Commission*.[1] Those trade secrets, which relate to manufacturing methods for railroad wheels, were allegedly misappropriated by a Chinese Company that manufactured railroad wheels using misappropriated trade secrets and then imported them into the United States. Under Section 337 of the Tariff Act of 1930 ("Section 337"), the ITC has had the authority to consider unfair trade practices – including trade secret misappropriation – involving imported articles.[2] Until now, the Federal Circuit has not addressed whether Section 337 authorizes the ITC to apply domestic law when the trade secret misappropriation occurred outside the U.S. and articles related to those trade secrets thereafter were imported into the U.S.[3] The *TianRui* holding significantly expands the ITC authority to further protect U.S. domestic industries.

The *TianRui* opinion establishes three separate and significant holdings: (1) the ITC has authority to consider conduct occurring in foreign countries; (2) the ITC should apply federal trade secret law; and (3) a domestic manufacturer can assert a trade secret violation claim even if that manufacturer is no longer practicing the trade secret. The rulings on all three issues favor domestic companies and create a potential hammer to enhance negotiations and enforcement of trade secrets when sharing technology outside of the U.S.

The ITC is a quasi-judicial Federal agency with authority to investigate and adjudicate cases involving imports that allegedly infringe intellectual property rights.[4] It has authority over "[u]nfair methods of competition and unfair acts in the importation of articles into the United States,…the threat or effect of which is…to destroy or substantially injure an industry in the United States."[5] If the ITC finds a violation, it can block the importation of infringing articles into the U.S. Although the ITC has authority to address trade secret misappropriation under the Tariff Act, there has been no previous Federal Circuit opinion regarding whether it has the authority to investigate such activity when the misappropriating act occurred outside the U.S. The *TianRui* holding establishes that the ITC has such authority. Therefore, complainants have been provided more leeway to use this tool to protect the domestic market against third-party goods containing the allegedly misappropriated trade secrets.

In *TianRui*, Illinois-based Amsted Industries Inc. ("Amsted") developed two secret processes for the manufacturing of cast steel railway wheels, the “ABC process” and the "Griffin process." Amsted continued to use the "Griffin process" in the U.S. for the manufacture of its own goods, but it ceased using the "ABC process." Instead, Amsted licensed the ABC process to Datong ABC Castings Company limited ("Datong"), a firm in China. TianRui Group Company Limited and TianRui Group Foundry Company Limited ("TRG") subsequently lured away nine employees from Datong and induced them to work in TRG’s China foundries. While employed at Datong, the employees were advised that the ABC process was proprietary and confidential and most of the employees signed confidentiality agreements with Datong. Despite this, TRG used these employees to divulge

Amsted's trade secret process and made cast steel railway wheels with the ABC process. These wheels were imported into the U.S. where they competed with Amsted's manufactured wheels.

Amsted reacted by filing a complaint with the ITC. The ITC found TRG to be in violation of Section 337. As such, the ITC executed a limited exclusion order prohibiting the importation of misappropriated "ABC process" railway wheels by TRG into the U.S. for 10 years.[6] TRG appealed to the Federal Circuit which affirmed the ITC's decision.

Extraterritorial Activity Can Fall Within Scope of ITC

There is a presumption against extraterritorial application of U.S. law unless Congress shows a clear intent otherwise.[7] The *TianRui* opinion makes it clear, however, that a respondent's extraterritorial activity is relevant to the determination of a Section 337 violation. Specifically, it establishes that Section 337 applies to imported goods, produced through the exploitation of misappropriated trade secrets, in which the act of misappropriation occurs abroad.

The Court in *TianRui* found that the presumption against extraterritoriality does not apply for three reasons. First, the purpose of Section 337 is to address the importation of goods. The Court compared the express language of the statute to language in the wire fraud statute[8] and the immigration laws[9] and found that Section 337, like the other statutes, necessarily involves cross-border activity and, thus, must consider extraterritorial activity that occurs before or after crossing the U.S. border. Second, the Court found that the unfair activity had ties to the U.S. because it involved the importation of goods into the U.S. The misappropriation in China, combined with importing the articles into the U.S., resulted in a domestic injury. The Court reasoned that the ITC's actions are not attempting to regulate an activity that wholly occurs on foreign soil. Finally, the Court considered the legislative history of Section 337 and its predecessors, going back to the Federal Trade Commission Act of 1914, and determined that Congress chose broad language to intentionally include activity occurring abroad.[10]

The Court also determined that consideration of extraterritorial actions would not improperly interfere with Chinese law. The ITC does not consider actions wholly occurring abroad unless the articles are imported into the U.S. Furthermore, the Court explains, the former Datong employees that disclosed Amsted's trade secrets had a duty not to disclose the trade secrets established by the Datong employee code and employee agreements, and that Datong had a non-disclosure agreement with Amsted. Thus, the ITC was not imposing U.S. law on persons for whom there was no basis to impose such law. Rather, the ITC was enforcing express provisions of an agreement between a Chinese company and a U.S. company. The *TianRui* holding expands the reach of Section 337 by expressly holding "that it was proper for the Commission to find a Section 337 violation based, in part, on acts of trade secret misappropriation occurring overseas."[11]

ITC Will Apply Federal Trade Secret Law

As a case of first impression, the *TianRui* holding also establishes that for a Section 337 investigation, the ITC should apply federal, rather than state, trade secret law.[12] For most states, this is likely a difference without distinction. Like the trade secret law of 45 states, federal trade secret law is based on the Uniform Trade Secrets Act ("UTSA").[13] Therefore, the *TianRui* holding does not dramatically affect the substance of the trade secret law for most states.

A handful of states, including Texas, have not adopted the UTSA. Because the *TianRui* holding mandates that the UTSA govern the trade secrets in Section 337 actions, before instituting an ITC investigation, companies in non-UTSA states should determine whether the UTSA or their state law is more favorable for the facts of their specific cause of action.

Trade Secret Owner Need Not be Practicing the Trade Secret

The holding of *TianRui* also considers whether the trade secret owner must be practicing the trade secret in order to satisfy the "domestic industry" requirement. In addition to addressing unfair competition, Section 337 also addresses importation of articles that violate the "statutory" intellectual property rights such as patents, copyrights, and trademarks.[14] A Section 337 violation based on the statutory intellectual property rights applies only if an industry in the U.S. "relating to the articles protected…exists or is in the process of being established."[15] TRG argued that the unfair competition provision, Section 337(1)(A), similarly requires the allegedly infringing articles to be related to an industry in the U.S. Based on this, TRG argued that a trade secret owner must be practicing the trade secret in order to qualify as having a protectable domestic industry and claim relief under Section 337.

The Court, however, determined that a domestic industry can exist regardless of whether the complainant is domestically practicing the particular trade secret. Indeed, Section 337 establishes a cause of action for, *inter alia*, unfair trade practices which may "destroy or substantially injure an industry in the United States."[16] The Court considered the express language and legislative history of Section 337, as well as relevant case law, and held that importation of articles that are in direct competition with articles produced by a domestic industry is sufficient to establish injury to "an industry" under Section 337. Therefore, a complainant need not be practicing the specific subject of the misappropriated trade secret to seek relief under Section 337.

Future Considerations

For companies that may want to avail themselves to this new trade secret protection tool, the question is how to lay the groundwork before confiding trade secrets to another company. As with all trade secrets, it is still important to use appropriate measures to protect trade secrets including agreements with confidentiality, non-disclosure, and non-use provisions. Furthermore, the agreements should specify that the foreign company will ensure that all of its employees sign and abide by similar confidentiality provisions. As shown by the Court's discussion of the obligations of the former Datong employees, such provisions can be important to establish the elements of trade secret misappropriation – regardless of whether they occur in the U.S. or abroad. It may also be helpful to use a choice-of-law provision to preserve the ITC's authority to address trade secret protection. Specifically, the choice-of-law provision should include a reference to the laws of the state having jurisdiction and to the laws of the U.S. so as to reduce the risk of arguments against the application of federal UTSA law. With these provisions in mind, the *TianRui* holding suggests that going to the ITC can be a choice to keep U.S. companies from getting steamrolled by the extraterritorial misappropriation of trade secrets.

The *TianRui* opinion was issued by a three judge panel of the Federal Circuit. The decision was 2-1 and included a strongly worded dissent by Judge Moore asserting that the ITC should not and cannot consider extraterritorial activity. The Federal Circuit opinion, however, is not the only authority addressing the trade secret issue in the U.S. Both the Legislative and Executive branches have noted that the U.S. economy and national security[17] are endangered by intellectual property theft, and that further protection is required.[18] Because of this federal attention, it is possible that some or all of the *TianRui* trade secret protection tools will be codified as law. Your Bracewell & Giuliani LLP attorneys will keep you advised if and when this case moves forward in any reconsideration, *en banc* hearing request, or appeal process.

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[1] ---F.3d---, 2011 WL 4793148 (Fed. Cir.) (split decision of a three judge panel, Judge Moore dissenting).

[2] 19 U.S.C. § 1337(a)(1)(A); *See, e.g., Viscofan, S.A. v. U.S. Int'l Trade Comm'n*, 787 F.2d 544, 549 (Fed. Cir. 1986).

[3] The ITC applied Section 337 to extraterritorial activity in *Sausage Casings and Resulting Product,* Inv. No. 337-TA-148/169, USITC Pub. 1624 (1984). The extraterritorial application was not challenged in *Viscofan, S.A. v. U.S. Intern. Trade Com'n*.

[4]United States International Trade Commission website: USITC - About the United States International Trade Commission.

[5] Tariff Act of 1930, Section 337(a)(1)(A), 19 U.S.C. § 1337(a)(1)(A).

[6] U.S. International Trade Commission, Inv. No. 337-TA-655, Limited Exclusion Order (February 16, 2010).

[7] *EEOC v. Arabian Am. Oil Co*., 499 U.S. 244, 248 (1991).

[8] 18 U.S.C. § 1343.

[9] 8 U.S.C. § 1101(f)(6), 1182(a).

[10] *TianRui* at *6-*8, *citing* Federal Trade Commission Act, Pub.L. No. 63–203, § 5, 38 Stat. 717, 719 (1914), codified as amended at 15 U.S.C. § 45; Tariff Act of 1922, Pub.L. No. 67–318, § 316(a), 42 Stat. 858, 943; and S.Rep. No. 67–595, pt. 1, at 3 (1922)).

[11] *TianRui* at *8.

[12] *TianRui* at *4.

[13]Uniform Law Commission website: Legislative Fact Sheet - Trade Secrets Act

[14] 19 U.S.C. § 1337(a)(1)(B).

[15] 19 U.S.C. § 1337(a)(2).

[16] 19 U.S.C. § 1337(a)(1)(A)(i).

[17] According to the Semiconductor Association, 15% of the microchips purchased by the U.S. military in 2010 were counterfeit chips from China. *See* "Congressional Hearing: Counterfeit Chinese Products, From Computer Chips to Fake Viagra, Flood Houston Market," Houston Chronicle, July 8, 2011.

[18] *See, e.g.*,"Congressional Hearing: Counterfeit Chinese Products, From Computer Chips to Fake Viagra, Flood Houston Market," Houston Chronicle, July 8, 2011; Department of Justice Intellectual Property Task Force website; Federal Bureau of Investigation Intellectual Property Theft website; Testimony of Office of International Trade Assistant Commissioner Allen Gina, U.S. Customs and Border Protection, before the Senate Committee on the Judiciary, "Oversight of Intellectual Property Law Enforcement Efforts," June 22, 2011; "Concrete Steps Congress Can Take to Protect America's Intellectual Property," by Victoria Espinel, U.S. Intellectual Property Enforcement Coordinator, March 15, 2011, published on The White House Blog.