

Risks from Trade Secret Infringement Dispute in Foreign Countries:

Comments on Tianrui Case

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*Tianrui v. US International Trade Commission*¹, a case decided by the United States Court of Appeals for the Federal Circuit (CAFC) represents a new way of investigation under section 337 of the Tariff Act of 1930, 19 U.S.C. (Section 337) and indicates a new development in the protection accorded to trade secret owners in the United States. The decision made in the case gives US trade secret owners a powerful weapon, namely to address trade secret infringement taking place outside the United States by applying the US national laws. The case has extraordinary impact, increasing the IP-related risks with exportation by Chinese businesses, especially those having potential trade secret disputes with their US competitors. It has been more than 10 months since the decision was made, yet it is rarely reported by the media in China. This article will be analysing the dispute of the case and its impact on the Chinese businesses.

Case brief

Amsted Industries Incorporation (Amsted), a cast steel train wheel manufacturer based in the United States, owns two manufacturing trade secrets: one used by Amsted in its United States operation, and the other no longer used in the United States, but licensed to the Datong ABC Castings

Company Limited, China (the Datong ABC for short). In 2005, Tianrui negotiated with Amsted, trying to secure a similar license without success. Later, Tianrui hired nine employees away from Datong ABC, who had received training in connection with, and were informed of, the trade secret in suit when working for Datong ABC, and eight of whom had respectively signed an agreement with Datong ABC in relation to the confidential information. Tianrui had then made the cast steel train wheels in China, and exported them to the United States through a joint venture.

Amsted filed a complaint with the US International Trade Commission, claiming that the involved wheels were manufactured using a process that was developed in the United States, and should be protected under the domestic trade secret law; hence the importation of said train wheels was contrary to Section 337². Tianrui moved to terminate the proceedings on the ground that the alleged misappropriation occurred in China and that Congress did not intend for section 337 to be applied extraterritorially. An administrative law judge at the Commission denied that motion, concluding that there was sufficient direct and indirect evidence to prove that Tianrui had obtained the manufacturing process in suit by way of misappropriating Amsted's trade secret and deciding to support Amsted's claim. The International Trade Commission did not review the administrative law judge's decision, and issued the limited exclusion order.

Dissatisfied with the International Trade Commission's decision, Tianrui appealed to the CAFC. In the proceedings, Tianrui did not challenge the following facts ascertained by the International Trade Commission: the Amsted's confidential information had been divulged to Tianrui by a way contrary to the obligation to keep it secret and the information had

been used to make the train wheels exported to the United States. Tianrui did make two litigant claims: one, section 337 had no extraterritorial effect; and two, Amsted did not suffer any injury in the United States under Section 337 as it had not exploited the trade secret in suit there.

The CAFC first analysed the new issue involved in the case (namely the issue of “the first impression” as mentioned in the International Trade Commission’s decision): should the Federal or State law be applied to the section 337 investigation launched by the International Trade Commission in relation to the trade secret? While the administrative law judge at the International Trade Commission analysed the alleged misappropriation under the Illinois trade secret law, the CAFC noted that whether some action constituted “an unfair method of competition” or “an unfair act” in importation in violation of Section 337 was a matter of the Federal law; hence the uniform Federal law standard, not a particular State’s tort act, should apply to address the matter. The trade secret acts of each State were not substantially different as they had all originated from the Restatement of Unfair Competition and the Uniform Trade Secret Act, and the Federal statutory criminal law on trade secret misappropriation defined the trade secret on the basis of the Uniform Trade Secret Act; hence there was no dispute over the application of the substantive trade secret law.

As for the issue of the extraterritorial effect of section 337, the CAFC affirmed such effect based on the following three points: 1) section 337 was specifically directed to methods and acts of unfair competition in importation to the United States. Section 337 is focused on import, which, *per se*, was a trade between nations; hence, it was reasonably presumed that the US Congress was clear that the Act would apply to acts likely to occur outside the US territory or had such an intention; 2) in the present case, the International Trade Commission did not apply section 337 to penalise purely extraterritorial acts. The acts directed to in the case was limited to acts that led to exportation of goods to the United States and resultant injury to a domestic industry; and 3) the legislative history of section 337 supported the International Trade Commission’s interpretation in relation to the application of it, and allowed the Commission to hear acts occurring outside the nation.

The second ground on which Tianrui filed its appeal was that Amsted had ceased using the misappropriated manufacturing process in the United States; hence the wheels imported to the United States did not threaten to de-

stroy or substantially injure an industry in the United States in violation of section 337. Regarding the matter, the CAFC noted that the standard for determining domestic industry varied for the different nature of the intellectual property rights involved in cases of the kind. For the statutory IP rights relating to patents, copyrights and registered marks, if available evidence showed the presence of large amount of investment or employments within the nation in connection with the article protected by the IP rights, it was possible to prove the presence of the domestic industry; when unfair acts of competition in relation to non-statutory IP rights (such as trade secrets) were involved, on the one hand, it was necessary to prove the virtual presence of a domestic industry, and, on the other, it was required that such unfair acts threatened to destroy or substantially injured an industry in the United States. Regarding non-statutory IP rights, such as trade secret, however, the law did not require that the domestic business must use said trade secret, nor clearly specify that the domestic industry was related to the IP right in relation to the investigation. Evidence from both parties showed that Tianrui’s imported wheels posed direct competition with those made by the trade secret owner in the United States. The International Trade Commission concluded that such competition constituted injury to an industry as mentioned in section 337, and the CAFC affirmed the International Trade Commission’s conclusion.

Accordingly, the CAFC concluded that the Congress had authorised the International Trade Commission to set forth the conditions with regard to importation of products to the United States, and the International Trade Commission was right to have applied section 337 in determining that Tianrui’s act in the United States constituted injury to an industry, and decided to have affirmed its decision.

Controversy over the case

The CAFC’s decision has great impact on cases of the kind. First of all, the decision has clarified two important issues of law when the International Trade Commission applies section 337 and investigates suspected trade secret infringements: 1) the International Trade Commission, when making such investigation, should apply the Federal trade secret law as embodied in the Restatement of Unfair Competition and the Uniform Trade Secret Act and its case law; and 2) a trade secret owner does not need to prove his or its domestic use of the trade secret in suit when proving unfair

competition related to non-statutory IP right threatens to destroy or severely injure an industry in the United States, that is, definition of related industry differs from the statutory IP rights.

The decision made in the case has caused considerable controversy. Especially, judges hearing the case have divided views on the issue of extraterritorial application of section 337. According to the long standing US law principles that “legislation of Congress, unless a contrary intent appears, applies only within the territorial jurisdiction of the United States”. Based on the grounds mentioned above, most judges hearing the case believed that it was possible for section 337 to apply to acts taking place outside the territory of the United States (in China as in the present case). Justice Moore noted that if Tianrui came to the United States, and misappropriated Amsted’s manufacturing process protected as a trade secret, then the International Trade Commission could apply section 337, prohibiting all products made using said manufacturing process from being imported into the United States; there was no unfair act involved in the importation of the train wheels, and all the acts of misappropriation of the trade secret or “unfair acts” involved in the case had taken place outside the United States. Justice Moore concluded that the US court was not authorised to determine whether any business activity taking place outside the U.S. was legitimate or not.

In fact, in the proceedings, Tianrui made its defence on one of the grounds that sufficient relief was available in the Chinese laws with regard to misappropriation of trade secret, and it should be disallowable for the International Trade Commission to apply the US trade secret law to an act taking place in China as such practice had the consequence of unjustifiably interfering with the application of Chinese laws. The CAFC did not support Tianrui’s defence for one of the reasons that Tianrui failed to point to the conflict of the principle the International Trade Commission applied to regulate trade secret theft or misappropriation with the Chinese trade secret law, and the court further pointed out that Tianrui had failed to find the difference between Article 39 of the TRIPS Agreement on prohibition of trade secret misappropriation and the trade secret law principle the International Trade Commission applied in the case, so CAFC did not see any conflict of the International Trade Commission’s decision with any Chinese law.

In this regard, this writer believes that the CAFC’s reasoning is worth exploring. The CAFC made the reasoning a-

long this line: now that China was a member of the WTO, the Chinese laws, including the trade secret law, must meet the requirements of the TRIPS Agreement, and the US trade secret law the International Trade Commission applied in the case was not different from Article 39 of the TRIPS Agreement, so the Chinese trade secret law did conflict with the US trade secret law the International Trade Commission applied in the case. The CAFC’s reasoning is not unassailable. First, while the Chinese law related to trade secret protection satisfies the relevant provisions of the TRIPS Agreement, the courts in China do not directly apply the TRIPS Agreement in hearing cases. For this reason, the provisions of the TRIPS Agreement should not be taken as the source of the Chinese law. Then, as Justice Moore pointed out, the US court was by no means a court to decide on the legitimacy of any act taking place in China. Whether an act is legitimate and fair is determined largely depending on the claims by, and evidence from, the interested part or parties. This writer noted that when the International Trade Commission heard the case of dispute, Tianrui made the defence that the trade secret in suit did not constitute a trade secret. If the case had been heard in China, the defence would be an issue of focus in the court hearing there, and also the key to determining the legitimacy of its act.

Impact of the case on Chinese businesses

In China, a trade secret, as a civil right, is protected under the unfair competition law and criminal law. Unlike the patent right, the scope of protection for a trade secret is not clearly defined. In recent years, with enhanced technical exchange and co-operation with foreign countries, trade secret disputes between Chinese and foreign businesses are on a constant rise. If a trade secret owner is a foreign party, he or it may claim protection of his or its trade secret under the bilateral or multi-lateral international conventions to which the country of the trade secret owner and China have acceded to. The courts in China will hear the case under the Chinese law, deciding on the constitution of the trade secret the plaintiff claims, defence made by the defendant, and the legal liabilities to be imposed on the defendant for infringement of the trade secret.

The Tianrui case has opened a window for US trade secret owners to resolve trade secret disputes between businesses from China and the United States. For a dispute aris-

ing from infringement of a trade secret in China, so long as the products made using the trade secret are exported to the United States, the US trade secret owner may take the Tianrui case as a precedent, and petition the International Trade Commission to investigate the Chinese business under section 337. The advantage of this practice to US trade secret owners is obvious: it is possible for them to bring lawsuit in his or its own country, where they are familiar with the laws and judicial system, and the high lawyer's fee would deter their foreign competitors. This advantage is exactly a disadvantage for their Chinese competitors. For this reason, without any doubt, the Tianrui case has considerably increased the risks for Chinese businesses exporting products to the United States in connection with trade secrets. How to guard against these risks is something all exporting Chinese busi-

nesses have to consider.

For this writer, Chinese businesses should become more aware of trade secret-related matters in their operation. On the one hand, they should make sure that their own trade secrets are kept safe from any misappropriation or use, and, on the other, take effective measures to reduce the probability of trade secret related disputes with other parties. After all, for many Chinese businesses, loss in a section 337 lawsuit is not so big a matter, what really matters are exclusion of products from exportation to the United States and loss of the market there. ■

¹ TianRui Group Co. v. International Trade Commission, Fed. Cir., Case No. 2010-1395 (Oct. 11, 2011).

² 19 U.S.C. §1937.