Federal Circuit Holds That the ITC Has Jurisdiction over Foreign Trade Secret Theft in Section 337 Investigations

The U.S. Court of Appeals for the Federal Circuit recently affirmed the U.S. International Trade Commission ("ITC")'s determination that it had jurisdiction to ban the importation of products made using processes protected by trade secrets, even where the misappropriation took place entirely outside of the United States. *See TianRui Group Co. Ltd. v. Int'l Trade Comm'n*, No. 2010-1395 (Fed. Cir. Oct. 11, 2011). In a split decision, the panel also ruled that the Commission should apply uniform federal law in Section 337 investigations when choice of law questions present themselves, such as in trade secret cases. The *TianRui* decision appears to open the door wider to complainants seeking a trade remedy against imported goods enriched by intellectual property theft abroad, provided that these complainants' domestic industry is injured by the misappropriation.

The Foreign Misappropriation at Issue in TianRui and the Commission's Determination

Amsted Industries, the Complainant in the underlying Section 337 investigation (*Certain Cast Steel Railway Wheels, Certain Processes for Manufacturing or Relating to Same and Certain Products Containing Same*, Inv. No. 337-TA-655), is an American corporation that manufactures cast steel railway wheels using a process protected by trade secrets. TianRui, the Respondent in the underlying Section 337 investigation, is a Chinese company that had unsuccessfully attempted to enter into a license agreement with Amsted to acquire a trade secret process for manufacturing railway wheels. Failing to obtain a license to Amsted's trade secrets, TianRui hired nine former employees of an Amsted licensee in China. These nine employees knew of Amsted's confidential manufacturing process and had signed confidentiality agreements agreeing to keep the process secret. Yet, shortly after these employees' arrival at TianRui, TianRui began manufacturing cast steel railway wheels using Amsted's secret process.

Amsted filed a complaint under Section 337 of the Tariff Act of 1930, as amended (19 U.S.C. § 1337). Applying Illinois state trade secret law, the ITC found after an evidentiary hearing that TianRui misappropriated more than 100 of Amsted's trade secrets and injured Amsted's domestic industry. The ITC issued an exclusion order banning the importation of TianRui's cast steel railway wheels. TianRui appealed to the Federal Circuit, arguing that the ITC lacked jurisdiction over the alleged unfair act because Section 337 "cannot apply to extraterritorial conduct and therefore does not reach trade secret misappropriation that occurs outside the United States."

While the appeal was pending, Taiwanese-based Richtek Technology Ltd. (represented by the authors) brought a Section 337 investigation against its Taiwanese competitor uPI Semicondutor and various uPI affiliates, customers and distributors based on patent infringement and trade secret misappropriation. *See generally Certain DC-DC Controllers and Products Containing Same,* Inv. No. 337-TA-698. Richtek alleged that its trade secrets were misappropriated abroad when Taiwanese executives and employees left Richtek and founded uPI. uPI argued that the ITC should apply Taiwan's trade secret law, because the alleged theft occurred entirely in Taiwan. The ITC did not reach the choice of law issue, because the Respondents in the *DC-DC Controllers* investigation entered into settlement agreements or consent orders (the latter of which being a promise not to engage in the alleged act and import the products at issue made to the ITC by a Respondent). The *DC-DC Controllers* investigation remains active, pending a determination of whether uPI and Respondent

Sapphire violated their consent orders, and may present the ITC with its first opportunity to apply the Federal Circuit's guidance in *TianRui* in a trade secret-based Section 337 investigation.

The Statutory Basis for Trade Secret-Based Complaints Under Section 337

Although the vast majority of Section 337 investigations instituted by the ITC allege the infringement of a U.S. patent or trademark, Section 337(a)(1)(A) permits the ITC to investigate "[u]nfair methods of competition and unfair acts in the importation of articles . . . into the United States" if the unfair conduct results in injury to a domestic industry. 19 U.S.C. § 1337(a)(1)(A). The statute itself does not state explicitly that subsection (a)(1)(A) covers trade secret misappropriation, but this provision has historically supported the institution of trade secret-based Section 337 investigations.

The Federal Circuit's Opinion: Extraterritorial Conduct, Federal Choice of Law

In a 2-1 decision reached by Judges Bryson, Schall, and Moore (dissenting), the court affirmed the ITC's determination that it could issue an exclusion order—a remedial order directing U.S. Customs to block the importation of the products at issue—to remedy trade secret misappropriation that occurred entirely outside the United States. The court noted the general presumption that U.S. laws do not govern extraterritorial conduct but reasoned that Section 337 "is surely not a statute in which Congress had only domestic concerns in mind." In this framework, the court further reasoned that "[t]he focus of Section 337 is on an inherently international transaction—importation." The court noted that the extraterritorial conduct served only to "establish an element of a claim alleging a domestic injury and seeking a wholly domestic remedy." The court cited the language in Section 337(a)(1)(A)(i)—which gives the ITC jurisdiction over conduct that could "destroy or substantially injure an industry in the United States" —and found that a foreign entity's misappropriation of trade secrets abroad *could* cause such injury to a domestic industry in the United States. Notably, the court affirmed the ITC's decision as to injury even though neither Amsted nor TianRui used the trade secret process at issue in the United States.

The court also held for the first time that a uniform federal law, rather than state law, governs trade secret-based Section 337 investigations. The court reasoned that federal law should govern Section 337 investigations because the statute is triggered by an act of federal concern: importation and cross-border trade, which is a "uniquely federal interest." The court did not go so far as to define the federal law that would apply in a trade secret-based Section 337 investigation because it felt that TianRui's misappropriation would have violated any state trade secrets law, but the court did note that nearly every state has adopted the Uniform Trade Secrets Act and the Restatement of Unfair Competition, and this seems likely to become the basis for a "federal" trade secrets law.

In a forceful dissent, Judge Moore wrote that the majority's decision contravened the U.S. Supreme Court's recent decision in *Morrison v. Nat'l Australia Bank Ltd.,* 558 U.S. ___ (2010), which established a presumption against a U.S. law's ability to control purely foreign conduct. Judge Moore criticized the majority's opinion as too broad, writing that its "breadth . . . is staggering," and opined that the majority's decision would open the floodgates to permit Section 337 investigations into scores of instances of allegedly unfair conduct, such as low worker wages. Judge Moore also opined that Amsted would have better served the public interest by obtaining a U.S. process patent.

TianRui's Impact: A New Weapon for Complainants

Complainants can now feel more comfortable bringing Section 337 actions to remedy trade secret misappropriation that occurred abroad, an unfortunately frequent occurrence. The Federal Circuit's holding appears likely to lead to an increase in trade secret-based complaints filed by companies with manufacturing operations, particularly in developing countries with undeveloped domestic trade secret protection. It also seems likely that complainants will find shelter in the ITC that they would not find in U.S. district courts. Tempering this, however, is the need to establish that their industry in the United States has been injured by the foreign misappropriation.