TianRui*: The ITC's Power over Trade Secrets Appropriated Abroad

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Professor Field applauds the finding of authority to exclude goods made abroad using domestic manufacturers' secret processes.

Last October, TianRui Group Co. Ltd. v. International Trade Com'n, 661 F.3d 1322 (Fed. Cir. 2011), upheld an order excluding Chinese goods made according to trade secrets of Amsted Industries Inc., a domestic manufacturer of cast steel railway wheels. Judge Moore dissented primarily because acts seen to warrant exclusion occurred entirely in China. *Id.* at 1337.

In her opinion, Judge Moore nevertheless "agree[s] that trade secret misappropriation falls squarely within the terms of ¬ß 337." *Id.* She also seems to agree that federal, not state, law applies. Yet, as the majority observes, "trade secret law varies little from state to state and is generally governed by widely recognized authorities." *Id.* at 1327-28. These include two Restatements, the Uniform Trade Secret Act (echoed in the Economic Espionage Act, 18 U.S.C. ¬ß 1839(3)), and prior ITC opinions. *Id.* at 1328. To put such authorities in context, see my earlier column, *How Uniform Laws & Restatements Guide Federal Common Law* <http:www.ipfrontline.comdeptsarticle.aspx?id=11816&deptid=4> (July 2006).

Yet, in this instance, employees of an Amsted licensee had revealed secrets in breach of express confidentiality agreements. *Id.* at 1324. Because such breaches are universally condemned, variation among U.S. authorities, possibly important in other cases, "does not affect the outcome of this case." *Id.* at 1328.

Affirming that TianRui had improperly obtained Amsted's trade secrets, the majority opinion provides three reasons for upholding the ITC's exclusion order. The first two seem to merge into same notion: Preventing goods from coming into this country “does not, regulate purely foreign conduct.” *Id.* at 1329. Third, the majority finds the ITC's interpretation to be supported by the legislative history of ¬ß 337 of the Tariff Act of 1930, 19 U.S.C. ¬ß 1337. For example, it says, “it is fair to conclude that Congress contemplated that, the Commission 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.” *Id.* at 1331-32.

To rebut the risk that “unfair competition” could be seen as essentially unlimited in scope and encompass such things as employees’ working conditions, the majority cites FTC v. Gratz, 253 U.S. 421, 427 (1920) (“the prohibition on ‘unfair methods of competition’ does not encompass ‘practices never heretofore regarded as opposed to good morals because characterized by deception, bad faith, fraud or oppression, or as against public policy because of their dangerous tendency unduly to hinder competition or create monopoly.’”) *See id.* at 1330 n.3.

Ultimately, the majority opinion credits, perhaps less enthusiastically than it should, an important proposition in administrative law, stating, “even if we were to conclude that section 337 is ambiguous with respect to its application to trade secret misappropriation occurring abroad, we would uphold the Commission's interpretation,. As it is, we conclude that the Commission's longstanding interpretation is consistent with the purpose and the legislative background of the statute.” *Id.*

The result may surprise attorneys familiar with similar issues that have arisen in patent cases. At one time, products made elsewhere by processes patented here, but not

there, did not infringe U.S. patents and therefore could be imported into the United States. *See* In re Amtorg Trading Corp., 75 F.2d 826 (CCPA 1935) (decided before the ITC replaced the Tariff Commission). The statute was later amended to permit exclusion of goods made abroad by processes patented domestically. Yet a product made only in Japan by cells unpatented there could still not be excluded. *See* Amgen Inc. v. U.S. Intern. Trade Com'n, 902 F.2d 1532, 1537-38 (Fed. Cir. 1990) (regarding the cells as analogous to living machines, the court found, unsurprisingly, that claims to the latter do not encompass “intramachinery” processes.).

Thus, the *TianRui* majority concludes, “The import of those decisions is that the Commission's, authority to exclude from entry articles produced using ‘unfair methods of competition’ cannot be used to circumvent express congressional limitations on the scope of substantive U.S. patent law. Because there is no parallel federal civil statute regulating trade secret protection, there is no statutory basis for limiting the Commission's flexible authority under section 337(a)(1)(A) with respect to trade secret misappropriation.” 661 F. 3d at 1333.

In contrast, Judge Moore parts with this observation: “I understand a restrictive approach to extraterritoriality is not immediately popular in this case. We must, however, work within the confines of the statute and the clear presumption against extraterritoriality. It is not our role to decide what the law should be but to apply it as we find it.” *Id.* at 1343.

She appears mindful of possible perceptions that the majority opinion is influenced by animosity toward Chinese manufacturers, but she seems to overcompensate. TianRui apparently agreed that Chinese law, if for no other reason than TRIPS obligations, would also frown on breaches of employee’s confidential nondisclosure agreements. *Id.*

at 1332-33. Moreover, exclusion would seem justified even if Chinese law differed. Companies would no doubt view such a proposition with alarm, but the ITC's action would have no effect beyond the borders of the United States.

One commenter, following a similar analysis of the case, writes, “One judge disputed the majority's reading of the statute and offered cold comfort to companies who entrust their trade secrets to overseas manufacturers. In his (sic) view, the solution is simple: get a patent. This advice is of no use, however, to companies with trade secrets that have been in commercial production for more than a year. Moreover, many companies prefer the potentially perpetual lifespan of a trade secret over the 20-year term of a patent. Thus, the majority ruling is both practical and warranted.” Thomas Carey, *When Trade Secrets Are Stolen Overseas, Can the Thief Compete in the U.S.?* <http:www.sunsteinlaw.compublications-newsnews- letters201111Carey_201111.html> I agree.