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The China Syndrome: The International Trade Commission's Rising Importance for Enforcing International Trade Secret Violations

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The China Syndrome: The International Trade Commission's Rising Importance For Enforcing International Trade Secret Violations

By Jonathan R.K. Stroud

The Chinese have a saying that, roughly translated, means “four faces, eight places.”¹ While the meaning is difficult to translate, it effectively means everything is connected in all directions. Under one interpretation for every line of communication, you have two points on a grid, and thus with each new user, your web is multiplied. Thus, four faces, eight directions, and (under a strained interpretation) exponential growth.



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Similarly, our modern business world grows exponentially more interconnected with the Chinese business world with each new entrant onto the World Wide Web. Business relationships multiply exponentially, and so do the opportunities for malfeasance.

To ask a trick question: What do the names Yu Xiang Dong,² Hong Meng,³ Shanshan Du,⁴ Kexue Huang,⁵ David Yen Lee,⁶ and Hanjuan Jin⁷ have in common? They are all Chinese, but that is not the deeper answer. Tellingly, all six of these individuals figure prominently in President Barak Obama’s new strategy on mitigating the theft of U.S. trade secrets, appearing as six of the seven examples in the recently released strategic report, complete with price tags attached to how valuable the misappropriated trade secrets were or would have been.⁸ While not mentioning China specifically, the message is manifest—the Administration

believes the Chinese theft of trade secrets is on the rise, and is ramping up efforts to address the perceived surge.

Enter the U.S. International Trade Commission (ITC). The ITC has become an increasingly popular forum for business litigators in recent years.⁹ With severe remedies against importers of goods and a theoretical one-year-turnaround time,¹⁰ it has several advantages—both procedural and substantive—than make it an attractive forum for important business-to-business intellectual property disputes. Commentators and litigators often overlook the ITC's broad mandate, however, focusing only on patent infringement claims, which are governed by subsection (a)(B).¹¹ Indeed, nearly the entire ITC's docket dating back to the renaming of the Commission in 1974 consists of patent-centric litigation.

Yet the governing statute—and thus the forum itself—is far broader than just subsection (a)(B).¹² It “stops parties engaging in unfair competition from importing into the U.S. It includes both statutory IP like patents, copyrights, and trademarks—as well as state-law-based IP—such as trade secrets. When a foreign company practices what would be an unfair violation under U.S. , not the company's domestic laws, the U.S. Congress excludes that company's goods from the U.S.”¹³

Thus “unfair acts” that “destroy or substantially injure” an “industry in the United States lead to exclusion.”¹⁴ Unlike subsections (a)(B)–(E) (trademarks, patents, trade dress, copyrights), subsection (A) touches all other federal and state-based “unfair acts” and does not require the same level of proof that the complainant is a “domestic industry.”¹⁵ This draws criticism from international free trade advocates¹⁶ and allows for a far

broader exclusion order of all products that have benefitted from any alleged trade secret misappropriation. Litigants seeking to protect the U.S. against unfair importation of generic versions of patented medicines, biologics, and medical devices should consider the forum when dealing with international parties and pirated intellectual property.

Background

A. The International Trade Commission

The ITC is an independent, quasi-judicial federal agency with broad investigative responsibilities on matters of trade.¹⁷ There are six commissioners, with no more than three Democrats or Republicans, although there have been independents in the past.¹⁸ Commissioners are appointed to a nine-year term by the President as approved by the Senate.¹⁹

As others have noted,²⁰ section 337 parallels section 5 of the Federal Trade Commission Act,²¹ and broadly declares unlawful unfair methods of competition and unfair acts in the

importation and/or sale of imported articles. The ITC administers section 337. In running Intellectual Property-Based Import Investigations (337 investigations), the USITC employs six full-time administrative law judges to preside over these trial-like proceedings.

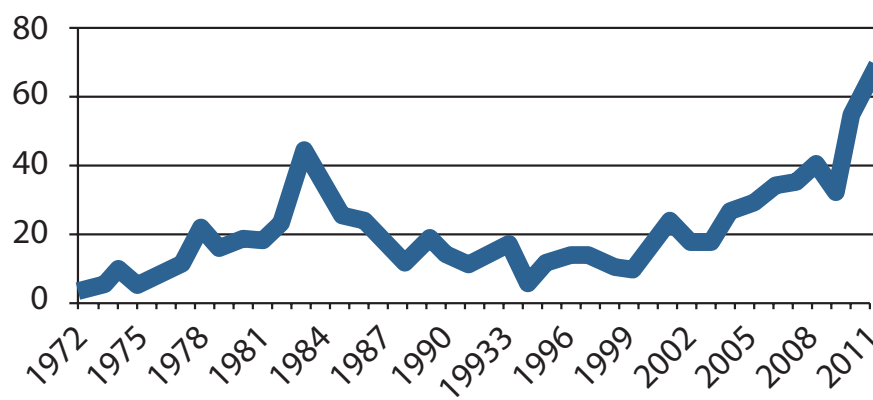
B. The Law of Trade Secrets at the ITC

The International Trade Commission has stated unequivocally that “there is no question that misappropriation of trade secrets, if established, is an unfair method of competition or unfair act which falls within the purview of Section 337.”²² To support this discussion, it is important to delve into the historical and legal underpinnings of trade secret doctrine.

Trade secret law emanates from a provision of Roman law that sought to protect information Roman slaves might disclose to competitors.²³ “The law governing protection of trade secrets essentially is designed to regulate unfair business competition.”²⁴ The tort of misappropriation of trade secrets seeks to provide a remedy for acts of

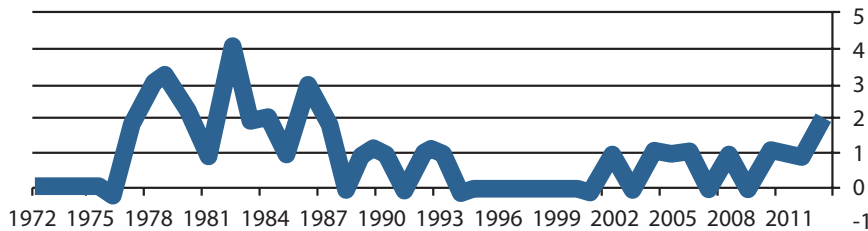
Compare the ITC's tracking of total 337 investigations:

Number of 337 Investigations²⁶ (Instituted by Calendar Year)



(Figures included through 2011.) With similar findings for trade secret investigations:

Number of 337 Trade Secret Investigations Instituted (Each Calendar Year)*²⁷



(*Through Jan. 2013. Notably, in January of 2013 alone the Commission has already instituted two trade-secret-only investigations, and more can be expected soon.)

unfair competition against companies acting in good faith, and balances the rights of the employer to the fruits of his capital investment with the interests of the laborer in mobility and retention of personal skills.²⁵

C. ITC Trade Secret Cases

By my count, there have been 39 instituted investigations that have formally included Trade Secret in the complaint. Of those cases, only a handful did not settle and only a tiny subset of those decided significantly comment on the law of ITC trade secret violations. Only a handful primarily pled trade secrets violations (although that number rose dramatically early this year), and due to the primacy of patent violations few rulings have survived settlement, consent order, or dismissal. Thus, the record and precedential body for ITC trade secret law (and the resulting literature) is quite sparse.

The significant cases and some statistics breaking down any discernible trends follow.

As practitioners rediscover this underutilized cause of action, that number may grow in the coming years, particularly after the Federal

Circuit's decision in *Tianrui* fixed a spotlight on the cause of action, arguably expanding the jurisdiction for the action to include violations that occur entirely outside of the United States.

D. TianRui Grp. Co. v. U.S. International Trade Commission

Recently, the Federal Circuit made waves when it upheld the Commission's decision to exclude goods based on a trade secret violation, where the theft happened in China.²⁸ There, Amsted Industries—an American manufacturer of cast steel railway wheels—licensed a discontinued secret process to a Chinese foundry. Amsted also developed and used its own newer process domestically. Meanwhile, a Chinese manufacturer, TianRui Group Co. Ltd. and TianRui Group Foundry Co. Ltd. (collectively, TianRui), hired a number of employees from the licensed foundry and shortly thereafter produced wheels using the same method originally licensed, violating U.S. *domestic* trade secret protection. TianRui then sought to import those wheels into the U.S. The ITC

excluded those wheels, and the Federal Circuit upheld the exclusion.

TianRui appropriately recognized the ITC's charter to seek out unfair trade practices and protect those American industries affected by them. Amsted's licensing of a competing trade secret to a foreign corporation provided ample evidence establishing a domestic industry—one that was undeniably injured domestically by the misappropriation of a valuable trade secret that allowed *TianRui* to compete in the domestic market.

The parties did not dispute that the acts of misappropriation occurred entirely in China. Following a trial before an administrative law judge, the Commission ultimately found that TianRui violated section 337 and issued exclusion and cease and desist orders barring the subject TianRui wheel parts from entry in to the U.S.

On appeal, the Federal Circuit affirmed the Commission's determination. The majority found that Section 337 focuses on the nexus between the imported articles and the unfair methods of competition rather than on where the misappropriation occurs: the determination of misappropriation was merely a predicate to the charge that TianRui committed unfair acts in importing its wheels into the United States. In other words, the Commission's interpretation of section 337 does not, as the dissent contends, give it the authority to "police Chinese business practices."²⁹ It only sets the conditions under which products may be imported into the United States.

E. Rubber Resins

The ITC has instituted four solely trade-secrets-focused investigations since the 2011 Federal Circuit decision in *TianRui*. The first, filed less than 8

months later, was *Rubber Resins and Processes for Manufacturing Same*.³⁰ The complainant SI Group, Inc., a chemical rubber tackifier manufacturer, filed against multiple respondents from China, Hong Kong, and Canada (collectively, Sino Legend).³¹

There, SI Group, Inc. accuses Sino Legend of hiring away one of SI Group's plant managers from one of SI's wholly-owned Chinese subsidiaries. That manager, SI Group alleges, misappropriated and disclosed some of SI Group's chemical processes, which were trade secrets, to Sino Legend. The alleged misappropriation, occurring entirely within a foreign jurisdiction, was of a chemical formula to create superior rubber tackifiers, a substance important in tire production.³² The 60-page complaint includes facts stretching back to 2004.³³ On June 20, 2012, the Commission, instituted an investigation. Discovery is ongoing and the trial should begin in February 2012.

Additionally, the two cases filed in 2013, *Robotic Toys and Components Thereof* and *Paper Shredders, Certain Processes for Manufacturing or Related to Same* represent a trend of filings directed toward Chinese companies based on trade secret violations.

F. Discovery Advantages/Disadvantages

Trade secret litigation at the ITC is high-risk, high-reward. It is high risk mostly because litigators have been reticent prior to *TianRui* to bring a case solely on a trade secret violation (or even in addition to an underlying patent claim, for that matter), and so the law is uncertain and there is little precedential opinion to follow. And trade secret litigation is high-reward because, as many commentators have

said, it provides a “powerful remedy against misappropriation.”³⁴

Despite the relative discomfort litigators have shown for doing so, pursuing trade secret violations at the ITC can be the far wiser litigation choice for companies, because it can do a number of things normal state court trade secret litigation cannot. A successful ITC determination often results in a *prospective nationwide* exclusion order, severely limiting the usefulness of any trade secrets misappropriated by foreign companies by denying them access to the largest market in the world for their ill-gotten goods. With experienced and effective counsel arguing the case, exclusion orders can encompass even products that do not directly incorporate the trade secret misappropriated abroad.

The ITC also affords a number of procedural and substantive advantages that should make the ITC a more attractive forum for parties seeking to protect business and trade secret investment. Lastly, even interdomestic parties should consider the ITC as against U.S.-based competitors who still largely import their goods from abroad.

First, *TianRui* fills a gap in international enforcement. As many have commented, dealing with foreign defendants can be difficult because of a wide array of procedural, substantive, and practical problems. For one, service of process can be nearly impossible, even under the Hague Convention (to which, for instance, Taiwan is not a party). For another, there can be little practical effect for summons or motions to compel. It may be difficult to obtain discovery, and costly as well. And even if a client is successful, the foreign jurisdiction

may ultimately refuse to enforce any resulting U.S.-based order.³⁵ Thus, it may be impossible to reach a foreign bad actor at all using traditional forums. And substantively, if the acts occurred abroad, the above-mentioned “presumption against extraterritorial application” as well as the machinations of civil procedure may render the claim moot. Now, those businesses with a colorable claim to trade secret violations and industrial espionage occurring internationally can seek the powerful remedy of domestic exclusion of the product.³⁶

Tianrui also set the bar low in terms of establishing domestic industry for trade secret violations. In *TianRui* the mere fact of importing wheels that would compete with the complainants primary business—not with the exact product in question—was sufficient to establish the nexus required. Thus, domestic industry seems easier to prove on substance for trade secret violations than for patent infringement.

To be sure, the party still has to prove a nexus between the product and the substantial injury, but with *Tianrui* the ITC seemed to be relaxing this requirement, meaning only that there is some domestic industry of the complainant that will be harmed by the importation of the good that has benefited from the misappropriation abroad. Thus, the nexus requirement seems a tenuous limitation at best.

Parties considering the ITC should not enter into actions lightly. Trials, while fast, are costly, requiring thousands of billable hours to prepare and submit mountains of discovery requests, responses, and exhibits. Parties generally work non-stop during the year-to-year-and-a-half window

they have, attempting to prove their cases successfully.

Still, highly skilled counsel will generally be worth the investment, as a successful case could turn a trade secret violation into the right to exclude products from the U.S. market entirely. At the least it provides a new bargaining chip to desperate parties attempting to enforce intellectual property violations within Chinese borders.

Conclusion

As shown above, substantively and procedurally, the ITC affords a number of distinct advantages over district and state court litigation when it comes to trade secret violations. The ability to turn a backward-looking tort for damages into a forward-looking right to exclude nationwide (including, perhaps, downstream products) means that parties can, in the future, protect product lines and intellectual property indefinitely as a trade secret, and then seek to exclude from the U.S. any misappropriator's products. ▲

1. Literally, 四面八方. The translation "four faces, eight places" is a simplified translation of this Chinese *chengyu* (成语), or four-character idiom left over from ancient times.
2. EXEC. OFFICE OF THE PRESIDENT, ADMINISTRATION STRATEGY ON MITIGATING THE THEFT OF U.S. TRADE SECRETS 4 (2012) (\$50 million).
3. *Id.* at 5 (\$400 million).
4. *Id.* at 7 (\$40 million).
5. *Id.*
6. *Id.* at 9 (\$7–20 million).
7. *Id.* at 10 (no value given).
8. *Id.* at *passim*.
9. See investigation statistics, USITC website; see Part X, *infra*.
10. At least in theory.
11. 19 U.S.C. § 1337(a)(1)(B) (2012).
12. See 7 PAT. L. FUNDAMENTALS § 21:42 (2nd ed. 2012) ("it has long been recognized that 'unfair competition'

- under § 337 has a broader purview.").
13. See Jonathan R.K. Stroud, Reviewing the *American University Law Review on Extraterritoriality*, ITCTLA 337 Rptr., Summer Associate Ed. 2012.
 14. Subsection (a)(1)(A). *Id.* at (a)(1)(A).
 15. See (a)(3), which explicitly excludes section (a)(1)(A) from its purview.
 16. Scholars have commented on the unique nature of the USITC's § 337 requirement: "Undeterred by international criticism, the United States continues to limit § 337 to complainants that have a domestic industry. The domestic industry requirement is unique to the United States." Thomas A. Broughan, III, *Modernizing S 337's Domestic Industry Requirement for the Global Economy*, 19 FED. CIRCUIT B.J. 41, 59–60 (2009) (footnotes omitted).
 17. CHRIS SCOTT GRAHAM, PROTECTING TRADE SECRETS: BEFORE, DURING, AND AFTER LITIGATION (2012).
 18. *Id.*
 19. 19 U.S.C. § 1330(a) (2012).
 20. Accord William P. Atkins & Justin A. Pan, *An Updated Primer on Procedures and Rules in 337 Investigations at the U.S. International Trade Commission*, 18 U. BALTIMORE INTELL. PROP. L.J. 105 (2010).
 21. Compare 19 U.S.C. § 1337(a)(1)(A)-(E) (2006) (outlawing unfair trade practices), with 15 U.S.C. § 45(a)(1)-(4) (2006) (likewise outlawing unfair trade practices).
 22. Certain Processes for the Manufacture of Skinless Sausage Casings and Resulting Product, Inv. No. 337-TA-148/169, USITC Pub. 1624, at 244 (December 1984). Many other cases have held the same. For instance, "Misappropriation of trade secrets is an unfair method of competition or unfair act which falls within the purview of § 337." IN THE MATTER OF CERTAIN FLOPPY DISK DRIVES AND COMPONENTS THEREOF INITIAL DETERMINATION, USITC Inv. No. 337-TA-203, 1985 WL 303605, *14 (USITC) (citing *In re Von Clemm*, 108 U.S.P.Q. 371 (C.C.P.A. 1955); Certain Processes for the Manufacture of Skinless Sausage Casings, Inv. No. 337-TA-148/169, at 243-48 (Jul. 31, 1984); Certain Apparatus for the Continuous Production of Copper Rod, Inv. No. 337-TA-52, 206 U.S.P.Q. 138 (1979)).
 23. ROBERT P. MERGES, PETER S. MENELL, & MARK A. LEMLEY, INTELLECTUAL PROPERTY IN THE NEW TECHNOLOGICAL AGE 33–35 (5th ed. 2010) (explaining that trade secret violations originated from Roman cause of action *actio servi corrupti* (literally, an action for corrupting the slave)).
 24. Univ. Computing Co. v. Lykes–Youngstown Corp., 504 F.2d 518, 539 (5th Cir. 1974).
 25. See generally Andrew F. Popper, *Beneficiaries of Misconduct: A Direct Approach to IT Theft*, MARQUETTE INTELL. PROP. L. REV. (forthcoming winter 2012). The Author contributed research to this publication.
 26. Certain Cast Steel Ry. Wheels, Processes for Mfg. or Relating to Same & Certain Prods. Containing Same, Inv. No. 337-TA-665, USITC Pub. 4265, at 1–2 (Feb. 16, 2010) (Limited Exclusion Order), *aff'd*, TianRui Grp. Co. v. U.S. Int'l Trade Comm'n, 661 F.3d 1322, 1324 (Fed. Cir. 2011). See also Matthew A. Werber, *Using the International Trade Commission to Address Trade Secret Misappropriation Occurring Abroad*, Lexology, August 24, 2012 ("The Federal Circuit caught the attention of the ITC and trade secret litigators alike when it ruled in TianRui Group Co. v. ITC that the ITC can exercise its jurisdiction over acts of misappropriation occurring entirely in China.")
 27. Statistics compiled from U.S. International Trade Commission, Press Room, Section 337 Statistical Information, http://www.usitc.gov/press_room/337_stats.htm (Last visited April 2, 2013).
 28. U.S. International Trade Commission, Press Room, Section 337 Statistical Information, http://www.usitc.gov/press_room/337_stats.htm (Last visited April 2, 2013).
 29. *Id.*
 30. Inv. No. 337-TA-849 (2012), *noticed in* 77 Fed. Reg. 38,083 (June 26, 2012).
 31. *Id.*
 32. *Id.*
 33. *Id.*
 34. Gary M. Hnath, *Section 337 Investigations at the US International Trade Commission Provide A Powerful Remedy Against Misappropriation of Trade Secrets*, INTELL. PROP. & TECH. L.J., June 2010 at 1, 1.
 35. See CHRIS SCOTT GRAHAM, PROTECTING TRADE SECRETS 52–55 (2012).
 36. "Exclusion orders are enforced, in part, by U.S. Customs Border Protection ("CBP") officials who are

instructed to identify articles subject to the exclusion order and prevent their entry into the U.S. While not a monetary award, an exclusion order is nevertheless a very powerful remedy. In TianRui, for example, the Commission issued an exclusion order prohibiting entry of the subject TianRui steel railway wheels for a period of ten years.” Matthew A. Werber, *Using the International Trade Commission to Address Trade Secret Misappropriation Occurring Abroad*, LEXOLOGY, August 24 2012.

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