

Should US Trade Secret Laws Extend To Foreign Countries?

Law360, New York (November 04, 2011, 12:46 PM ET) -- On Oct. 11, 2011, the Federal Circuit affirmed a decision by the International Trade Commission that blocked the import of goods manufactured in China because the process used to manufacture the goods incorporated a United States company's trade secrets.[1] This decision not only reminds U.S. companies that the ITC handles trade secret actions, but also dramatically illustrates how they now have an additional domestic remedy to protect against overseas trade secret misappropriation.

Amsted Industries Inc., a United States company, owned a secret process for manufacturing steel railway wheels. Amsted licensed the process to a number of manufacturers in China. TianRui Group Co. Ltd., a company with manufacturing operations in China, attempted unsuccessfully to negotiate with Amsted for a license to use the secret process. When TianRui was unable to secure a license, it poached employees from one of Amsted's licensees.

Using the employees' knowledge, TianRui was able to replicate Amsted's process and used it to manufacture wheels, which were imported into the United States. Amsted filed a complaint with the ITC alleging violation of the section 337(a)(1)(A) of the Tariff Act, which prohibits "unfair methods of competition and unfair acts in the importation of articles ... into the United States ... the threat or effect of which is ... to destroy or substantially injure an industry in the United States."

TianRui did not dispute that its use of the manufacturing process would violate domestic trade secrets law if it had occurred in the United States. Instead, TianRui moved to terminate the proceeding on grounds that the alleged misappropriation occurred in China and that Section 337 is not to be applied extraterritorially. The administrative law judge disagreed. The commission issued a limited exclusion order barring importation of TianRui's wheels.

The main issue for the Federal Circuit was whether Section 337 authorizes the commission to apply domestic trade secret law to conduct that occurs in part in a foreign country. At the outset, the appeals court held that federal common law — not 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 looked primarily to standards in the Restatement of Unfair Competition and Uniform Trade Secrets Act as the basis for a uniform federal rule.

The appeals court next examined whether Section 337 applies to imported goods produced through the use of trade secrets when the act of misappropriation occurs abroad. The Federal Circuit identified three reasons why a presumption against extraterritoriality did not apply: (1) Section 337 is directed at “the importation of articles” — the Tariff Act was not intended to address only domestic concerns; (2) foreign “unfair” manufacturing results in importation of goods that cause domestic injury; and (3) the legislative history, particularly Congress’ flexible “unfair methods of competition” language is consistent with applying Section 337 to overseas acts of trade secret misappropriation.

The Federal Circuit rejected TianRui’s argument that Section 337 does not apply unless the domestic industry practices the misappropriated trade secret process. The imported TianRui wheels could directly compete with wheels domestically produced by Amsted. That type of competition can constitute an injury to domestic “industry” under Section 337.

The Federal Circuit’s decision provides a significant domestic remedy for U.S. companies whose manufacturing processes are misappropriated overseas. U.S. companies now can seek expedient, domestic relief from the ITC without the cost and complexity of navigating international venues. The court’s decision to apply Section 337, even when the secret process is not employed currently in the United States, sets a low jurisdictional hurdle.

So long as the imported goods compete with domestic goods, the traditional prerequisites of establishing a nexus between the foreign conduct and United States trade sufficient to find personal and subject matter jurisdiction in a United States tribunal over the foreign entity are unnecessary. A party seeking an exclusion order will, of course, still need evidence that its trade secret has been misappropriated in the foreign jurisdiction.

The decision also raises the trend toward federalization of trade secret law. Trade secrets are governed by state law, with the majority of states having adopted the Uniform Trade Secrets Act into their state statutes. However, after the passage of the Computer Fraud and Abuse Act, several litigants used that statute as a springboard to plead their trade secret cases in federal court. It remains to be seen whether a unified federal common law standard to be used in future ITC trade secret actions will be applied in a manner consistent with the various state laws, or whether it will help embolden previous lawmakers’ attempts to pass federal trade secret legislation.

Finally, the hotly contested statutory interpretation, and the foreign policy implications surrounding this decision, make it attractive for appeal. A strong dissent argued that the acts which the court held to be trade secret misappropriation occurred entirely in China. Thus, according to the dissent, the proper issue before the court was whether Section 337 authorizes the commission to apply domestic trade secret law “to conduct which entirely occurs in a foreign country.”

The dissent argued that since none of the acts that constituted misappropriation occurred in the United States, domestic trade secret law cannot extend to acts occurring entirely within China. The dissent found no indication in Section 337 that Congress intended it to apply to “wholly extraterritorial unfair acts” even if the resulting product eventually is imported into the United States. Any appeal will likely involve TianRui arguing what the dissent plainly stated: “We have no right to police China's business activities.”

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[1] TianRui Group Company Ltd. v. Int’l Trade Com’n, No. 2010-1395 (Fed. Cir. Oct. 11, 2011).

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