Extraterritorial Protection of Trade Secret Rights In China: Do Section 337 Actions at the ITC Really Prevent Trade Secret Theft Abroad?

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Why It’s Important

United States industry, government, universities and non-profits expended $398 billion on research and development.

Foreign theft of trade secrets represent significant and growing threats to U.S.’s economic strength.
What Can Be Done?

If the theft occurred on U.S. soil the claims may include: state law trade secret misappropriation, Computer Fraud and Abuse Act, or Economic Espionage Act.

What about theft on foreign soil?
Background of Section 337 and Trade Secret Cases

• Section 337 applies to Statutory and Nonstatutory claims

• Statutory Claims include patents, trademarks and copyrights

• Nonstatutory claims have been interpreted to include trade secrets
Statutory Claims

• Must be an industry in the U.S. that relates to articles protected by the intellectual property right or the industry must be in the process of being established.

• Three factors to determine if industry exists in U.S.
Nonstatutory Claims

The threat or effect of an unfair act do one of the following:

1. Destroy or substantially injure an industry in the U.S.

2. To prevent the establishment of an industry; or

3. To restrain or monopolize trade and commerce
The Debate

Does the use of Section 337 to prevent the misappropriation of trade secrets require the current exploitation of trade secrets?
Section 337 and Trade Secret Actions Before *TianRui*

*Certain Processes for the Manufacture of Skinless Sausage Casings and Resulting Product*, Inv. No. 337-TA-148 (July 31, 1984)
- Establishing misappropriation
- Determining existence of trade secret

*Certain Floppy Disk Drives and Components Thereof*, No. 337-TA-203 (Aug. 29, 1985)
- Discussion existence of domestic industry
Section 337 and Trade Secrets

“There is no question that misappropriation of trade secrets, if established, is an unfair competition or unfair act which falls within the purview of Section 337.”

ITC: Criteria To Establish Misappropriation

1. Existence of a Trade Secret;
2. Ownership of the Trade Secret or a Proprietary Interest;
3. Disclosure of the Trade Secret in Confidence or Acquisition of the Trade Secret by Unfair Means; and
4. Use or Disclosure of the Trade Secret Causing Injury to Complainant

-- Sausage Casings, 1984 ITC LEXIS 137 at *50-51.
ITC: Existence of a Trade Secret (Pre-\textit{TianRui})

ITC applied the six factors from the comment (b) of Section 757 Restatement of Torts:

1. Extent to which the information is known outside the business;
2. Extent to which the information is known inside the business;
3. Extent of measures taken to protect the secrecy of the information;
4. The value of the information to competitors;
5. Amount of time and effort or money expended; and
6. Ease or difficulty in proper acquisition or duplication;
“The evidence shows substantial factual issues and complicated legal questions that need fuller development to determine whether there exists a domestic industry under [section] 337.”

Two firsts were tackled by TianRui

1. Definitive ruling on whether a domestic industry exists when complainant is not exploiting the trade secrets in the U.S.

2. Can the ITC act when all acts of misappropriation occur outside the U.S.
TianRui: The Technology

Two Processes for Manufacturing Cast Steel Railway Wheels: ABC Process and Griffin Process
TianRui: The Parties

[Images of company logos: Amsted Industries Incorporated, TianRui]
TianRui: Alleged Misappropriation

- Attempted licensing negotiations between TianRui and Amsted
- Tianrui’s hiring of nine DACC employees
- TianRui and Standard Car and Truck Company’s joint venture Barber Tianrui Railway Suppluy
“whether there is a violation of subsection (a)(1)(A) of section 337 in the importation into the United States, the sale for importation, or the sale within the United States after the importation of certain case steel railway wheels or certain products containing same by reason of misappropriation of trade secrets, the threat or effect of which is to destroy or substantially injure an industry in the United States.”

-- TianRui, 661 F.3d at 1325.
TianRui: ITC Proceedings

• TianRui’s motion to dismiss proceedings

• The 10-day Evidentiary Hearing
TianRui: The Initial Determination

• Analysis of Alleged Misappropriation under Illinois Law
  – Section 145 Restatement (Second) of the conflicts of Law

• Contested Authority to Apply Section 337 Extraterritorially
TianRui: The Federal Circuit

• What was appealed (and what wasn’t)

• The Commission’s Position

• Amsted’s Position
TianRui: The Federal Circuit Decision

- The focus: “whether section 337 authorizes the Commission to apply domestic trade secret law to conduct that occurs in part in a foreign country”

- The Conclusion: “the Commission has authority to investigate and grant relief based in part on extraterritorial conduct insofar as it is necessary to protect domestic industries from injuries arising out of unfair competition in the domestic marketplace.”
The “Federal” Law of Trade Secrets?

• “[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”

-- *TianRui*, 661 F.3d at 1327.
Potential for Conflicts in Future Cases

• Potential for Genuine Conflicts in the Trade Secret Law Applied
  – Uniform Trade Secrets Act
  – Restatement (Third) of Unfair Competition
  – Economic Espionage Act
  – Differences in State Trade Secret Law

• Potential for variation in choice of law analysis
Examples of Conflicting Trade Secret Laws And Why It Matters

• Differences in Statute of Limitations

• Variations in Definition of “Trade Secret” and “Use”

• Could the EEA be a template for a Federal Trade Secrets Law?
Domestic Industry

Issue: Does the domestic industry need to relate to the intellectual property in question when nonstatutory intellectual property is at issue?

Answer: The Federal Circuit said that the injured party need not exploit the trade secret to bring a Section 337 Action.
Extraterritorial Protection: The Majority

Section 337 is applied properly because:

(a) Section 337 is expressly directed to unfair methods of competition and unfair acts committed in the importation of products into the U.S.;

(b) Section 337 only applies when a product is imported and injures or threatens to injure domestic industry

(c) The legislative history of Section 337 supports the Commission’s interpretation
Extraterritorial Protection: The Dissent

• Judge Moore argues: “We have no right to police Chinese business practices”

• Is there a potential to use Section 337 broadly to regulate foreign business?
Did The ITC Prevent Misappropriation?

• What did the ITC Limited Exclusion Order prevent?

• What about the activity still occurring in China?
Was The Horse Let Out Of The Barn?

If The Horse Is Out Of The Barn
you may as well figure out how to saddle it.