

**How a 50 State Regime Addresses
Misappropriation Inside and Outside the U.S.**

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Sources of trade secrets law in the U.S.

- State law
 - 48 states (not New York and Massachusetts) have adopted a version of the Uniform Trade Secrets Act
 - Massachusetts is considering adopting a form of UTSA
 - Various state criminal statutes
- Federal law
 - Economic Espionage Act (criminal statute)
 - No private right of action
 - Currently no general Federal civil statute concerning trade secrets; various civil laws under consideration
 - Tariff Act has been increasingly used to ban import of goods made through misappropriation of trade secrets outside U.S.

I. State Law: The “Uniform” Trade Secrets Act is Not Entirely Uniform

- Some differences in definition of trade secret and of “improper means” of acquiring trade secrets
 - *E.g.*, California expressly provides that “Reverse engineering or independent derivation alone shall not be considered improper means”
- Differences in pre-emption of other state law remedies
 - *E.g.*, New Jersey did not adopt Section 7 of the Uniform Act which displaces other state law remedies for misappropriation of a trade secret; remedies are cumulative
- Court decisions construing state law differs over whether state law remedies concerning “confidential information” that is not a trade secret are pre-empted
- Differences in availability of some remedies

The “Uniform” Trade Secrets Act is not Entirely Uniform

- Some states have enacted unique provisions. For example, Nevada has adopted a provision to address disclosures of trade secrets on the Internet:

A trade secret that is misappropriated and posted, displayed or otherwise disseminated on the Internet shall be deemed to remain a trade secret as defined if:

1. The owner, within a reasonable time after discovering that the trade secret has been misappropriated and posted, displayed or otherwise disseminated on the Internet, obtains an injunction or order issued by a court requiring that the trade secret be removed from the Internet; and
2. The trade secret is removed from the Internet within a reasonable time after the injunction or order requiring removal of the trade secret is issued by the court.

NRS 600A.055

New York Stands Alone?

- Some differences from the Uniform Trade Secrets Act concerning whether trade secret must be in actual use to be protectable
- No attorney's fees provision

Nonetheless, U.S. civil law relating to trade secrets is consistent in key aspects

- Definition of “trade secret”—6 factor test—commonly applied in all states
- Definition of misappropriation largely the same
 - Wrongful acquisition, use, disclosure
- Significantly, discovery tools largely consistent
 - Pre-hearing testimonial and documentary discovery available; often critical to develop circumstantial evidence
 - Various means of obtaining out-of-jurisdiction discovery
 - These discovery tools are generally far more robust than tools available outside the U.S.
 - Time lags may vary and may be important

II. Federal Law: Economic Espionage Act, 18 U.S.C. §1831

- Government can prosecute acts of trade secrets misappropriation occurring abroad if
 - Acts committed by a U.S. person or organization
or
 - An act in furtherance of the offense was committed in the United States
- Enhanced penalties for misappropriation against anyone who knowingly performs targeting or acquisition of trade secrets to knowingly benefit any foreign government, foreign instrumentality, or foreign agent
- Discovery generally pursuant to Federal Rules of Criminal Procedure and treaties

Remedies Under EEA

- Fines
- Forfeiture
- Jail terms
- Restitution

III. Federal Law: Investigations by the International Trade Commission

- Section 337 of the 1930 Tariff Act (and its predecessor under the 1922 act) prohibits “unfair competition” from imported goods “if the effect or threat of such importation is to injure a U.S. industry.”
- Section 337 permits the ITC to engage in investigations and impose orders prohibiting the importation of goods made abroad through acts of “unfair competition”
- Actions are *in rem* against the goods; nationwide jurisdiction and service of process by mail
- ITC rules/process must be consistent with GATT and TRIPS

ITC investigations concerning trade secrets misappropriation

- Under the Tariff Act the ITC may act against trade secrets misappropriation as a method of “unfair competition” and prevent the importation of articles or goods made through misappropriation of trade secrets
- Complaining party must establish impact on “domestic industry”
- Only available remedies are exclusion orders and cease and desist orders, not monetary remedies

Discovery in ITC cases

- ITC can authorize conduct of discovery outside the U.S. including testimonial discovery and production of documents
 - E-discovery rules may be less burdensome than in District Courts
- Penalty for default in discovery obligations can be exclusion order

Who decides ITC cases?

- Administrative law judges
- Review by full Commission
- Grants of exclusion orders by the Commission are reviewed by the President through the Trade Representative on policy grounds
- Trade Representative rejection of exclusion orders is final
- Other appeals go to the Federal Circuit
 - *De novo* review of legal conclusions, including claim construction
 - Review for “substantial evidence” under the APA on factual determinations

The ITC's Investigation of Trade Secrets Misappropriation

- ITC has granted exclusion orders as to products resulting from acts of trade secrets misappropriation occurring in part in the U.S. for many years
 - See, e.g. *Process for Manufacture of Skinless Sausage Castings* 337-TA-169 (1983) (10 year exclusion order); *Viscofan, S.A. v. U.S. Int'l Trade Comm'n*, 787 F. 2d 544, 548 (Fed. Cir. 1986) (affirming ITC exclusion order)

***Tian Rui Group v. ITC*, 661 F. 3d 1322 (Fed. Cir. 2011, reh. den. 2012 U.S. App. LEXIS 14790 (Fed. Cir. Feb. 1, 2012))**

- Trade secrets misappropriation which was alleged to occur entirely outside the U.S. in China
 - Chinese company (Tian Rui) hired employees of U.S. complainant's Chinese licensee who were bound by NDA's
- Domestic industry found by reason of U.S. complainant (Amsted's) technology transfer abroad and sale of competing products in U.S
- Respondent challenged ITC authority to exclude based on non-U.S. activities but did not strongly dispute factual assertions regarding activities in China

- “Overwhelming direct and circumstantial evidence that TianRui obtained its manufacturing process for cast steel railway wheels through the misappropriation” of complainant’s trade secrets
 - Manufacturing specifications identical, including typos
 - Similarities in foundry layouts
- Recommends limited exclusion order

On appeal, Federal Circuit considers whether ITC improperly extended U.S. trade secrets law

- Concludes no, because Tariff Act is necessarily international in reach
- ITC is not enjoining conduct abroad
- Court notes that under EEA Congress has authorized remedies applying to foreign conduct

“Unfair Methods of Competition”

- A “broad and flexible meaning” under the Tariff Act
- Standard cannot circumvent express standards in the Patent Act or other Federal statutes
- Importing articles made through misappropriation of trade secrets is “unfair competition” under the Act

Applicable law in trade secrets disputes before the ITC

- “Federal law” applies rather than state tort law when a Federal statute prohibits “unfair methods of competition”
- “General principles of trade secrets law” apply
- Since state trade secrets law does not vary widely, Commission and ALJ should look to the Uniform Trade Secrets Act and the Restatement (3d) of Unfair Competition as constituting a Federal “common law of trade secrets”
- State law nuances were not at issue in this case

- U.S. trade secrets law does not extend to acts occurring entirely in China
- Majority's decision is "staggering" in its breadth
- By broadening the scope of trade secret misappropriation to extraterritorial acts, the majority incentivizes the use of trade secrets law rather than patent law, denying the public the benefits of disclosure

Electric Fireplaces, Inv. No. 337-TA-791/826
(May 1, 2013)

- 5 year limited exclusion order for products made in China through use of stolen copyrighted and confidential drawings in China
 - Exclusion of copyrighted manuals for remainder of copyright term

Rubber Resins and Processes for Mfg. Same,
Inv. No. 337-TA-849 (Jan. 14, 2014)

- Unlike *Tian Rui*, underlying facts as to whether information at issue was a trade secret and whether misappropriation had occurred were hotly contested
- Disputes included whether Respondent Sino Legend's products were derived from Complainant's trade secrets and whether Complainant's patent disclosures revealed trade secrets
- Parallel proceedings before ITC and in China

Rubber Resins (“Sino Legend”)

- ALJ found that various trade secrets existed, that they were trade secrets at time of alleged wrongful conduct, and that Claimant had established misappropriation
- On the same day, the Shanghai No. 2 Intermediate People’s Court reached the opposite conclusion
- ALJ recommended a general exclusion order as to certain products
- ITC opened question of remedy for public comment
- ITC entered a 10 year limited exclusion order as to a reduced subset of products, saying, as to certain items, “This is classic misappropriation of trade secrets, with copying down to the thousandth decimal place”

Rubber Resins (“SinoLegend”)

- Indications that both sides may appeal
- Case will be closely watched
 - Issues of international comity?
 - Among other things, case may highlight the differences in discovery practices in US and China

Recent ITC investigations suggest a trend toward “internationalization” of U.S. trade secrets law

- U.S. substantive law (grounded in state laws) applied to non-U.S. activities
- Speed
- Service of process
- International discovery
- *eBay v. MercExchange* considerations concerning availability of injunctive relief may not apply
- Monetary remedies not available
- Does not affect activities outside U.S. that do not result in importation into the U.S.

Rapidly evolving area

- Much more to discuss
- Questions?

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