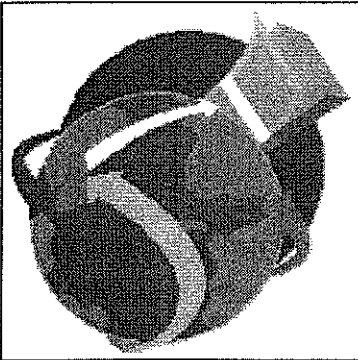


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Trade Secret Misappropriation before the ITC

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Even where the thief is outside the jurisdiction of the U.S., a victim may be able to successfully bring an action where the foreign entity is attempting to import a product into the U.S. that was manufactured using a purloined process or method

The International Trade Commission over the past several years has become a popular alternative to federal district courts for parties to bring patent infringement claims. Among other reasons, patent owners have come to appreciate the speed that cases reach a determination, the possibility of joining multiple defendants in a single action and the leverage that the remedy of an exclusion order creates. Now, in response to the 2011 Federal Circuit's decision in *TianRui Group Co. Ltd v. U.S. Int'l Trade Comm'n*¹, which provided a significant domestic remedy for U.S. companies whose trade secrets are stolen overseas, victims of trade secret misappropriation by foreign entities are also beginning to bring cases before the ITC with greater frequency.

Under Section 337 of the Tariff Act of 1930, the International Trade Commission ("ITC") is authorized to exclude imports when it finds "[u]nfair methods of competition and unfair acts in the importation of [those] articles." The CAFC in *TianRui* held that a product manufactured outside the United States with the assistance of a stolen trade secret owned by a U.S. based company can be barred from importation into the United States under section 337, even if the theft of the trade secret occurred entirely outside of the U.S. In reaching this conclusion, the court reviewed the principles that apply to federal statutes that create causes of action based in part on conduct that occurs overseas.

The court first found the presumption against extraterritoriality does not apply here because section 337 is "expressly directed at unfair methods of competition and unfair acts 'in the importation of articles' into the United States." According to the court, this shows that Congress did not intend for this act to be limited to domestic concerns. Second, the court held that the focus of section 337 is on the "act of importation and the resulting domestic injury" and, thus, the ITC's order "does not purport to regulate purely foreign conduct."

The Federal Circuit's decision provides U.S. companies with the ability to seek expedited relief from the ITC without having to bring suit in a foreign jurisdiction that may be far less friendly to a U.S. company.

At the time of the *TianRui* decision, commentators predicted that the decision would lead to an increase of trade secret cases being brought to the ITC. It appears now that this forecast is proving correct and trade secret owners are beginning to take advantage of the *TianRui* decision and filing complaints with the ITC where the unfair competition concerns the importation of products manufactured using a method involving stolen trade secrets, even where the theft occurred entirely overseas. The ITC currently has at least five pending investigations involving theft of trade secrets. Indeed, this past January, the ITC opened two new investigations involving trade secret misappropriation, each alleging unfair acts occurring exclusively overseas.

In *Certain Robotic Toys and Components Thereof*², a manufacturer of toys asserted that a Chinese company is manufacturing toys in China that incorporate trade secrets that a former engineer of the toy company had provided to the Chinese company. The trade secrets included robotic toy fish design, the steering apparatus, battery door seal technology and miniaturization know-know. The complaint did not name the Chinese manufacturer but only named the importer as a

respondent.

Also in January, in *Certain Paper Shredders, Certain Processes for Manufacturing or Relating to Same*,³ the Commission opened an investigation into a manufacturer of paper shredders' claims that a Chinese company is manufacturing in China competing paper shredders manufactured utilizing the tooling, molds, other equipment and documents that embody complainant's trade secrets and importing the products into the U.S. The complainant alleges that the trade secrets were acquired when the Chinese company physically took over and occupied the facility in China where complainant had manufactured its shredders. The respondent then used the same facility to manufacture the paper shredders using a "wholesale replication" of complainant's manufacturing process.

The Commission also has, at least, three other pending theft of trade secret cases. In *DC-DC Controllers and Products Containing the Same*,⁴ the Commission is reviewing respondents' compliance with a consent order, alleging trade secret misappropriation based on unfair acts occurring exclusive in Taiwan. The trade secrets at-issue concern integrated circuits designs, which respondent allegedly misappropriated by hiring personnel from complainant, who then divulged the designs. In *Electric Fireplaces, Components Thereof, Manuals for same, Inv.*⁵, the Commission is investigating a claim that two Chinese companies and an individual Chinese citizen violated Section 337 by importing into the U.S. electric fireplaces that are manufactured using a process embodying complainant's trade secrets and use materials and parts that also contain trade secrets stolen from complainant. A former employee of complainant allegedly provided respondents with the trade secrets.

Finally, in *Rubber Resins and Processes for Manufacturing Same*,⁶ the Commission is investigating whether a Chinese company is importing into the U.S. rubber resins that were manufactured using the trade secrets of complainant. The complaint alleges that the trade secrets were acquired by "poaching" an employee who was working at complainant's subsidiary in China. The complaint also alleges that complainant filed the ITC action after Chinese authorities failed to take action to stop the misappropriation.

TianRui also highlighted the different requirements under Section 337 between statutory intellectual property (such as patents, copyrights, and registered trademarks) and other nonstatutory unfair practices in importation (such as trade secret misappropriation). The provisions that apply to statutory intellectual property require that an industry relating to the protected articles exists or is in the process of being established⁷. Such an industry will be deemed to exist if there is significant domestic investment or employment relating to the protected articles.⁸ In contrast, the general provision relating to the unfair practices is not satisfied by evidence showing only that a domestic industry exists; it requires that the unfair practices threaten to "destroy or substantially injure" a domestic industry.⁹ However, as noted by the *TianRui* Court, "there is no express requirement in the general provision that the domestic industry relate to the intellectual property involved in the investigation."¹⁰ This is an important distinction for trade secret owners to understand when considering whether to bring an action in the ITC.

Apart from being able to assert claims where the trade secret misappropriation occurred overseas, the ITC offers a number of other advantages over federal courts.

First, aside from "rocket docket" districts such as the Eastern District of Virginia and the Eastern District of Texas, the time to trial or hearing in the case of the ITC is generally much faster in the ITC. In comparison to the approximate 30 months that it takes to go trial in many jurisdictions, most investigations in the ITC are completed within 18 months. As most trial attorneys would agree, a faster litigation track inures to the plaintiff's benefit.

Second, the availability of exclusion orders in the ITC provides trade secret owners with a potential significant advantage over federal courts. Trade secret owners in the ITC are not required to meet the four factor federal court test to obtain an injunction because the primary remedy available to complainants is the exclusion order. This prevents infringing products from entering the United States. While the ITC cannot award damages the threat of an exclusion order can lead to quick monetary settlements, which may be far greater than what could have been obtained in federal court.

Third, it is far easier to join multiple defendants in an ITC complaint than in a federal court action. Indeed, an ITC complainant can name multiple respondents in a single action, even where joinder would not be permissible in federal

court.

And fourth, there are fewer limits on discovery in the ITC as compared to many federal courts. For example, there is no limit on the number of interrogatories that a party may propound in the ITC whereas F.R.C.P. Rule 33 imposes a limit of 25. Further, the response time is much faster in the ITC. Under the federal rules, a party has 30 days to respond as compared to 10 days in the ITC. This pressure may lead a foreign defendant to sue for peace relatively soon after the ITC opens an investigation.

There has been extensive press coverage very recently about the dangers posed to U.S. companies from computer hacking and economic espionage committed by foreign entities, especially from China. It has also been pointed out that even where the perpetrator is identified it is almost impossible for the victim to take action because the perpetrator is located outside the U.S. and beyond the reach of U.S. laws. While this is unfortunately true in many cases, companies, which have been the victim of theft of trade secrets committed by a foreign entity should seriously consider whether bringing an action in the ITC offers a potential remedy. Even where the thief is outside the jurisdiction of the U.S., a victim may be able to successfully bring an action where the foreign entity is attempting to import a product into the U.S. that was manufactured using a purloined process or method.

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Footnotes:

1. 661 F.3d 1322 (Fed. Cir. 2011)

2. Inv. No. 337-TA-869.

3. Inv. No. 337-TA-863.

4. Inv. No. 337-TA-698.

5. Nos. 337-TA-826.

6. Inv. No. 337-TA-849.

7. 19 U.S.C. §. 1337(a)(2).

8. *Id.* § 1337(a)(3).

9. *Id.* sec. 1337(a)(1)(A).

10. 661 F.3d at 1335.