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U.S. Federal Circuit Upholds U.S. International Trade Commission's Authority to Ban Importation of Products Containing Trade Secrets Misappropriated by a Chinese Company in China

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On October 11, 2011, a three-judge panel of the U.S. Court of Appeals for the Federal Circuit, in a 2-1 decision, issued an opinion affirming a decision of the US International Trade Commission (ITC) barring importation of a product made in China by a Chinese company using trade secrets allegedly misappropriated by Chinese employees in China. The trade secrets were licensed by a U.S. company to a Chinese company, and were not being practiced in the United States by the U.S. company. The case, *Tianrui Group Co., Ltd. v ITC*, Case No. 2010-1395 (Fed Cir Oct 11, 2011), addresses various legal and policy issues relating to whether and to what extent US intellectual property law should reach extraterritorial conduct. The decision also illustrates how the globalization of commerce is increasingly testing the application of laws of individual sovereign nations.

The Basic Facts of the *TianRui* Case

Amsted Industries, Inc (Amsted) made cast steel railway wheels using two trade secret processes, one of which (the ABC process) was no longer practiced by Amsted in the U.S. Amsted licensed the trade secret process to a Chinese company called Datong ABC Castings (Datong). Another Chinese company, the TianRui Group (TianRui) sought but failed to obtain a license for the trade secret process from Amsted. So TianRui hired nine employees away from Datong with knowledge of the ABC process. The former Datong employees had signed confidentiality agreements with Datong and acknowledged the ABC process as proprietary and confidential. There was no dispute that TianRui misappropriated the ABC process trade secrets to make cast steel railway wheels in China that it sought to import into the U.S.

Amsted filed a complaint with the ITC. Section 337(a)(1)(A) of the Tariff Act of 1930 (section 337) authorizes the ITC to exclude articles from entry into the U.S. when it finds "unfair methods of competition [or] unfair acts in the importation of [those] articles" and those unfair methods destroy or substantially injure, or threaten to destroy or substantially injure, "an industry in the United States." The ITC barred import of TianRui's wheels into the U.S. after finding, based Illinois trade secret law, that TianRui misappropriated 128 trade secrets relating to the ABC process from Datong. TianRui appealed the ITC decision to the Federal Circuit, arguing that section 337 "cannot apply to extraterritorial conduct and therefore does not reach trade secret misappropriation that occurs outside the United States."

The Court's Holdings

The *TianRui* court sided with the ITC, and in the process issued several relevant and interesting holdings:

1. State law does not govern section 337 inquiries

The court ruled that the ITC erred in applying Illinois trade secret law to the section 337 dispute in reliance on an earlier Federal Circuit case noting that issues of trade secret misappropriation "are ordinarily matters of state law." 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' under section 337." The court

found that section 337 governs a field, international commerce, that is a "uniquely federal interest" for which Congress has empowered the courts to develop substantive law. The court did not overturn the ITC decision on that ground because it did not affect the outcome. Rather, the court found that the elements of trade secret misappropriation vary little from state to state or from the general principles of trade secret law in the Restatement, the Uniform Trade Secrets Act, and ITC decisions under section 337.

2. Section 337 applies to exclude goods produced through misappropriation occurring in China

The court recognized the venerable principle of American law that legislation from Congress only applies within the territorial jurisdiction of the US unless Congress evinces an intent otherwise. The court held that this presumption against extraterritoriality did not apply for four reasons:

First: the court found that Congress did not have "only domestic concerns in mind" when it legislated a method to stop importation of articles into the U.S. from abroad where the articles were produced with actions unfair to competition. The court compared section 337 to immigration statutes that "bar the admission of an alien [into the U.S.] who has engaged in particular conduct or who makes false statements in connection with his entry into this country." The court reasoned that Congress intended that the immigration statute would apply to conduct or statements occurring outside the U.S., and so it is reasonable to presume the same intent with section 337, which involves barring admission into the U.S. of products that violate our IP laws.

Second: the ITC order did not apply section 337 "to sanction purely extraterritorial conduct." Rather, the court said that the ITC was focused on stopping importation of goods "into this country causing domestic injury." The foreign conduct, according to the court, was "only" used to "establish an element of a claim alleging a domestic injury and seeking a wholly domestic remedy," therefore voiding the presumption against extraterritorial application. The court compared section 337 to the Economic Espionage Act, which criminalizes the theft of trade secrets and applies to foreign conduct if "an act in furtherance of the offense was committed in the United States."

Third: the court examined the legislative history of section 337, in which it interpreted an intent by Congress to broadly interpret the phrase "unfair method of competition," and that Congress contemplated that the ITC "would consider conduct abroad in determining whether imports that were the products of, or otherwise related to, that conduct were unfairly competing in the domestic market."

Fourth: the ITC has interpreted section 337 to reach acts of misappropriation occurring abroad, and the court noted that the ITC's "reasonable interpretations of section 337 are entitled to deference."

3. The ITC did not interfere with Chinese law by applying U.S. trade secret law to conduct occurring in China

The court gave three reasons why its decision did not interfere with Chinese IP and trade secret laws:

First: the ITC is not attempting to regulate conduct in China. Rather, the ITC is exercising authority to stop importation of infringing products into the U.S. if they affect the U.S. market.

Second: the court disagreed with the contention that Chinese trade secret law was a "more than adequate remedy" and therefore the ITC should let Amsted pursue claims in China under Chinese trade secret laws. TianRui made much of the fact that China is a member of the WTO Agreement on Trade Related Aspects of Intellectual Property (TRIPS). The court

found no "relevant difference" between the relevant articles of TRIPS and the trade secret principles applied by the ITC. Thus, the court found no conflict with Chinese law "that would counsel denying relief based on extraterritorial acts of trade secret misappropriation relating to the importation of goods affecting a domestic industry."

Third: the court found a basis to impose section 337 duties on the Datong employees from China who misappropriated the trade secrets because they had a duty not to disclose the trade secrets pursuant to confidentiality agreements they signed with Datong. To say that disclosing trade secrets in violation of "this duty" is beyond the reach of section 337 only because it occurred outside the U.S. "would invite evasion of section 337 and significantly undermine the effectiveness of this congressionally designed remedy."

4. ITC has more flexible authority over trade secret misappropriators than it does patent infringers

The ITC distinguished the narrow interpretation courts have given to the extraterritorial jurisdiction of US patent law; laws which have been expressly limited by Congress. The court held that "[b]ecause there is no parallel federal civil statute relating trade secret protection, there is no statutory basis for limiting the [ITC's] flexible authority under section 337[] with respect to trade secret misappropriation." Thus, the court found no barrier to what it interpreted as Congress' contemplation that unfair acts "leading to prohibited importation will include conduct that takes place abroad."

5. There is no requirement that the misappropriated trade secret be practiced in the US in order to find that the infringing products injure or threaten a domestic U.S. industry pursuant to section 337

TianRui argued section 337 did not apply because Amsted did not have operations in the U.S. that were practicing the misappropriated process — Amsted only licensed the process in China. The court held that while section 337(a)(2) did impose a requirement that an industry exist in the U.S. that relates to the infringing articles, this requirement was limited to "statutory intellectual property (such as patents, copyrights, and registered trademarks)." When it comes to "non statutory unfair practices in importation (such as trade secret misappropriation)," the court interpreted section 337(a)(1)(A) as permitting the ITC to apply a more flexible "realities of the marketplace" test — the ITC is permitted to define the "domestic industry" by looking to the realities of the marketplace in each case. The court found that because the imported TianRui wheels could directly compete with wheels produced by Amsted in the U.S. (even if not made using the purloined trade secret from China), there was a sufficient injury to a U.S. "industry" within the meaning of section 337 (a)(1)(A).

The Dissent

The dissenting judge in *TianRui* made some interesting points about the majority's analysis, which may lead to either a rehearing *en banc* before the entire Federal Circuit, or an appeal to the US Supreme Court. The general theme of the dissent was that section 337 should not extend to acts of misappropriation in China, by Chinese company employees, making wheels in China. The dissent saw the majority decision as creating precedent for the U.S. government to exclude goods produced in a foreign country if the foreign company uses business practices the ITC considers "unfair" under section 337.

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In an interesting and subjective policy preference for patent over trade secret protection, the dissenting judge noted that Amsted, and the general public, would have been better served by Amsted obtaining a process patent:

By broadening the scope of trade secret misappropriation to the extraterritorial actions in this case, the majority gives additional incentive to inventors to keep their innovation secret. Of course, this also denies society the benefits of disclosure stemming from the patent system, which are anathema to trade secrets. Moreover while Amsted (or more likely its Chinese licensee) will benefit from this decision, the burden of preserving Amsted's trade secret now falls squarely on the American consumer who missed out on the opportunity for increased competition and concomitant lower prices offered by TianRui's products.

Stay tuned.

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