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Extraterritorial Protection of Trade Secrets at the ITC

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Overview Background and Statutory Framework --Unlawful Activities

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- 19 U.S.C. § 1337(a)(1):
  - "Unfair methods of competition and unfair acts in the importation of articles . . . into the United States" are unlawful.
- Has long been interpreted to apply to trade secret misappropriation.
  - *See e.g., Certain Apparatus for the Continuous Production of Copper Rod*, Inv. No. 337-TA-52, USITC Pub. 1017 (Nov. 1979).

Overview Background and Statutory Framework --Requirements

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- Three statutory requirements for investigation based on trade secrets: (1) importation; (2) misappropriation (an unfair act); and (3) injury to a domestic industry.

- The domestic industry is not limited to the complainant's activities
  - The analysis focuses on whether there is a nexus between the alleged unfair acts and the injury.

- A complainant need not wait until an infringing importation or sale occurs
  - A threat of injury can suffice.

Advantages of ITC

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- ITC has *in rem* jurisdiction over imports
  - Can pursue an unlimited number of infringing parties
  - There is no need to establish personal jurisdiction over defendants
    - Personal jurisdiction can be difficult to establish in district courts when foreign defendants are involved – especially numerous, unknown infringers in foreign countries
- Expedited timelines - the principal advantage
  - ITC often rules within 12 to 18 months after investigation begins
  - Temporary relief may be available in certain circumstances, and those relief proceedings must be concluded in 90 – 150 days
- Broad Discovery

Advantages of ITC

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- Potential advantages over District Court:
  - The ITC's remedies are powerful - Injunctive relief in the form of exclusion orders:
    - **Limited Exclusion Order**
      - Directed to the infringing imports of named respondent(s)
    - **General Exclusion Order**
      - Directed to *all* infringing imports regardless of source – both known and unknown entities – even those not named as respondents in the proceeding
        - » Limited Exclusion Order would be circumvented
        - » Pattern of violation and difficult to determine source of infringing products
    - **Cease and Desist Order**
      - Directed to domestic entities with inventories of infringing goods in the U.S.

TianRui Group v. ITC
661 F.3d 1322 (Fed. Cir. 2011).

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In a divided panel decision, the Federal Circuit held that § 1337(a)(1)(A) extends to acts of misappropriation that occur completely outside the United States.

See, Ron Vogel, "The Great Brain Robbery: Tianrui and the Treatment of Extraterratorial Unfair Trade Acts," *Federal Circuit Bar Journal* , 22 Fed. Cir. B.J. 641 (July 2013)

TianRui Group v. ITC
Facts

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- Complainant Amsted, an American company, owned secret process and layout for making cast steel railway wheels (the "ABC Process").
- TianRui hired employees from Chinese licensees of Amsted trained in the ABC Process. The employees had an obligation not to disclose the ABC Process.
- TianRui then used the ABC Process to make railway wheels, subsequently importing the wheels into the United States.
- The ITC issued an exclusion order on TianRui's wheels based on "overwhelming direct and circumstantial evidence of misappropriation," and TianRui appealed to the Federal Circuit.
- Challenged ITC's authority to reach imported articles resulting from acts of misappropriation taking place abroad as extraterritorial.

TianRui Group v. ITC
Holding

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- Section 337 reaches acts of trade secret misappropriation that occur abroad.
- Presumption that legislation applies only within the US does not govern for three reasons:
  - Focus of section 337 is an inherently international transaction – importation.
  - Sanctioned conduct is not purely extraterritorial because it is an element of a claim alleging harm to domestic industry.
  - Legislative history shows that Congress intended for consideration of unfair acts abroad where there is a nexus to the imported article.

TianRui Group v. ITC
Holding

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- No interference with Chinese law
  - Commission's jurisdiction did not extend to foreign business practices other than those involved with importation and harm to domestic industry;
  - No conflict with US common law and Chinese law regarding trade secrets;
    - [Side note: Chinese MOR denied certification to Respondent until ITC case resolved].
  - Conduct at issue was not the result of imposing American legal duties on foreign persons with no basis to do so. Employees signed NDAs creating duties.
- Section 337 jurisdiction did not conflict with previous case law involving process patents because no federal statute limited the Commission's authority regarding trade secrets, as is the case with patents.

TianRui Group v. ITC
Reasoning

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- In cases in which misappropriated trade secrets are used in the manufacture of the imported goods, the misappropriation will frequently occur overseas, where the imported goods are made.

- To bar the Commission from considering such acts because they occur outside the United States would thus be inconsistent with the congressional purpose of protecting domestic commerce from unfair methods of competition in importation such as trade secret misappropriation

TianRui Group v. ITC
Reasoning

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- As long as the misappropriating party was careful to ensure that the actual act of conveying the trade secret occurred outside the United States, the Commission would be powerless to provide a remedy even if the trade secret were used to produce products that were subsequently imported into the United States to the detriment of the trade secret owner. We think it highly unlikely that Congress, which clearly intended to create a remedy for the importation of goods resulting from unfair methods of competition, would have intended to create such a conspicuous loophole for misappropriators.

TianRui Group v. ITC
Dissent

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- U.S. has no right to police foreign business practices.
- Presumption against extraterritorial application of U.S. law applied in this case because neither section 337 or the legislative history supplied a “clear intent” otherwise.

Tianrui Group -- Broader Implications

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- *TianRui Group* emphasizes "broad and flexible" extent of the term "unfair competition" in legislative history.
  - Citing 1922 Senate Report stating

"[t]he provision relating to unfair methods of competition in the importation of goods **is broad enough to prevent every type and form of unfair practice** and is, therefore a more adequate protection to American industry than any antidumping statute the country has ever had."

  - No specific guidelines, no analysis on public vs. private wrongs

Post-*Tianrui* Challenges

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- In *Sino Legend Chemical Co. v. International Trade Commission*, 623 F. App'x 1016 (Fed. Cir. 2015), the Federal Circuit affirmed the Commission's finding of a violation of Section 337 based on trade secret misappropriation that occurred entirely in China.
- The Chinese authorities had ruled that there was no trade secret misappropriation in both civil and criminal proceedings.
- Issues on appeal were extraterritorial application and comity.
- CAFC issued non-precedential (Rule 36) affirmation.

Post-*Tianrui* Challenges

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- On September 30, 2016, Sino Legend filed a petition for certiorari asking SCOTUS to overrule *TianRui*, arguing that Section 337(a)(1)(A) contains no clear indication that it should apply extraterritorially and barring the importation of goods made using trade secrets misappropriated in China constitutes the impermissible regulation of conduct occurring overseas.
- The ITC countered that Section 337 applies to importation and economic injury in the United States and does not regulate foreign conduct or apply extraterritorially.

Post-*Tianrui* Challenges

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- The Chinese government (MOFCOM) sought a rehearing *en banc* from the CAFC and filed an amicus brief supporting cert.

- On January 9, 2017 the Supreme Court denied the cert. petition.

Potential Hurdles to Discovery in China

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- China is a Signatory to Hague Convention.
- Taking of evidence in China outside Hague Convention procedures is not authorized.
  - Participation in depositions in China by an American attorney can result in arrest and deportation.
- Letters of Request under Hague Convention.
  - Require substantial hoop-jumping.
  - Can take upwards of a year to be executed by the Central Authority in China, but not unusual for no reply at all.
  - Timeframe for response incompatible with ITC litigation, which is generally completed in 16-18 months.

See, Minning Yu, *Benefit of the Doubt: Obstacles to Discovery in Claims Against Chinese Counterfeiters*, 81 Fordham L. Rev. 2987 (2013).

Potential Hurdles to Discovery in China

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- Due to futility of proceeding through Hague Convention, a motion compelling inspection under *Aérospatiale* factors may be granted.

- *Aérospatiale*-- Supreme Court held that courts should not, as a first resort, depart from the Federal Rules in favor of the Hague Convention.

Aérospatiale

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- Supreme Court adopted a rule of comity by which courts must weigh the following factors in deciding whether to defer to the Convention: (a) the importance of the documents or information being sought; (b) the specificity of the requests; (c) whether the information originated in the United States; (d) whether the materials sought are available by alternative means; and (e) the extent to which noncompliance with the requests would undermine interests of the United States or the foreign state in which the evidence is located.
- Subsequent courts have inquired whether the party resisting the request is acting in good faith and whether the request would put the responding party to undue hardship.

Hague—*Aérospatiale* at the ITC

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- *Certain Sintered Rare Earth Magnets*, Inv. No. 337-TA-855, Order No. 81.
  - Complainant filed simultaneous motions to compel and to proceed under Hague Convention regarding discovery in Switzerland of foreign affiliate of U.S. respondent.
  - ALJ denied motion to compel and granted the motion for judicial assistance under the Hague Convention, in part due to letter from Swiss ambassador urging use of the Hague Convention and Swiss Governmental Willingness to assist.

Hague—*Aérospatiale* at the ITC

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- *Certain Hardware Logic Emulation Systems*, Inv. No. 337-TA-383, Order No. 65
  - Complainant moved for sanctions of adverse inference or alternatively to compel foreign employees of Respondent to appear for depositions pursuant to FRCP Rules.
  - ALJ evaluated the use of FRCP instead of Hague convention in view of *Aérospatiale* factors and granted the motion to compel (and dismissed the motion for sanctions without prejudice)
    - » As one of the *Aérospatiale* factors, the ALJ found that the Hague convention procedures would not prove effective, in part because it would not be possible to meet the target date if the convention procedures were followed.

Potential Hurdles to Discovery: Plant Tours in China

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- Evidence regarding manufacturing plants in China may be of key importance.
  - For example, expert testimony on processes being used in plant.
- Several cases where Chinese entity has initially resisted plant tours, but eventually relented.
  - *Certain R-134a Coolant*, Inv. No. 337-TA-623.
  - *Flexsys America v. Kumho Tire U.S.A.*, 5:05-cv-156 (N.D. Ohio).
    - Proper sanctions for non-compliance may include the imposition of adverse inferences. Specifically, an inference that the plant does practice or embody the trade secret(s) at issue.

– Questions / Discussion