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# The Great Brain Robbery: *Tianrui* and the Treatment of Extraterritorial Unfair Trade Acts

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## Introduction

In June 2011, three employees of American Superconductor Corp. (“AMSC”) headed to northwest China to find out why the blades on a wind turbine manufactured by the company’s largest customer, China’s Sinovel Wind Group (“Sinovel”), were still spinning.<sup>1</sup> AMSC had been using the Sinovel turbine to test a new version of its control system software, which was designed to shut down at the end of the testing period.<sup>2</sup> Their answer lay high above the Gobi Desert, at the end of a 230-foot climb up to the nacelle, the tower’s electronic brain.<sup>3</sup> AMSC’s top-secret technology was gone with the wind.

The turbine ignored the system’s shutdown command because it was running a stolen version of AMSC’s software; analysis later revealed that Sinovel had accessed AMSC’s proprietary source code.<sup>4</sup> Earlier that year, Sinovel, which provided more than 70% of AMSC’s revenues, abruptly refused shipments of turbine control software.<sup>5</sup> The value of the undelivered AMSC components exceeded \$700 million, and the company’s share price plunged by more than 80% in six months.<sup>6</sup> Evidence soon emerged that Sinovel had promised \$1.5 million to an AMSC employee in the company’s research center in Austria

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<sup>1</sup> Michael Riley & Ashlee Vance, *Inside the Chinese Boom in Corporate Espionage*, BLOOMBERG BUSINESSWEEK (Mar. 15, 2012), <http://www.businessweek.com/articles/2012-03-14/inside-the-chinese-boom-in-corporate-espionage>.

<sup>2</sup> *Id.*

<sup>3</sup> *See id.*

<sup>4</sup> *Id.*

<sup>5</sup> Jonathan Weisman, *U.S. to Share Cautionary Tale of Trade Secret Theft with Chinese Official*, N.Y. TIMES Feb. 14, 2012, <http://www.nytimes.com/2012/02/15/world/asia/chinese-official-to-hear-trade-theft-tale.html>.

<sup>6</sup> *Id.*

for the stolen code.<sup>7</sup> An Austrian court sentenced the employee to a year in jail after he pleaded guilty to economic espionage.<sup>8</sup> AMSC has since filed the largest intellectual property rights (“IPR”) case in Chinese history, seeking more than \$1.2 billion in damages from Sinovel for breach of contract, copyright infringement, and theft of trade secrets.<sup>9</sup>

AMSC is one of many foreign companies faced with challenges of doing business securely and profitably in China.<sup>10</sup> U.S. industry officials complain the increasing number of Chinese trade secret thefts, including cyber-attacks, is “just the tip of the iceberg.”<sup>11</sup> An International Trade Commission (“ITC” or the “Commission”) report on the effects of IPR infringement in China estimated that U.S. firms lost \$1.1 billion from trade secret misappropriation in China in 2009.<sup>12</sup> The problem is exacerbated by China’s indigenous innovation policy, The National Medium- and Long-Term Plan for the Development of Science and Technology (“MLP”) (2006-2020).<sup>13</sup> The MLP, which aims to transform China into the global technology leader within a generation, calls for expanded cooperation with foreign universities, research centers, and corporate research and design (“R&D”) centers. But it also encourages its citizens to borrow

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<sup>7</sup> *Id.* Company officials say they found hundreds of messages between Sinovel and Dejan Karabasevic, the AMSC employee, “detailing the property to be stolen from the company, offering the money, and showing the actual transfer of the software. They even found signed contracts for the transaction.” *Id.*

<sup>8</sup> Ehren Goossens, *ASMC Taking Sinovel Infringement Suit to China’s Supreme Court*, BLOOMBERG (Apr. 9, 2012, 6:39 PM), <http://www.bloomberg.com/news/2012-04-09/amsc-taking-sinovel-infringement-suit-to-china-s-supreme-court.html>.

<sup>9</sup> Eliza Strickland, *A Test Case for Intellectual Property in China: Will Chinese Courts Finally Protect Foreign IP?*, IEEE SPECTRUM (Feb. 24, 2012, 15:50 GMT), [http://beta.spectrum.ieee.org/green-tech/wind/a-test-case-for-intellectual-property-in-china?utm\\_source=internaltoggle&utm\\_medium=widget&utm\\_campaign=fromlegacy#](http://beta.spectrum.ieee.org/green-tech/wind/a-test-case-for-intellectual-property-in-china?utm_source=internaltoggle&utm_medium=widget&utm_campaign=fromlegacy#). The copyright infringement case was dismissed by a provincial court. *Id.*

<sup>10</sup> *Id.* (“[A]s [ASMC] CEO Daniel McGahn said during an investor conference call in September, the company can’t afford to withdraw from China. ‘It is an economic reality that we must do business in China, and I believe we can do it securely and profitably.’”).

<sup>11</sup> Doug Palmer, *Theft of Trade Secrets Worsening in China-U.S. Business*, REUTERS (Oct. 3, 2012, 4:43 PM) <http://www.reuters.com/article/2012/10/03/us-usa-china-tradesecrets-idUSBRE89211920121003>; see also Ann Woolner et al., *The Great Brain Robbery*, BLOOMBERG BUSINESSWEEK (Mar. 15, 2012), <http://www.businessweek.com/articles/2012-03-14/the-great-brain-robbery#r=lr-fst> (detailing high profile IP thefts committed by China-related actors in the U.S.).

<sup>12</sup> China: Effects of Intellectual Property Infringement and Indigenous Innovation Policies on the U.S. Economy, Inv. No. 332-519, USITC Pub. 4226, at 3–10 (May 2011) [hereinafter *ITC China IPR II*].

<sup>13</sup> *China Issues Guidelines on Sci-Tech Development Program*, GOV.CN (Feb. 9, 2006), [http://www.gov.cn/english/2006-02/09/content\\_184426.htm](http://www.gov.cn/english/2006-02/09/content_184426.htm).

and improve on—or steal, as some allege—foreign technology. Such acts are counterproductive, for China’s long-term technology leadership aspirations are best served by a strong domestic IPR protection regime.

A robust Chinese IPR protection regime will further China’s goal of expanded international cooperation. U.S. statutes do not generally protect companies against losses from these extraterritorial acts. Companies must either seek relief in the foreign jurisdiction or bring pressure to bear where a country has not fulfilled an international commitment. In terms of international agreements, China has acceded to the World Trade Organization (“WTO”), which includes the Agreement on Trade Related Aspects of Intellectual Property Rights (“TRIPS”) as one of its constituent agreements.<sup>14</sup> This agreement sets down minimum standards for IPR protection.<sup>15</sup> The problem, however, lies in practice. Although there are signs that enforcement in China is improving, many companies believe that remedies for trade secret misappropriation in China are ineffective.<sup>16</sup> These issues have been raised at cabinet-level meetings between the two countries. At the most recent meeting of the U.S.-China Strategic and Economic Dialogue (“S&ED”), China agreed to prioritize trade secret rights and to increase enforcement against trade secret misappropriation.<sup>17</sup> Experts counsel patience, arguing that excessive politicization of these complicated intellectual property (“IP”) issues will not benefit the government or industry and may even divert scarce resources.<sup>18</sup> In the interim, trade secret right holders remain at risk in China.

U.S.-based rights holders can still defend their market against overseas trade misappropriation via the ITC. A section 337 exclusion order blocking imports into the lucrative U.S. market can be a powerful remedy; it may also be the only remedy. Many complainants state that a key reason for filing a section 337 case instead of a Chinese case is the difficulty in obtaining evidence in

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<sup>14</sup> *New Progress in China’s Protection of Intellectual Property Rights (2005)*, Gov.CN (Apr. 2005), [http://english.gov.cn/official/2005-07/28/content\\_18131.htm](http://english.gov.cn/official/2005-07/28/content_18131.htm).

<sup>15</sup> *Overview: The TRIPS Agreement*, WORLD TRADE ORG., [http://www.wto.org/english/tratop\\_e/trips\\_e/intel2\\_e.htm](http://www.wto.org/english/tratop_e/trips_e/intel2_e.htm) (last visited Apr. 13, 2013).

<sup>16</sup> Strickland, *supra* note 9. More patent and copyright lawsuits are being brought in Chinese courts by Chinese litigants. *See infra* Part I.A.6.

<sup>17</sup> U.S. DEP’T TREASURY, *U.S. Fact Sheet—Economic Track of the Fourth Meeting of the U.S.-China Strategic and Economic Dialogue (S&ED)* (May 4, 2012), <http://www.treasury.gov/press-center/press-releases/Pages/tg1568.aspx>.

<sup>18</sup> Mark A. Cohen, *Obama’s New Laboratories for IP Enforcement Involving China*, CHINA IPR (Feb. 10, 2012), <http://chinaipr.com/2012/02/10/obamas-new-laboratories-for-ip-enforcement-involving-china/>. Professor Cohen is the former Senior Intellectual Property Attaché at the U.S. Embassy in China. *About*, CHINA IPR, <http://chinaipr.com/about/> (last visited Apr. 13, 2013).

China.<sup>19</sup> In such a case, the question is whether a U.S. court should be allowed to rule on a foreign-based act of misappropriation.

In *Tianrui Group Co. v. U.S. International Trade Commission*,<sup>20</sup> the United States Court of Appeals for the Federal Circuit (“Federal Circuit”) affirmed the Commission’s scope in unfair competition disputes by giving it jurisdiction over acts conducted in China.<sup>21</sup> Critics of the decision argue that it violates a longstanding presumption against the extraterritorial application of U.S. law and encroaches the sovereignty of foreign IP regimes.<sup>22</sup>

This Article will examine the import of the *Tianrui* decision, beginning with the development and current state of trade secret protection in China.<sup>23</sup> It will contrast China’s regime with U.S. trade secret protection, available under common law and section 337 of the Tariff Act of 1930. It will show that there is clear support for the Commission’s limited extraterritorial reach in Commission orders and decisions by the Federal Circuit and United States Supreme Court (“Court”). After discussing questions of national treatment, it will conclude that the Commission’s efforts will result in greater IPR protection in China. Markets are global and, when possible, courts need to take an international approach, avoiding insular rules that disrupt, rather than facilitate, trade. The

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<sup>19</sup> Mark A. Cohen, *Section 337 and IPR Enforcement*, CHINA INTELL. PROP. MAG., Apr. 1, 2008, <http://www.chinaipmagazine.com/en/journal-show.asp?id=299>. Recently, a U.S. company, after initiating Chinese civil proceedings for misappropriation of trade secrets, filed an ITC complaint alleging that the Chinese courts have not taken action to stop the misappropriation. See generally *In re Certain Rubber Resins and Processes for Manufacturing Same*, Inv. No. 337-TA-849 (U.S.I.T.C.); Alexander W. Koff & David Nickel, *Ruling on Common Law in Trade Secret Disputes May Expand Trade Commission Caseload*, 27 LEGAL BACKGROUNDER (Washington Legal Foundation, D.C.), Aug. 17, 2012, No. 15 at 4, <http://www.wtplaw.com/documents/2012/08/ruling-on-common-law-in-trade-secret-disputes-may-expand-trade-commission-caselo>.

<sup>20</sup> 661 F.3d 1322 (Fed. Cir. 2011).

<sup>21</sup> *Id.* at 1330, 1332.

<sup>22</sup> Viki Economides, Note, *Tianrui Group Co. v. International Trade Commission: The Dubious Status of Extraterritoriality and the Domestic Industry Requirement of Section 337*, 61 AM. U. L. REV. 1235, 1243 (2012). This is not first jurisdictional incursion into China: from 1906 to 1943, the U.S. Court for China tried hundreds of civil and criminal lawsuits in China under an amalgam of U.S. law, a system described as “a veritable incubator of tensions between local needs and distant sovereign agendas.” Tahirih V. Lee, *The United States Court for China: A Triumph of Local Law*, 52 BUFF. L. REV. 923, 933 (2004). The Court was supposed to apply U.S. law in China; however, because U.S. federal law did not cover many criminal offenses or civil matters, the court applied “only federal statutes designed for special jurisdictions, such as Alaska and the District of Columbia.” *Id.* at 1028.

<sup>23</sup> The focus of this Article is trade secret disputes between U.S. and Chinese entities; however, much of the analysis and many of the suggestions are applicable to trade secret disputes in other foreign jurisdictions.

ITC's extraterritorial reach serves as a reminder that private property rights extend beyond the "pragmatism of economic regulation."<sup>24</sup>

## I. Trade Secret Protection

### A. Trade Secret Law in China

#### *1. Trade Secret Law Developed in Conjunction with Economic Reforms*

Although China has recognized the significance of intellectual property since as early as the Tang Dynasty,<sup>25</sup> a comprehensive legal system to protect economic rights only developed as China's market economy emerged thirty years ago.<sup>26</sup> Under the old central-planned economic system in the People's Republic of China ("PRC"), technical secrets could be used by all state enterprises free of any compensation.<sup>27</sup> As economic reforms took hold, China adopted a policy encouraging movement of talented people among domestic and foreign enterprises operating in China.<sup>28</sup> This led to greater mobility among managerial and technical personnel in China, and increased the potential for trade secret misappropriation.<sup>29</sup>

#### *2. Trade Secrets Are Regulated Under the Law for Countering Unfair Competition*

In the mid 1980s, authorities in certain Chinese localities, including Shanghai, Wuhan, and Jiangxi, adopted local legislation countering unfair

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<sup>24</sup> Randall R. Rader, *Intellectual Property Protection in China*, 1 INTELL. PROP. PRACTICE GRP. NEWSL. (The Federalist Soc'y, Washington, D.C.), Dec. 1, 1996, at 1, 1–2, (noting that as China overcomes a cultural and historical bias against individual property rights and seeks a return to leadership in science and the arts, it will commit more resources to achieving international standards in intellectual property enforcement).

<sup>25</sup> *Id.* (noting that strict protection for books, symbols, and products associated with the emperor was designed to promote imperial control and power).

<sup>26</sup> *Roadmap for Intellectual Property Protection in China: Trade Secrets Protection in China*, EU-CHINA PROJECT PROTECTION INTELL. PROP. RIGHTS 2 (Feb. 2011), [http://www.IPR2.org/storage/EU-Trade\\_secrets\\_in\\_China-EN1001.pdf](http://www.IPR2.org/storage/EU-Trade_secrets_in_China-EN1001.pdf). [hereinafter *IPR2 Secrets*]. In 1978, state-owned industrial enterprises accounted for 78% of China's total industrial output, declining to approximately 30% by 2004. *State Owned Enterprises in China: Reviewing the Evidence*, OECD § 2.2, at 6 (Jan. 26, 2009), <http://www.oecd.org/corporate/calcorporat-governanceofstate-ownedenterprises/42095493.pdf>.

<sup>27</sup> Yuan Cheng, *Legal Protection of Trade Secrets in the People's Republic of China*, 5 PAC. RIM L. & POL'Y J. 261, 264 (1996); David A. Ralston et al., *Today's State-Owned Enterprises of China: Are They Dying Dinosaurs or Dynamic Dynamos?*, 27 STRATEGIC MGMT. J. 825, 832 (2006).

<sup>28</sup> Cheng, *supra* note 27, at 265 & n.10.

<sup>29</sup> *See id.* at 274.

competition.<sup>30</sup> The first national level protection for trade secrets—enacted pursuant to strong U.S. pressure<sup>31</sup>—was codified in the Law for Countering Unfair Competition (“LCUC”) and adopted on September 2, 1993.<sup>32</sup> Article 10 of the LCUC defines a trade secret as: (1) technical and operational information that is unknown to the public; (2) which has economic value and *practical* utility; and (3) for which the owner of the rights has undertaken measures to maintain its confidentiality.<sup>33</sup> The additional requirement of practical applicability is more than that required under U.S. law (for example, the Uniform Trade Secrets Act) or under TRIPS.<sup>34</sup> In 2007, the Supreme People’s Court of China issued the Judicial Interpretation of Supreme People’s Court on Some Issues Concerning the Application of Law in the Trial of Civil Cases Involving Unfair Competition (“Interpretation”) to clarify issues relating to unfair competition claims.<sup>35</sup> The Interpretation states that if the relevant information has actual or potential commercial value, and can bring competitive advantage for the proprietor, it shall be practical.<sup>36</sup> But, this may

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<sup>30</sup> *Id.* at 266.

<sup>31</sup> *Id.* at 263–64. Article 4 of the Sino-U.S. Agreement Concerning the Protection of Intellectual Property Rights signed on January 17, 1992, required that the Chinese Government submit a bill necessary to “prevent trade secrets from being disclosed to, acquired by, or used by others without the consent of trade secret owner in a manner contrary to honest commercial practices.” *Id.* at 263 (internal quotation marks omitted).

<sup>32</sup> *Id.* at 262.

<sup>33</sup> Cheng, *supra* note 27, at 270. *See generally* Zhong Hua Ren Min Gong He Guo Fan Bu Zheng Dang Jing Zheng Fa [Anti-Unfair Competition Law of the P.R.C.] (promulgated by Standing Comm. Nat’l People’s Congress, Sept. 2, 1993, effective Sept. 2, 1993), art. 10 (China) [hereinafter *LCUC*]. In China “technical information” is primarily concerned with industrial and manufacturing activities, whereas “operational information” is often related to the service industries, as well as the marketing and distribution of products of an industrial enterprise. Cheng, *supra* note 27, at 270–71.

<sup>34</sup> Cheng, *supra* note 27, at 279. *Compare LCUC, supra* note 33, art. 10, with UNIF. TRADE SECRETS ACT, UNIF. LAW COMM’RS (1985), and Agreement on Trade-Related Aspects of Intellectual Property Rights, 33 INT’L LEGAL MATERIALS NO. 5, Annex 1C, pt. II, § 7, art. 39, at 1212 (1994).

<sup>35</sup> Interpretation of the Supreme People’s Court on Some Matters about the Application of Law in the Trial of Civil Cases Involving Unfair Competition (adopted by the Judicial Comm. of the Sup. People’s Ct. on Dec. 30, 2006, effective Feb. 1, 2007), [http://www.fdi.gov.cn/pub/FDI\\_EN/Laws/law\\_en\\_info.jsp?docid=76558](http://www.fdi.gov.cn/pub/FDI_EN/Laws/law_en_info.jsp?docid=76558) [hereinafter *Interpretation*]. The Interpretation defines information “unknown to the public” as information which is difficult to obtain by the “relevant personnel in the field.” *Id.* art. 9. It states that courts shall determine whether the owner’s confidentiality measures are reasonable based on factors such as limiting access to classified information, adopting passwords, attaching confidentiality notices, and executing confidentiality agreements. *Id.* art. 11.

<sup>36</sup> *Id.* art. 10.

not resolve the LCUC's statutory language. Trade secret owners therefore must justify the practical applicability in economic terms, which could prove difficult for early stage or fundamental research.

The LCUC imposes a legal duty on the State Administration for Industry & Commerce ("SAIC") to monitor and investigate the acts of unfair competition, including an infringement of trade secrets.<sup>37</sup> Acts of misappropriation include: (1) acquiring the trade secret of another by theft, inducement, duress, or other illegal means; (2) disclosing, using, or allowing others to use trade secrets acquired by the above illegal means; or (3) disclosing, using, or allowing others to use trade secret in breach of an agreement or a confidentiality obligation imposed by a legal owner.<sup>38</sup> Article 10 of the LCUC also defines third-party liability in situations where a third-party acquires, uses, or discloses trade secrets that he knew or should have known were misappropriated.<sup>39</sup>

There are other limited types of protections available. Article 149 of the PRC Company Law provides that supervisors and managers shall not disclose any company secrets.<sup>40</sup> Courts have generally recognized and upheld non-compete agreements as long as they have a specific scope, a fair and reasonable term—typically a maximum length of three years—and provide the employee with separate compensation.<sup>41</sup> Under PRC contract law, a party may not disclose or improperly use any trade secret that it learns of during contract negotiations, regardless of whether a contract is formed.<sup>42</sup> A transferee

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<sup>37</sup> *LCUC*, *supra* note 33, at art. 3, 10. The State Council issued "Opinions on Several Issues Concerning the Scientific and Technical Personnel Holding Concurrent Jobs," which provides that scientific and technical personnel who undertakes major research work are not suitable for holding concurrent jobs, and that any scientific and technical personnel may not pass on the unpublished technical data of his employer, without the consent of that employer. Cheng, *supra* note 27, at 274 n.39.

<sup>38</sup> *LCUC*, *supra* note 33, art. 10

<sup>39</sup> *Id.* The Interpretation states that independent creation and reverse engineering—acquiring relevant technical information through technical means, including dismantling a product obtained from public channels—are defenses to a trade secret misappropriation claim. *Interpretation*, *supra* note 35, art. 12.

<sup>40</sup> Company Law of the P.R.C. (promulgated by the Standing Comm. Nat'l People's Cong., Oct. 27, 2005, effective Jan. 1, 2006), art. 149 (China). The State Council issued guidelines addressing confidentiality of an employer's secrets, and instituted protections under contract law. *Id.*

<sup>41</sup> Jeffrey L. Zuber, *Trade Secrets Rules, Regulation and Enforcement in China and the U.S.—A Comparative Analysis*, CHINA INTELL. PROP. MAG., <http://www.chinaipmagazine.com/en/journal-show.asp?id=394> (last visited Apr. 15, 2013).

<sup>42</sup> Zhong Hua Ren Min Gong He Guo He Tong Fa [Contract Law of the P.R.C.] (promulgated by the Standing Comm. Nat'l People's Cong., Mar. 15, 1999, effective Oct. 1, 1999), art. 43) (China). The Labor Law of the People's Republic of China also allows parties to

in a technical secret contract must abide by its confidentiality obligations as well.<sup>43</sup> These protections are limited; the scope extends only to the parties to the contract, and the duration does not generally exceed the term of the contract.<sup>44</sup> It is also not easy to produce evidence to prove that the other party has breached the provisions of a contract on confidentiality.

### ***3. Trade Secret Owners Have Administrative, Civil, and in Extreme Cases, Criminal Enforcement Options***

The offices of the Administration for Industry and Commerce (“AICs”) in China have the power to conduct administrative investigations of trade secret misappropriation.<sup>45</sup> AICs can confiscate and destroy infringing goods and impose civil fines,<sup>46</sup> but they do not have the power to award damages to a trade secret owner.<sup>47</sup> These rules, however, apply for the benefit of Chinese “citizens,” which raises a national treatment issue.<sup>48</sup> Administrative proceedings are quick and inexpensive and can be based on less formal evidence than that used in a court proceeding.<sup>49</sup> Practitioners note that administrative fines are usually insufficient to act as deterrent.<sup>50</sup>

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include in an employment contract the provisions concerning maintaining the confidentiality of the trade secrets belonging to the employing unit. Labor Law of the People’s Republic of China (promulgated by the Eight Nat’l People’s Cong., July 5, 1994, effective Jan. 1, 1995), art. 22. Article 102 of the Labor Law further allows employers to recover from an employee who breaches his or her obligations to maintain confidentiality, thus causing economic losses to his employer. *Id.* art. 102.

<sup>43</sup> Contract Law of the P.R.C., *supra* note 42, art. 350.

<sup>44</sup> *Id.* art. 350–51.

<sup>45</sup> *Mission, STATE ADMIN. FOR INDUS. & COMMERCE (SAIC) PEOPLE’S REPUBLIC CHINA*, <http://www.saic.gov.cn/english/aboutus/Mission/> (last visited Apr. 15, 2013).

<sup>46</sup> *LCUC, supra* note 33, arts. 16, 21, 25.

<sup>47</sup> Guo Jia Gong Shang Xing Zheng Guan Li Ju Guan Yu Jin Zhi Qin Fan Shang Ye Mi Mi Xing Wei De Ruo Gan Gui Ding [Several Provisions on Prohibiting Infringements upon Trade Secrets] (promulgated by the State Admin. for Indus. & Commerce, Dec. 3, 1998, effective Dec. 3, 1998), art. 9 (China).

<sup>48</sup> *LCUC, supra* note 33, art. 1. The term “owner” as mentioned in the Provisions refers to “citizens, corporate bodies or other organizations who own trade secrets.” Several Provisions on Prohibiting Infringements upon Trade Secrets, *supra* note 47, art. 2.

<sup>49</sup> Simeng Han, *Chinese Use of Administrative Proceedings to Enforce Intellectual Property Rights: Evaluating and Improving ADR in China*, 14 *CARDOZO J. CONFLICT RESOL.* 195, 196, 213 (2012).

<sup>50</sup> See Meph Jia Gui, *Webinar on Protecting Your Trade Secrets in China*, U.S. DEP’T COM. (Aug. 17, 2012, 2:00 PM).

Administrative orders are subject to judicial review.<sup>51</sup> Alternatively, the owner may choose to bring a suit directly in a Chinese civil court.<sup>52</sup> If a trade secret misappropriator causes *great* losses, the Public Security Bureau (“PSB”), the Chinese police, may investigate, or the trade secret owner may directly initiate a criminal case.<sup>53</sup>

#### ***4. Analyzing a Trade Secret Misappropriation Claim Is a Two-Step Analysis***

Chinese civil courts tend to place a heavy burden on the plaintiff to prove a case of trade secret misappropriation; plaintiffs must prove that they are entitled to certain rights and that the defendant has obtained or used the plaintiffs’ secrets through illegitimate means.<sup>54</sup> Documentary evidence is the primary—and often, the sole—means of proof. Witness testimonies, including expert opinions, are often given little evidentiary weight.<sup>55</sup> There is no formal discovery procedure for the plaintiff to obtain evidence.<sup>56</sup> Once a lawsuit has been filed, a party may apply, *ex parte*, for an evidence preservation order, which is typically enforced by a judge.<sup>57</sup> If the order is granted—a rare occurrence in trade secret cases—the respondent may be required to provide the relevant documentation and evidence on the spot.<sup>58</sup> In contrast to actions for patent, copyright, and trademark infringement, until recently there was no statutory

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<sup>51</sup> *LCUC*, *supra* note 33, art. 29.

<sup>52</sup> *Id.*

<sup>53</sup> *IPR2 Secrets*, *supra* note 26 at 3, 14; *see also* Liu Xiaohai, *Unfair Competition/Trade Secrets/Know-How (2)*, in *CHINESE INTELLECTUAL PROPERTY AND TECHNOLOGY LAWS*, § 6, at 157, (Rohan Kariyawasam ed., 2010) (stating that according to the Supreme People’s Court and the Supreme People’s Procuratorate, only a significant loss greater than 500,000 Yuan would constitute a criminal offense).

<sup>54</sup> *IPR2 Secrets*, *supra* note 26 at 8.

<sup>55</sup> *Id.* at 7.

<sup>56</sup> *Id.* at 2, 8. Parties usually refuse to provide any documents that are unfavorable to them with impunity, unless the other party requesting a document can show to the court that the other party is in possession of the document. *Id.* at 7.

<sup>57</sup> J. Benjamin Bai & Guoping Da, *Strategies for Trade Secrets Protection in China*, 9 *NW. J. TECH. & INTELL. PROP.* 351, 363 (2011).

<sup>58</sup> *Id.* Article 81 of the Chinese Civil Procedure Law states that under circumstances where there is a likelihood that evidence may be destroyed, lost, or difficult to obtain later, the parties in the proceedings may “apply to the people’s court for evidence preservation, and the people’s court may also take preservation measures on its own initiative.” *Zhong Hua Ren Min Gong He Guo Min Shi Su Song Fa* [Civil Procedure Law of the P.R.C.] (promulgated by the Standing Comm. Nat’l People’s Cong., Oct. 28, 2007, effective Oct. 28, 2007), art. 74 (China).

basis for pre-litigation evidence preservation for trade secret litigation.<sup>59</sup> In addition to these procedural hurdles, it can be more difficult for trade secret owners, especially foreign companies, to enforce their rights due to problems relating to political influences and local protectionism.<sup>60</sup>

A court may grant a litigant successfully bringing a trade secret claim damages based on the actual loss caused by misappropriation or unjust enrichment, but not both.<sup>61</sup> Relief may include a permanent injunction as long as the trade secret would remain secret.<sup>62</sup> Given that Chinese courts have not adopted the inevitable disclosure doctrine and the likelihood of success on the merits is more difficult to prove for trade secret cases, it is unusual to obtain a preliminary injunction for trade secret misappropriation.<sup>63</sup> In contrast, certain U.S. courts will grant an injunction in the absence of actual trade secret misappropriation based on the presumption that the employee's new duties cannot be performed without disclosure of the old employer's trade secret.<sup>64</sup>

### ***5. Trade Secret Misappropriation Is a Growing Problem in China***

U.S. officials complain that the increasing number of Chinese thefts, including cyber-attacks, is "just the tip of the iceberg."<sup>65</sup> In 2009, the U.S. Senate Committee on Finance asked the Commission to estimate the economic effect of reported IPR infringement on U.S. firms operating in China.<sup>66</sup> The

<sup>59</sup> *But see* Patrick Zheng et al., *The Dragon Stirs: China Amends Civil Procedure Law*, CLIFFORD CHANCE 1, 1 (Oct. 17, 2012), available at [http://www.cliffordchance.com/publicationviews/publications/2012/10/the\\_dragon\\_stirschinaamendscivilprocedurelaw.html?utm\\_source=lexology&utm\\_medium=newsfeed&utm\\_campaign=lexology](http://www.cliffordchance.com/publicationviews/publications/2012/10/the_dragon_stirschinaamendscivilprocedurelaw.html?utm_source=lexology&utm_medium=newsfeed&utm_campaign=lexology) ("On the 31st of August 2012, the Standing Committee of the National People's Congress of the People's Republic of China approved significant amendments to its Civil Procedure Law (CPL), which will come into effect on 1st January 2013."). Articles 100 and 101 create new types of property preservation interim measures similar to specific performance and injunctive relief. *Id.* at 2. Courts now have the power to request a party to take action as directed or to prohibit a party from doing something before or during litigation or arbitration, regardless of the type of the dispute. *Id.*

<sup>60</sup> *IPR2 Secrets*, *supra* note 26, at 7.

<sup>61</sup> Unjust enrichment is used if damages cannot be calculated. *See* Cheng, *supra* note 27, at 287. Statutory damages are capped at 1 million Yuan. *See* Paul F. Prestia, *China's Intellectual Property Regime Comes of Age*, RATNERPRESTIA (Aug. 4, 2011), <http://ratnerprestia.com/blog/?p=860>.

<sup>62</sup> *See Interpretation*, *supra* note 35, at art. 16.

<sup>63</sup> Bai, *supra* note 57, at 361 n.36.

<sup>64</sup> *See* PepsiCo., Inc. v. Redmond, 54 F.3d 1262, 1269–71 (7th Cir. 1995).

<sup>65</sup> Palmer, *supra* note 11.

<sup>66</sup> *China: Intellectual Property Infringement, Indigenous Innovation Policies, and Frameworks for Measuring the Effects on the U.S. Economy*, Inv. No. 332-514, USITC Pub. 4199, at i (Nov. 2010) [hereinafter *ITC China IPR I*].

Commission solicited and received responses from more than 2300 U.S. firms representing domestic sales of \$7.3 trillion, approximately 16.3% of U.S. GDP in 2009.<sup>67</sup> The Commission issued two detailed reports (together, “Report”) and found that losses from trade secret misappropriation—including lost sales and royalty and license fees—in China were approximately \$1.1 billion in 2009.<sup>68</sup>

The Report noted that although dramatic growth in foreign direct investment in China has been mutually beneficial, multinational corporations (“MNCs”) face an array of IPR infringement problems, particularly in their supply chain operations.<sup>69</sup> The chemical manufacturing sector—most notably pharmaceutical manufacturing—was hardest hit.<sup>70</sup> Theft typically occurred via a current or former employee, who took the protected information to new employers or used it to start a rival company, sometimes even in spite of nondisclosure agreements.<sup>71</sup> Half of the firms that suffered trade secret misappropriation in China also reported that misappropriation became a bigger problem during the years 2007 to 2009.<sup>72</sup> Nearly all losses occurred outside the Chinese market, with a large portion of the losses occurring in the U.S. market (48%) and third-country markets (46%).<sup>73</sup> The Report stated that despite signs of improvement in IPR enforcement, especially with respect to courts in major cities, trade secret litigation throughout China was generally

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<sup>67</sup> *ITC China IPR II*, *supra* note 12, at 3-2, F-3. The Commission’s survey covered firms in 24 sectors of the U.S. economy that are considered to be particularly susceptible to IPR violations in China. *Id.* at 3-2. A high incidence of quantitative indicators—such as research and development (R&D) expenditures, investments, royalties and licensing fees, and patent filings—suggests considerable investment in and reliance upon IPR. *Id.*

<sup>68</sup> *Id.* at 3-10. The losses were estimated to be in the range of \$0.2 billion–\$2.4 billion (90% confidence interval). *Id.*

<sup>69</sup> *ITC China IPR I*, *supra* note 66, at xv. Foreign direct investment in China increased from \$9.4 billion in 1999 to \$49 billion in 2009. *Id.*

<sup>70</sup> *ITC China IPR II*, *supra* note 12, at 3-42. In the sector, 31% of firms reported losses during the period. *Id.*

<sup>71</sup> *Id.* 3-43. The misappropriation of trade secrets through computer hacking originating in China is an area of growing concern to U.S. firms. *ITC China IPR I*, *supra* note 66, at xix. Trade secrets have also been leaked from data provided to regulatory authorities in industries such as pharmaceuticals, medical devices, and software. *Id.*

<sup>72</sup> *ITC China IPR II*, *supra* note 12, at 3-44. The general ineffectiveness of IPR protection in China may compound the trade secret misappropriation: some U.S. firms rely to a greater degree on trade secrets rather than using patented technology. *ITC China IPR I*, *supra* note 66, at xix.

<sup>73</sup> *ITC China IPR II*, *supra* note 12, at 3-42. The authors note that it is also possible that the ease of rapid dissemination of trade secrets via mobile telecommunications devices also may contribute to trade secret losses occurring outside of China. *Id.* at 3-43.

ineffective.<sup>74</sup> This sentiment is shared by most foreign companies: less than 1% of firms that reported losses due to trade secret misappropriation stated that they had pursued any trade secret misappropriation proceedings in China.<sup>75</sup>

The Report suggested that China's indigenous innovation policies, which promote the development and commercialization of Chinese technologies, may be hurting foreign firms. China's indigenous innovation policy launched in 2006 under the title "The National Medium- and Long-Term Plan for the Development of Science and Technology (2006–2020)."<sup>76</sup> The MLP calls for expanded cooperation with foreign universities, research centers, and corporate R&D centers, but also explicitly encourages "enhancing original innovation through co-innovation and re-innovation based on the assimilation of imported technologies."<sup>77</sup> By tweaking foreign technology, China aims to be a technology powerhouse by 2020 and a global leader by 2050.<sup>78</sup>

Many MNCs see the plan—under which China will replace foreign technology in financial and telecommunications systems and develop its own leading technologies, such as integrated circuits and passenger airliners—as a blueprint for technology theft on an unprecedented scale.<sup>79</sup> They cite government procurement policies that block products not designed and produced in China and industrial and technology standards as market barriers to foreign technology.<sup>80</sup> These firms consider open markets to be the normal state of business and are reluctant to bring their technological crown jewels to China because of the disregard for IPR protection. Yet many of these same firms are increasingly dependent on their Chinese profits and must decide if they should partner with Chinese government designated "national champion" companies to develop indigenous innovation and sacrifice longer-term global prospects.<sup>81</sup> Chinese officials counter that foreign companies have not held up their end of the bargain for market access, and, by holding back technology, they aim to contain China's rise.<sup>82</sup>

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<sup>74</sup> *ITC China IPR I*, *supra* note 66, at 1-13 to -14.

<sup>75</sup> *ITC China IPR II*, *supra* note 12, at 3-44. Industry representatives have suggested that the evidentiary hurdles for establishing a trade secret case may partially explain the small volume of such cases. *ITC China IPR I*, *supra* note 66, at 1-12 to -13, 4-14. *See also infra* Part I.A.6.

<sup>76</sup> James McGregor, *China's Drive for 'Indigenous Innovation': A Web of Industrial Policies*, APCO WORLDWIDE, at 4, [http://apcoworldwide.com/content/PDFs/Chinas\\_Drive\\_for\\_Indigenous\\_Innovation.pdf](http://apcoworldwide.com/content/PDFs/Chinas_Drive_for_Indigenous_Innovation.pdf) (last visited Apr. 15, 2013).

<sup>77</sup> *Id.* (internal quotation marks omitted).

<sup>78</sup> *Id.*

<sup>79</sup> *Id.*

<sup>80</sup> *Id.* at 5.

<sup>81</sup> *Id.* at 7.

<sup>82</sup> *Id.*

In the extreme, these policies can be inferred to sanction trade secret misappropriation. Chinese government officials have reacted to this complaint by indicating that goods produced by Chinese affiliates of U.S. and other foreign firms will be considered indigenous innovation products.<sup>83</sup> The implementation of these policies is crucial to trade secret holders as, to date, they have not been successful in protecting their rights through litigation.

### ***6. Trade Secret Litigation in China Provides Inadequate Protection to Rights Holders***

China is a civil law country, and, generally speaking, prior decisions by the same court or a higher court do not legally bind the judges.<sup>84</sup> The country became the most litigious with respect to “intellectual property disputes in 2005, surpassing the U.S. in the number of intellectual property lawsuits filed annually.”<sup>85</sup> Foreign litigants file less than 5% of IP cases, however, and very few cases involve trade secrets.<sup>86</sup>

The lack of formal discovery is a major roadblock; parties usually refuse to provide any documents that are unfavorable to them unless possession of such documents can be proved.<sup>87</sup> Although a party may apply for an evidence preservation order, practitioners note that courts rarely grant the request.<sup>88</sup> Even if an evidence protection order is granted, the plaintiff has no control over whether the court will disclose the existence of the lawsuit prior to executing the order.<sup>89</sup> If the court executes the order for evidence preservation after serving the litigation documents, the time lag gives the defendant an opportunity to hide evidence. Commentators note that the court’s remedies are not sufficient to compensate foreign companies for the value of what was stolen.<sup>90</sup>

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<sup>83</sup> *Id.*

<sup>84</sup> *IPR2 Secrets, supra* note 26, at 4. Judicial interpretations or opinions issued by the Supreme People’s Court and regulations issued by the State Council, are formal sources of law in China. *Id.* Other courts, especially the Higher People’s Courts, also issue judicial guidance documents that may be considered as binding in the jurisdiction where they are located. *Id.*

<sup>85</sup> Bai, *supra* note 57, at 351.

<sup>86</sup> *Id.* at 353. In 2005, among the 13,424 IP dispute cases, only 268 cases involved foreign parties (about 2.0%), but this small number represents a 77% increase over 2004. *Id.* In 2009, 1361 of the 30,509 IP dispute cases concluded involved foreign parties (about 4.5%), a 19.49% increase over 2008. *Id.* Between 1995 and 2005, the total number of trade secret cases filed ranged from 271 to 987 per year and in 2009 4.2% of the 30,626 civil cases filed involved unfair competition. *Id.*

<sup>87</sup> *IPR2 Secrets, supra* note 26, at 7.

<sup>88</sup> *Id.* at 7–8.

<sup>89</sup> Bai, *supra* note 57, at 363.

<sup>90</sup> Strickland, *supra* note 9 (citing comments made by Mark Wu, an assistant professor at Harvard Law School).

Empirical data also shows that trade secret litigants may be having a difficult time in the civil court.<sup>91</sup> Compared to other types of Chinese IP litigation, trade secret infringement cases are unlikely to result in an injunction, take relatively long to litigate, and have one of the lowest percentages of damages awarded in the relation to damages claimed.<sup>92</sup> The low frequency of trade secret infringement cases—these case makes up 0.1% of one Chinese IP case database—also underscores the difficulty that litigants have in bringing successful cases.<sup>93</sup> The data suggests that plaintiffs bring trade secret cases only when their rights are being seriously harmed.<sup>94</sup> Foreigners may be particularly frustrated because the claimants often seek injunctions.<sup>95</sup> Official data shows the administrative system is similarly weak in addressing trade secret infringement, and is primarily used against individuals and small companies.<sup>96</sup>

In *Siwei Industrial Co. (Shenzhen) Co., Ltd. v. Avery Dennison*,<sup>97</sup> the Chinese People's Supreme Court held that trade secret misappropriation ends after the infringing products are made and does not extend to the sales of such

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<sup>91</sup> Mark A. Cohen, *What the Data Says About Trade Secret Litigation in China*, CHINA IPR (Oct. 31, 2012) <http://chinaipr.com/2012/10/31/what-the-data-says-about-trade-secret-litigation-in-china/>. Professor Cohen comments are based on analysis of the CIELA IPR database as well as administrative trademark enforcement data. *Id.* The CIELA IPR database consists of nearly 20,000 decisions handed down from 115 courts since 2006. *Id.*; see also CIELA, <http://www.ciela.cn/Content2.aspx?pageId=4&ppId=4&language=en> (last visited Apr. 15, 2013). Firms cited difficulties in prosecuting civil IPR cases, including relatively low damage awards, the lack of a robust system for discovery of evidence, sporadic application of contempt citations for uncooperative or dishonest defendants, an inexperienced judiciary, and onerous requirements for the use of evidence from abroad. *ITC China IPR I, supra* note 66, at xiii.

<sup>92</sup> See Cohen, *supra* note 91. In the 209 trade secret cases in the CIELA database, 11% resulted in a complete win. *Id.* The average case duration was eight months and injunctions were awarded 50% of the time. *Id.* In the 7280 copyright cases total win rates averaged, the average length of the case was 5.0 months, and injunctions were granted about 77% of the time. *Id.* In the 2267 trademark cases, full win rates averaged 33%, proceedings lasted six months on average, and injunctions were granted 85% of the time. Finally, for the 3342 patent cases, full win rates averaged 32%, average duration was eight months, and injunctions were granted 78% of the time. *Id.*

<sup>93</sup> *Id.*

<sup>94</sup> *Id.*

<sup>95</sup> *Id.*

<sup>96</sup> *Id.* The official data for 2008 through 2010 shows that there were 174 trade secret cases out of 110,896 cases involving the Law to Counter Unfair Competition, or about 0.2% of the total. *Id.* The data shows that average fines were 11,624 Yuan and only seven cases (approximately 4% of the trade secret cases) were referred for criminal enforcement. *Id.*

<sup>97</sup> Min San Zhong Zi No. 10/2007 (Sup. People's Ct. 2009) (China).

products.<sup>98</sup> Siwei Industrial (Shenzhen) Co., Ltd. and Siwei Enterprise Co., Ltd. (together, “Siwei”) sued Avery Dennison Corporation (“Avery”), its Chinese subsidiaries, and two retailers in the Guangdong Foshan Intermediate People’s Court for trade secret misappropriation.<sup>99</sup> The court based its jurisdiction on the retailers’ sales of products made with Siwei’s misappropriated trade secrets.<sup>100</sup> Avery countersued Siwei 750 miles to the north in the Jiangsu Higher People’s Court for trade secret misappropriation, claiming jurisdiction based on Siwei’s alleged use of Avery’s trade secret processes for making the same product.<sup>101</sup> After Siwei filed the same trade secret suit in the Guangdong Higher People’s Court, it petitioned the Jiangsu Higher People’s Court to transfer Avery’s countersuit to the Guangdong Higher People’s Court and consolidate it based on the first-to-file principle.<sup>102</sup> Avery objected, contending that the sales activities by its retailers alone in Guangdong did not give rise to jurisdiction.<sup>103</sup> The Supreme People’s Court agreed, noting that selling infringing products made from misappropriated trade secrets was not one of the enumerated acts of misappropriation under Article 10 of the LCUC.<sup>104</sup> If the ruling is a broad statement of China’s trade secret misappropriation law, it conflicts with U.S. trade secret law.<sup>105</sup>

China has sufficient trade secret statutes in place. Unfortunately, its indigenous innovation policies, along with poor IPR enforcement and procedural mechanisms, exacerbate the growing trade secret theft problem. The harm is not limited to China—nearly half of U.S. firms’ trade secret misappropriation losses occur in the domestic market.<sup>106</sup> The next section will examine trade secret protection in the United States and describe the Commission’s unique remedy for foreign-based trade secret theft.

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<sup>98</sup> *Id.* at 4–5.

<sup>99</sup> *Id.* at 2.

<sup>100</sup> *Id.* at 4.

<sup>101</sup> *Id.* at 2.

<sup>102</sup> *Id.* at 3–4. Under this principle, where there are multiple suits involving essentially the same legal issues and underlying facts, the later filed suits are be combined with the first accepted suit to avoid inconsistent adjudication. *Id.* at 5.

<sup>103</sup> *Id.* at 3.

<sup>104</sup> *Id.* at 4.

<sup>105</sup> See *infra* part I.C.2.

<sup>106</sup> *ITC China IPR II, supra* note 12, at 3–42.

## B. Trade Secret Law in the United States

### *1. Federal Trade Secret Protection Statutes Do Not Provide a Remedy Against Extraterritorial Acts*

In the United States, trade secret protection is a function of state law; there is no broad-based federal statute.<sup>107</sup> The efforts of those frustrated by inconsistent state laws<sup>108</sup> led to the promulgation of The Uniform Trade Secrets Act (“UTSA”), the framework of which has been adopted by forty-seven states.<sup>109</sup> The UTSA defines a trade secret as a broad range of information that “(i) derives independent economic value . . . [from] not being readily ascertainable by proper means by, other persons who can obtain economic value from its disclosure or use, and (ii) is the subject of efforts that are reasonable under the circumstances to maintain its secrecy.”<sup>110</sup> There is no practicality requirement as with Chinese law. Misappropriation is defined as (1) acquisition of a trade secret by means that should be known to be improper, and (2) unauthorized disclosure or use of information that one should know is the trade secret of another.<sup>111</sup> Remedies include injunctive relief and damages for the actual loss caused by misappropriation, plus any unjust enrichment not accounted for in calculating loss, are available.<sup>112</sup>

<sup>107</sup> See *Kewanee Oil Co. v. Bicron Corp.*, 416 U.S. 470, 474 (1974) (holding that neither the Constitution nor the federal patent laws pre-empt state trade secret protection); *Aronson v. Quick Point Pencil Co.*, 440 U.S. 257, 257, 262, 267 (1979) (reaffirming *Kewanee* and holding that federal patent law was not a barrier to a contract in which someone agrees to pay a continuing royalty in exchange for the disclosure of trade secrets).

<sup>108</sup> See UNIF. TRADE SECRETS ACT, Prefatory Note (amended 1985), 14 U.L.A. 433 (1990) (quoting Comment, *Theft of Trade Secrets: The Need for a Statutory Solution*, 120 U. PA. L. REV. 378, 380–81 (1971) (“[I]ndustry continues to rely on trade secret protection despite the doubtful and confused status of both common law and statutory remedies. Clear, uniform trade secret protection is urgently needed. . . .”)).

<sup>109</sup> *Trade Secrets Act Fact Sheet*, UNIF. LAW COMM’N, <http://www.uniformlaws.org/Act.aspx?title=Trade%20Secrets%20Act> (last visited Apr. 19, 2013) (Massachusetts, New York, North Carolina, and Texas have not enacted the USTA). The UTSA created uniform definitions for a trade secret and trade secret misappropriation and codified the results of the better-reasoned trade secrets cases. See UNIF. TRADE SECRETS ACT, Prefatory Note.

<sup>110</sup> UNIF. TRADE SECRETS ACT § 1 (amended 1985), 14 U.L.A. 433 (1990). The definition includes information that has commercial value from a negative viewpoint, such as research results that prove that a certain process will not work, and thus could be of great value to a competitor. *Id.* at § 1 cmt. Reasonable efforts to maintain secrecy include advising employees of the existence of a trade secret or “limiting access to a trade secret on ‘need to know basis.’” *Id.*

<sup>111</sup> *Id.* § 1(2).

<sup>112</sup> *Id.* § 3.

Enacted in 1996, the Economic Espionage Act (“EEA”)<sup>113</sup> better protects critical U.S. corporate information and criminalizes acts of foreign economic espionage and, more generally, misappropriation of a trade secret “related to a product or service used in *or intended for use* in interstate or foreign commerce, to the economic benefit of anyone other than the owner thereof.”<sup>114</sup> The “intended for use” language was added on December 28, 2012, when President Obama signed into law the Trade Secrets Clarification Act.<sup>115</sup> The amendment was a response to the Second Circuit’s decision in *U.S. v. Aleynikov*,<sup>116</sup> which overturned a jury verdict finding the defendant violated the EEA because the stolen computer code failed to satisfy the requirement that the product was “produced for” or “placed in” interstate or foreign commerce.<sup>117</sup>

The relatively limited number of yearly prosecutions suggests that the EEA has little deterrent value.<sup>118</sup> As one commentator notes, “[i]t is simply not

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<sup>113</sup> Economic Espionage Act of 1996, Pub. L. No. 104-294 § 101, 110 Stat. 3488 (codified as amended at 18 U.S.C. §§ 1831–1839).

<sup>114</sup> 18 U.S.C. § 1832(a) (2006) (emphasis added); *see also* Recent Cases: Criminal Law, Economic Espionage—Ninth Circuit Upholds First Trial Conviction Under § 1831 of the Economic Espionage Act of 1996.—United States v. Chung, 659 F.3d 815 (9th Cir. 2011), cert. denied, No. 11-1141, 2012 WL 929750 (U.S. Apr. 16, 2012), 125 Harv. L. Rev. 2177, 2177 (2012). Section 1831 punishes the misappropriation of trade secrets when knowingly undertaken by anyone “intending or knowing that the offense will benefit any foreign government, foreign instrumentality, or foreign agent.” 18 U.S.C. § 1831(a). Foreign companies or individuals do not fall within the ambit of Section 1831 unless they are “substantially owned, controlled, sponsored, commanded, managed, or dominated by a foreign government.” 18 U.S.C. § 1839(1).

<sup>115</sup> Theft of Trade Secrets Clarification Act of 2012 § 2, Pub. L. No. 112-236, 126 Stat. 1627 (amending 18 U.S.C. § 1832(a)).

<sup>116</sup> 676 F.3d 71 (2d Cir. 2012).

<sup>117</sup> *Id.* at 82; Douglas Nemeč & Kristen Voorhees, *Recent Amendment to the Economic Espionage Act Extends Protection Against Misappropriation*, THOMSON REUTERS NEWS & INSIGHT (Feb. 13, 2013) [http://newsandinsight.thomsonreuters.com/California/Insight/2013/02\\_-\\_February/Recent\\_amendment\\_to\\_the\\_Economic\\_Espionage\\_Act\\_extends\\_protection\\_against\\_misappropriation/](http://newsandinsight.thomsonreuters.com/California/Insight/2013/02_-_February/Recent_amendment_to_the_Economic_Espionage_Act_extends_protection_against_misappropriation/). On January 14, 2013, President Obama signed the Foreign and Economic Espionage Penalty Enhancement Act of 2012. Foreign and Economic Espionage Penalty Enhancement Act of 2012, Pub. L. No. 112-269, 126 Stat. 2442 (2013). The Act increases maximum fines for individuals that steal domestic trade secrets in order to benefit a foreign entity from \$500,000 to \$5 million. *Id.* § 2(a) For organizations, the maximum fine was increased to “not more than the greater of \$10,000,000 or 3 times the value of the stolen trade secret to the organization, including expenses for research and design and other costs of reproducing the secret that the organization has thereby avoided.” *Id.* § 2(b).

<sup>118</sup> Peter J. Toren, *An Analysis of Economic Espionage Act Prosecutions: What Companies Can Learn From It and What the Government Should Be Doing About It!*, 84 Pat. Trademark & Copyright J. (BNA) 884, at 3 (Sept. 21, 2012), available at <http://petertoren.com/wp-content/>

on a person's radar screen that he will be apprehended and prosecuted for misappropriating trade secrets."<sup>119</sup> The UTSA has a purely domestic scope; neither statute mentions extraterritorial acts, and neither statute contemplates the impact of upstream products made from misappropriated trade secrets that are later imported into the United States or overseas trafficking in stolen technology.<sup>120</sup>

Another way to deal with trade secret theft may be through state competition law. Trade secret misappropriation enforcement has been a problem at the state level as well. In New York, one of the few states to release statistics, of the 25,296 arrests and 17,852 convictions for intellectual property crimes from 2005 to 2012, only one involved trade secret misappropriation.<sup>121</sup> In response to the increase in pirated software, some states have expanded their unfair competition laws to address foreign-based thefts. In 2010, Louisiana enacted a statute making it unlawful for a person to sell a product or supply a service using stolen or misappropriated property, including but *not limited to* pirated computer software.<sup>122</sup> In 2011, Washington State amended its unfair competition law to prohibit sales of products manufactured using stolen or misappropriated information technology ("IT") software.<sup>123</sup> The Washington law creates liability for direct manufacturers as well as third-party retailers or distributors,<sup>124</sup> but provides an exception when the stolen IT is based on patent infringement or trade secret misappropriation.<sup>125</sup> In November 2011, the National Associations of Attorneys General wrote a letter to the Federal Trade Commission, asking it to use § 5 of the Federal Trade Commission Act to "address the unfair advantage that results when foreign and other manufacturers use stolen information technology, including pirated software,

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uploads/2012/10/toren-eea2.pdf. The government has brought a total of 124 cases in sixteen years under the EEA. *Id.* at 1. More than 30% of all of the prosecutions involved Chinese citizens or naturalized U.S. citizens originally from China. *Id.* at 5.

<sup>119</sup> *Id.* at 3. Given that EEA prosecutions are more resource intensive and complex, the FBI and U.S. Attorney's Offices may be reluctant to commit scarce resources to investigate and prosecute a single matter when the same effort could result in the prosecution and conviction of multiple other federal crimes. *Id.*

<sup>120</sup> *See, e.g.*, UNIF. TRADE SECRETS ACT § 1 (amended 1985) 14 U.L.A. 433 (1990).

<sup>121</sup> E-mail from Marge Cohen, N.Y. State Div. of Criminal Justice Servs., Office of Justice Research & Performance, to Mark Cohen (Oct. 30, 2012, 12:00 PM) (on file with author).

<sup>122</sup> *See* LA. REV. STAT. ANN. § 51:1427 (2013).

<sup>123</sup> *See* WASH. REV. CODE ANN. § 19.330.020 (West 2013).

<sup>124</sup> *See id.* § 19.330.060(1)(a), (2). Companies may avoid liability by adopting curative practices to halt or prevent the use of stolen or misappropriated IT. *See id.* §§ 19.330.050(1), .080(1).

<sup>125</sup> *See id.* § 19.330.030(2).

to illegally slash their costs.”<sup>126</sup> In October 2012, a foreign seafood manufacturer agreed to pay \$10,000 in settlement to the state of Massachusetts “for the use of unlicensed software at its Thai plant.”<sup>127</sup>

Such measures, along with the commitments made under the S&ED, may motivate China to improve its IPR enforcement. In June 2012, Chinese Vice Premier Wang QiShan announced that there was “no more counterfeit software within the Chinese government up to the provincial level.”<sup>128</sup> “The campaign against counterfeit software began in October 2001, when the Chinese government called for the removal of all counterfeit software at the central, provincial and city levels,” and was extended to the county level in 2010.<sup>129</sup> Vice Premier Wang’s emphasis that the no-counterfeit campaign is a “highly important mission” may be, in part, a reaction to the above-mentioned state competition laws.<sup>130</sup> Although these measures aim to combat the effects of software piracy on U.S. markets,<sup>131</sup> the more broadly worded Louisiana statute may put upward pressure on the Chinese government to augment trade secret enforcement.

## ***2. International Trade Commission Investigations Provide a Quick and Unique Remedy***

A more direct approach is to prevent offending goods from reaching U.S. shores. Section 337 of The Tariff Act of 1930 empowers the ITC to quickly grant an order prohibiting the importation of goods into the United States—a remedy not available in the courts.<sup>132</sup> Although the majority of section 337

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<sup>126</sup> Letter from Nat’l Ass’n of Attorneys Gen., to FTC Comm’rs & the Dir. of the Bureau of Competition (Nov. 4, 2011), <http://www.naag.org/assets/files/pdf/signons/FTCA%20Enforcement%20Final.PDF>.

<sup>127</sup> See *Narong Seafood Settles Piracy Suit with US State*, NATION (Oct. 23, 2012, 1:00 AM), <http://www.nationmultimedia.com/business/Narong-Seafood-settles-piracy-suit-with-US-state-30192842.html>. The company claimed that it had overlooked some software licensing, but said it had completed a thorough software auditing process to ensure its compliance with the Thai Copyright Act. *Id.*

<sup>128</sup> Annie Tsoi, *Government Pledges “No More Counterfeit Software!”*, LEXOLOGY (Nov. 21, 2012), <http://www.lexology.com/library/detail.aspx?g=d80ef731-4925-46bd-bc4e-6815685e0fab>.

<sup>129</sup> *Id.*

<sup>130</sup> *Id.*

<sup>131</sup> See Michael Wines, *China to Begin Crackdown on Pirated Software in 2011*, N.Y. TIMES (Jan. 7, 2011), <http://www.nytimes.com/2011/01/08/business/global/08piracy.html?pagewanted=print>.

<sup>132</sup> See 19 U.S.C. § 1337(d) (2006); Gary M. Hnath, Section 337 Investigations at the US International Trade Commission Provide a Powerful Remedy Against Misappropriation of Trade Secrets, 22 INTELL. PROP. & TECH. L.J. 1, 1, 4 (June 2010). The ITC can also issue cease and desist orders, but cannot order the payment of damages. 19 U.S.C. § 1337(f);

cases involve patent infringement,<sup>133</sup> the remedy is available to other types of IP owners.<sup>134</sup> The Commission has jurisdiction over “unfair acts in the importation of articles . . . into the United States, or in the sale of such articles by the owner, importer, or consignee” that threaten to destroy or substantially injure an industry in the United States.<sup>135</sup> Its jurisdiction is in rem; “[t]he importation, or even the expected importation, of a product forms the basis for the ITC’s jurisdiction, not the actions of any particular party.”<sup>136</sup> This is advantageous when seeking to join multiple infringers in one proceeding, particularly if some or all of the infringers are foreign entities with limited contacts with the United States.<sup>137</sup>

An ITC complainant must satisfy three statutory elements: (1) importation; (2) infringement or an unfair act; and (3) injury to a domestic industry.<sup>138</sup> A complainant need not wait until an infringing importation or sale occurs; the ITC’s jurisdiction can be triggered upon a showing that infringing acts are reasonably likely to occur.<sup>139</sup> The jurisdictional analysis focuses on whether there is a nexus between the alleged unfair acts and importation.<sup>140</sup> In a trade

Hnath, *supra* note 132, at 5. By statute, section 337 investigations must be completed “at the earliest practicable time after the date of publication of notice of such investigation.” 19 U.S.C. § 1337(b)(1).

<sup>133</sup> See Hnath, *supra* note 132, at 1 (estimating that 90% of section 337 cases involve patent infringement).

<sup>134</sup> See *Certain Coamoxiclav Prods., Potassium Clavulanate Prods., & Other Prods. Derived from Clavulanic Acid*, Inv. No. 337-TA-479, Comm’n Op., at 1 (May 29, 2003) (settlement of trade secret misappropriation); *Certain Aramid Fiber Honeycomb, Unexpanded Block on Slice Precursors of Such Aramid Fiber Honeycomb, & Carved or Contoured Blocks or Bonded Assemblies of Such Aramid Fiber Honeycomb*, Notice to the Sec’y, Inv. No. 337-TA-305 (July 31, 1990), available at 1990 ITC LEXIS 266, at \*4–5 (covering trade secret misappropriation).

<sup>135</sup> 19 U.S.C. § 1337(a)(1)(A). “[T]he phrase ‘owner, importer, or consignee’ includes any agent of the owner, importer, or consignee.” *Id.* at (a)(4).

<sup>136</sup> Jay H. Reiziss, *The Distinctive Characteristics of Section 337*, 8 J. MARSHALL REV. INTEL. PROP. L. 231, 231 (2009).

<sup>137</sup> Tom M. Schaumberg, *Advantages of International Trade Commission Practice: Gaining an Edge over Infringing Imports*, 25 COMPUTER & INTERNET LAWYER 1, 3 (Feb. 2008).

<sup>138</sup> See 19 U.S.C. § 1337(a)(1).

<sup>139</sup> *Amgen, Inc. v. Roche Holding Ltd.*, 519 F.3d 1343, 1352 (Fed. Cir. 2008), *reh’g en banc granted, opinion withdrawn sub nom.*, *Amgen Inc. v. U.S. Int’l Trade Comm’n*, 564 F.3d 1358, 1359 (Fed. Cir. 2009), *opinion revised and superseded sub nom.*, *Amgen Inc. v. U.S. Int’l Trade Comm’n*, 565 F.3d 846, 848 (Fed. Cir. 2009). Commentators note that this decision “solidified the Commission’s jurisdiction to reach unfair acts that take place entirely abroad.” Reiziss, *supra* note 136, at 234.

<sup>140</sup> See *Certain Apparatus for Continuous Prod. of Copper Rod*, Inv. No. 337-TA-52, 206 U.S.P.Q. 138, 150 (BNA) (USITC 1979). Even if no actual importation has occurred,

secret case, the owner must show that the importation could substantially injure a domestic industry or prevent its establishment.<sup>141</sup> Section 337 actions may be particularly relevant in China-related cases because, for example, 79% of all seizures by the U.S. Customs and Border Protection (CBP) in the 2009 fiscal year were goods originating from China.<sup>142</sup> Relief is not limited to U.S. firms. What is required for relief is a domestic industry, not domestic citizenry. Given this, it seems likely that Chinese firms will likely soon transition from respondents to complainants.

### C. *Tianrui v. ITC Upholds the Extraterritorial Reach of the ITC*

In *Tianrui Group Co. v. U.S. International Trade Commission*,<sup>143</sup> a split Federal Circuit panel held “the Commission has authority to investigate and grant relief based in part on extraterritorial conduct insofar as it is necessary to protect domestic industries from injuries arising out of unfair competition in the domestic marketplace.”<sup>144</sup> After China-based Tianrui Group Company Limited and Tianrui Group Foundry Company Limited (collectively, “Tianrui”) unsuccessfully attempted to license cast steel wheel manufacturing technology from U.S.-based Amsted Industries Inc. (“Amsted”), it hired nine employees away from one of Amsted’s Chinese licensees, Datong ABC Castings Company Limited (“Datong”).<sup>145</sup> Each Datong employee had been advised not to disclose confidential information, and eight of these nine employees had also signed confidentiality agreements.<sup>146</sup> The employees nevertheless disclosed the trade secrets.<sup>147</sup> Tianrui then partnered with a U.S. company to import its railway wheels and sell them to U.S. customers.<sup>148</sup>

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a contract for sale may be sufficient for subject matter jurisdiction if the contract is binding and the importation is imminent. *Id.*

<sup>141</sup> Gary M. Hnath & James M. Gould, *Litigating Trade Secret Cases at the International Trade Commission*, 19 AIPLA Q.J. 87, 100–01 (1991). In *Tianrui Grp. Co. v. U.S. International Trade Commission*, the Federal Circuit noted that there is no express requirement that the domestic industry relate to the intellectual property involved in the investigation. 661 F.3d 1322, 1335 (Fed. Cir. 2011).

<sup>142</sup> *ITC China IPR I*, *supra* note 66, at xvi.

<sup>143</sup> 661 F.3d 1322 (Fed. Cir. 2011).

<sup>144</sup> *Id.* at 1324.

<sup>145</sup> *Id.*

<sup>146</sup> *Id.* Tianrui also contended that because Amsted no longer practiced the misappropriated ABC process, the imported wheels could not injure or threaten injury to any domestic industry, but the court rejected Tianrui’s argument. *Id.* at 1335–36. This issue will not be discussed further in this Article.

<sup>147</sup> *Id.* at 1324.

<sup>148</sup> *Id.* Amsted, SCT and Barber were the only companies selling or attempting to sell cast steel railway wheels in the United States. *Id.* at 1324–25.

After Amsted filed a section 337 complaint with the ITC, Tianrui moved to terminate the proceedings on the ground that the alleged trade secret misappropriation occurred in China.<sup>149</sup> The administrative law judge denied the motion, holding that section 337 focuses on the nexus between the unfair methods of competition and the importation of the product:

To hold otherwise, as Tianrui Foundry suggests, would render the applicable statutory provision of section 337 relatively useless. Such a reading would place the emphasis on where the trade secrets were wrongly obtained, *i.e.*, misappropriated, rather than on the imported articles and whether they are sufficiently connected to the unfair methods of competition and unfair acts.<sup>150</sup>

The judge also noted that Tianrui's position contravened the Commission's decision in *Certain Processes for the Manufacture of Skinless Sausage Casings and Resulting Product*, which held that the misappropriation of a trade secret outside the United States could support the finding of a section 337 violation.<sup>151</sup> The Commission found that, based on Tianrui's expert's admission that its foundry used the misappropriated trade secrets, Tianrui had engaged in an act of unfair completion that harmed a domestic industry.<sup>152</sup> The Commission issued an exclusion order, which Tianrui appealed and the Federal Circuit affirmed.<sup>153</sup>

Judge Bryson, writing for the Federal Circuit majority, noted that because the focus of section 337 is on an inherently international transaction—importation—and the resulting domestic injury, the Commission did not regulate purely foreign conduct but rather set the conditions under which products may be imported into the United States.<sup>154</sup> He therefore reasoned that overseas acts were not immune from scrutiny, stating it is “highly unlikely that Congress, which clearly intended to create a remedy for the importation

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<sup>149</sup> *Certain Cast Steel Ry. Wheels, Certain Processes for Mfg. or Relating to Same & Certain Prods. Containing Same*, Order No. 14, Inv. No. 337-TA-655 (Feb. 27, 2009), available at 2009 WL 2350640, at \*2.

<sup>150</sup> *Id.* at \*2–3.

<sup>151</sup> *Tianrui*, 661 F.3d at 1332; *see also* *Certain Processes for Mfg. of Skinless Sausage Casings & Resulting Prod.*, Initial Determination, Inv. No. 337-TA-148/169 (USITC July 31, 1984) (Final), available at 1984 WL 273803, at \*2. The administrative law judge adjudicating over Tianrui also rejected the argument that Chinese courts would provide a better forum for Amsted's complaint. *Certain Cast Steel Ry. Wheels*, 2009 WL 2350640, at \*5.

<sup>152</sup> *Tianrui*, 661 F.3d at 1325. The Commission's finding that Tianrui had misappropriated 128 trade secrets was also supported by the fact that some of Tianrui's manufacturing specifications contained the same typographical errors that were found in the Datong secret documents. *Id.* Misappropriation of trade secrets is an unfair act or method of competition under 19 U.S.C. § 1337(a). *See* *Certain Apparatus for Continuous Prod. of Copper Rod*, Inv. No. 337-TA-52, 206 U.S.P.Q. 138 (BNA) (USITC 1979).

<sup>153</sup> *See Tianrui*, 661 F.3d at 1324, 1326.

<sup>154</sup> *Id.* at 1329–30.

of goods resulting from unfair methods of competition, would have intended to create such a conspicuous loophole for [foreign-based] misappropriators.”<sup>155</sup>

Judge Bryson stated that the presumption against extraterritorial application did not apply because the foreign conduct was used only to establish an element of a claim alleging a domestic injury and seeking a wholly domestic remedy.<sup>156</sup> In ambiguous cases, it has been noted that “[a]s the agency charged with the administration of section 337, the ITC is entitled to appropriate deference to its interpretation of the statute.”<sup>157</sup> Judge Bryson also noted that China has acceded to the Agreement on Trade-Related Aspects of Intellectual Property Rights (“TRIPS”), and he could not discern any relevant difference between the misappropriation requirements of TRIPS article 39 and the principles of trade secret law applied by the administrative law judge.<sup>158</sup> He also noted that there was greater leeway for the Commission’s extraterritorial reach in non-statutory IPR cases than in statutory cases,<sup>159</sup> where the federal government’s reach “under our law is confined to the United States and its Territories.”<sup>160</sup>

Judge Moore, in her dissent, argued that absent clear intent by Congress to apply the law in an extraterritorial manner, U.S. courts do not have the right to determine what foreign business practices are unfair.<sup>161</sup> The majority opinion, she argued, gave an additional incentive to inventors to keep their

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<sup>155</sup> *Id.* at 1330. The court held that a single federal standard, rather than 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. *Id.* at 1327.

<sup>156</sup> *Id.* at 1329. *See also* Part I.C.2, *infra*. Judge Bryson noted that the opinion conformed with the Supreme Court’s recent holdings in *Small* and *Morrison*. *Id.* at 1329–30.

<sup>157</sup> *Enercon GmbH v. U.S. Int’l Trade Comm’n*, 151 F.3d 1376, 1381 (Fed. Cir. 1998). Judge Bryson reaffirmed this viewpoint in *Tianrui*. *See* 661 F.3d at 1332.

<sup>158</sup> *Tianrui*, 661 F.3d at 1332–33. Although there are differences in definition of and defenses against trade secret misappropriation in the United States and China, the *Tianrui* case involved conduct that would be deemed misappropriation under TRIPS. *See id.*

<sup>159</sup> *Id.* at 1333 (citing *In re Amtorg Trading Corp.*, 75 F.2d 826, 835 (C.C.P.A. 1935) (narrowly applying the extraterritorial application of U.S. patent law)). In response to *Amtorg*, Congress declared the importation, sale, or use of a product produced outside the United States using a process covered by the claims of a United States process patent an unfair act for purposes of section 337 even though it did not constitute an infringement under the Patent Act at the time. *See* Scott B. Familant, *Kinik: Raising the Stakes for Importing Products Derived from US Patented Processes*, 11 J. COM. TECH. 364, 364 (July 2005).

<sup>160</sup> *Dowagiac Mfg. Co. v. Minn. Moline Plow Co.*, 235 U.S. 641, 650 (1915).

<sup>161</sup> *Tianru*, 661 F.3d at 1338 (Moore, J., dissenting); *see also id.* at 1340 (Judge Moore contended that because there was nothing unfair about the importation of the railway wheels, the wholly extraterritorial trade secret misappropriation was not an unfair act in importation).

innovation secret, denying society the benefits of disclosure stemming from the patent system.<sup>162</sup>

### ***1. Prior Commission Rulings Have Addressed Extraterritorial Conduct***

*Tianrui* was not the first time that the ITC has exerted jurisdiction over foreign respondents. In *Certain Welded Stainless Steel Pipe And Tube*,<sup>163</sup> the complainants alleged that a group of respondents violated section 337 through the sale of imported welded steel tubing at unreasonably low prices.<sup>164</sup> The foreign manufacturers in the case contested the ITC's jurisdiction because they did not import goods into the United States, but instead sold to foreign trading companies that exported the articles to the United States.<sup>165</sup> The Commission rejected the argument, holding:

The use of the word 'or' in section 337(a) indicates that we are not limited to proscribing only those acts which occur during the actual physical process of importation. We may also consider acts occurring in the sale by an owner, importer, consignee, or agent of either. This second part of section 337(a) would seem to broaden our jurisdiction considerably, unless limited in some way by the concept of importation.<sup>166</sup>

The Commission found that the manufacturers' intent that their products become articles of commerce in the United States was linked to importation because "[o]ur whole remedial scheme is designed to attack unfair acts before the goods reach our shores."<sup>167</sup> Similarly, in *In Certain Processes for the Manufacture of Skinless Sausage Casings and Resulting Product*, the Commission held and the Federal Circuit affirmed that the misappropriation of a trade secret outside the United States could support the finding of a section 337 violation.<sup>168</sup> Additionally, in *In Certain Picture-In-A-Picture Video Add-On*

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<sup>162</sup> *Id.* at 1343 (Moore, J., dissenting).

<sup>163</sup> *Certain Welded Stainless Steel Pipe & Tube*, Comm'n Determination & Action, Inv. No. 337-TA-29 (USITC Feb. 22, 1978), available at 1978 WL 50692.

<sup>164</sup> *Id.* at \*10.

<sup>165</sup> *Id.* at \*8.

<sup>166</sup> *Id.*

<sup>167</sup> *Id.*

<sup>168</sup> *Certain Processes for the Mfg. of Skinless Sausage Casings & Resulting Product*, Initial Determination, Inv. No. 337-TA-148/169 (USITC July 31, 1984), available at 1984 WL 273803, at \*145. (USITC finding that foreign trade secret theft judgments would have no collateral estoppel or res judicata effect in the ITC); see *Viscofan, S.A. v. U.S. Int'l Trade Comm'n*, 787 F.2d 544, 546 (Fed. Cir. 1986) (affirming the USITC's holding in *Sausage Casings*). See also *Sausage Casings*, 1984 WL 273803 at \*99-100 (USITC holding that the respondent had misappropriated the complainant's trade secrets for manufacturing skinless sausage via its French subsidiary and the importation of the skinless sausage into the United States would substantially injure the relevant domestic industry, and finding "the judgments made by the French and Spanish courts . . . are relevant to, but do not necessarily conclu-

*Products and Components Thereof*, the Commission found the allegations that the respondent conspired to steal trade secrets in order to develop and manufacture a product for importation into the United States were sufficient to state a basis for relief under section 337.<sup>169</sup>

In other cases, the nexus between unfair acts and importation was found to be tenuous. In *Certain Insulated Security Chests*, the Commission held that a provision in a proposed consent order prohibiting the “manufacture for export to the United States” of accused products was beyond the Commission’s subject matter jurisdiction.<sup>170</sup> The Commission noted that such a prohibition was not clearly linked to the activity proscribed by section 337.<sup>171</sup>

## **2. Recent Supreme Court Jurisprudence Has Delineated Extraterritorial Application of U.S. Law**

In its first 200 years the Supreme Court, when confronted with claims arising from acts committed on the high seas, in the South Pole, or the cradle of civilization, has repeatedly restricted federal statutes from applying outside the United States.<sup>172</sup> In *Equal Employment Opportunity Commission v. Arabian American Oil Co.*,<sup>173</sup> the Court held that Title VII of the Civil Rights Act of 1964 did not regulate the employment practices of American firms employing American citizens abroad.<sup>174</sup> The Court stated that domestic employment, and not the territorial or employment relationship, was the focus of congressional concern,<sup>175</sup> noting “[i]t is a longstanding principle of American law ‘that

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sively decide, the limited issue of the occurrence of theft, and in no way relieve . . . [the complainant] of its burden of establishing every other necessary element incident to trade secret protection.”).

<sup>169</sup> Hnath, *supra* note 141, at 94.

<sup>170</sup> *Id.* at 90 (citing *Certain Insulated Security Chests*, Comm’n Mem. Op., Inv. No. 337-TA-244, at 11–12 (USITC Apr. 10, 1987)).

<sup>171</sup> *Id.* at 90–91. The opinion did not refer to the Commission’s decision in *Steel Pipe and Tube*. *Id.* at 90.

<sup>172</sup> See *Smith v. United States*, 507 U.S. 197, 203–204 (1993) (finding Federal Tort Claims Act does not apply to claims arising from alleged tortious acts in Antarctica); see also, *Foley Bros., Inc. v. Filardo*, 336 U.S. 281, 285–286 (1949) (finding federal labor statute does not apply to a contract between the United States and a private contractor for construction work done in Iran and Iraq); *United States v. Palmer*, 16 U.S. (3 Wheat.) 610, 630–634 (1818) (finding statute punishing piracy on the high seas does not apply to robbery committed on the high seas by a non-citizen on board a ship belonging to subjects of a foreign state).

<sup>173</sup> 499 U.S. 244 (1991).

<sup>174</sup> See *id.* at 244, 253–55.

<sup>175</sup> See *id.* at 255. The Court stated that the probability of incompatibility with the applicable laws of other countries is so obvious that if Congress intended such foreign application “it would have addressed the subject of conflicts with foreign laws and procedures.” *Id.* at 256.

legislation of Congress, unless a contrary intent appears, is meant to apply only within the territorial jurisdiction of the United States.”<sup>176</sup>

More recently, the Court has considered more complex cases in which extraterritorial acts were intertwined with conduct within the United States. In *Small v. United States*,<sup>177</sup> the Supreme Court held that the “convicted in any court” element of federal felon-in-possession-of-firearm statute excluded foreign convictions.<sup>178</sup> The majority conceded “we stand ready to revise this assumption should statutory language, context, history, or purpose show the contrary.”<sup>179</sup> In *Morrison v. National Australia Bank Ltd.*,<sup>180</sup> Australian plaintiffs who purchased shares of an Australian company in Australia brought a securities fraud case in the United States under the Securities Exchange Act of 1934.<sup>181</sup> Rule 10b-5, promulgated under the Exchange Act, prohibits any fraudulent act or omission in connection with the purchase or sale of any security on “any facility of any national securities exchange.”<sup>182</sup> The Second Circuit, the “Mother Court” of U.S. securities law,<sup>183</sup> held that the Exchange Act’s silence about the extraterritorial application of Rule 10b-5 permitted it to discern whether Congress would have wanted the statute to apply.<sup>184</sup> The court then applied its conduct-and-effects test, which asks “(1) whether the wrongful conduct occurred in the United States, and (2) whether the wrongful conduct had a substantial effect in the United States or upon United States citizens,” and found that it lacked subject matter jurisdiction.<sup>185</sup> On appeal, the Supreme Court rejected the circuit’s conduct-and-effects tests, but it nevertheless affirmed based on a general presumption against extraterritoriality.<sup>186</sup> The majority opinion noted that although deceptive conduct occurred in the United States, the focus of the Exchange Act is not upon the place where the deception

<sup>176</sup> *Id.* at 248 (quoting *Foley Bros.*, 336 U.S. at 285).

<sup>177</sup> 544 U.S. 385 (2005).

<sup>178</sup> *Id.* at 394.

<sup>179</sup> *Id.* at 391. The majority noted that foreign convictions differ from domestic convictions in important ways and this lent support to the proscription against extraterritorial application. *Id.* at 389. The dissent countered that gun possession is “surely a domestic concern” and that there was no support for a rule restricting a federal statute from reaching conduct within U.S. borders. *Id.* at 400.

<sup>180</sup> 130 S. Ct. 2869 (2010).

<sup>181</sup> *Id.* at 2875–76.

<sup>182</sup> 17 C.F.R. § 240.10b-5 (2012).

<sup>183</sup> *Morrison*, 130 S. Ct. at 2889 (Stevens, J. concurring).

<sup>184</sup> See *Morrison v. Nat’l Austrl. Bank Ltd.*, 547 F.3d 167, 170–71 (2d Cir. 2008), *aff’d*, 130 S. Ct. 2869 (2010).

<sup>185</sup> *Morrison*, 547 F.3d at 171, 176.

<sup>186</sup> *Morrison*, 130 S. Ct. at 2876–77, 2883.

originated but upon purchases and sales of securities in the United States.<sup>187</sup> The Court noted that “the presumption against extraterritorial application would be a craven watchdog indeed if it retreated to its kennel whenever *some* domestic activity is involved in the case.”<sup>188</sup> The dissent countered that the presumption against extraterritoriality does not relieve courts of their duty to give statutes the most faithful reading possible using “*all available evidence* about the meaning’ of a provision.”<sup>189</sup>

In cases where the Supreme Court has found that a statute provides for some extraterritorial application, the scope has been narrowly limited to its terms.<sup>190</sup> In *Microsoft Corp. v. AT&T Corp.*,<sup>191</sup> the Court held that § 271 of the Patent Act, which allows a U.S. patent owner to prevent another person in the U.S. from exporting most or all of the patented components with the intent that they be assembled abroad,<sup>192</sup> covered only those copies of software actually sent from the United States and not copies of the software made abroad.<sup>193</sup> In limiting the section’s extraterritorial reach, the majority noted that Congress was likely aware of the ease with which software could be copied and yet had left the matter untouched.<sup>194</sup>

Supreme Court jurisprudence has also addressed the issue of due process and the specter of “unfair surprise or frustration of legitimate expectations.”<sup>195</sup> The traditional jurisdictional analysis is somewhat different in a section 337 case because of the Commission’s in rem jurisdiction. In *Shaffer v. Heitner*,<sup>196</sup>

<sup>187</sup> *Id.* at 2884 (finding section 10(b) punishes “only deceptive conduct ‘in connection with the purchase or sale of any security registered on a national securities exchange or any security not so registered’”) (quoting 15 U.S.C. § 78j(b)).

<sup>188</sup> *Id.*

<sup>189</sup> *Id.* at 2891 (Stevens, J., concurring) (quoting *Sale v. Haitian Centers Council, Inc.*, 509 U.S. 155, 177 (1993)). The only circuit decision to apply *Morrison* in a case other than a securities case is *Norex Petroleum Ltd. v. Access Industries, Inc.*, 631 F.3d 29, 31 (2d. Cir. 2010). In *Norex*, the Second Circuit applied the *Morrison* presumption against extraterritoriality and dismissed a Racketeer Influenced and Corrupt Organizations Act (RICO) action based on conduct occurring in Russia. *Id.* at 31. That decision was consistent with the Second Circuit’s earlier holding that RICO had no extraterritorial application because it contained no language suggesting extraterritorial applicability. *Id.*

<sup>190</sup> See *Microsoft Corp. v. AT&T Corp.*, 550 U.S. 437, 455–56 (2007).

<sup>191</sup> 550 U.S. 437 (2007).

<sup>192</sup> 35 U.S.C. § 271(f)(1) (2006).

<sup>193</sup> *Microsoft*, 550 U.S. at 442.

<sup>194</sup> *Id.* at 458–59 (noting that in 1998, Congress addressed “the ease with which pirates could copy and distribute a copyrightable work in digital form via the Digital Millennium Copyright Act”).

<sup>195</sup> *Allstate Ins. Co. v. Hague*, 449 U.S. 302, 318 n.24 (1981).

<sup>196</sup> 443 U.S. 186 (1977).

the Court held that the test for determining whether jurisdiction in rem is consistent with due process was the same minimum contacts standard elucidated in an earlier decision.<sup>197</sup> That earlier decision, *International Shoe Co. v. State of Washington*,<sup>198</sup> held that a defendant outside the forum would be subject to in personam jurisdiction only if he had certain minimum contacts with the forum such that the maintenance of the suit did “not offend ‘traditional notions of fair play and substantial justice.’”<sup>199</sup> In *Shaffer* the Court noted that although the potential liability of a defendant in an in rem action was limited by the value of the property, this limitation did not affect the argument; the fairness of subjecting a defendant to jurisdiction did not depend on the size of the claim being litigated.<sup>200</sup> The Court noted that presence of property in a state could not only provide the requisite minimum contacts with the forum state but also that it would be unusual for the state where the property is located not to have jurisdiction.<sup>201</sup> The Court further reasoned that a defendant’s claim to property within a state indicated that he expected to benefit from the state’s strong interests in assuring the marketability of property within its borders as well as its dispute resolution measures.<sup>202</sup> The Commission’s power under section 337 is an example of prescriptive jurisdiction—the authority to make and apply law to persons or property—rather than more traditional adjudicative jurisdiction: the authority of courts to accept a case.<sup>203</sup> In the case of prescriptive jurisdiction, commentators have argued that due process requires notice of the applicable law; a defendant cannot claim lack of notice when a U.S. law applies an international norm to which that individual already was subject.<sup>204</sup>

A foreign respondent receives due process under either analysis. An exporter or manufacturer in a section 337 case satisfies the minimum contact test when it markets its goods in the United States.<sup>205</sup> Similarly, when the same exporter

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<sup>197</sup> 433 U.S. 186, 207 (1977) (holding that in a quasi *in rem* action, where the property is completely unrelated to the plaintiff’s cause of action, the presence of the property alone, without other ties between the defendant and the State, would not support jurisdiction).

<sup>198</sup> 326 U.S. 310 (1945).

<sup>199</sup> *Id.* at 316 (quoting *Miliken v. Meyer*, 311 U.S. 457, 463 (1940)).

<sup>200</sup> *Shaffer*, 433 U.S. at 207 n.23.

<sup>201</sup> *Id.* at 207.

<sup>202</sup> *Id.* at 207–08.

<sup>203</sup> Anthony Colangelo, *Response: Adjudicative versus Prescriptive Jurisdiction, Translating Historical Intent, and a Brief Universal Jurisdiction Rejoinder*, SCOTUSBLOG (July 20, 2012, 12:50 PM), <http://www.scotusblog.com/2012/07/response-adjudicative-versus-prescriptive-jurisdiction-translating-historical-intent-and-a-brief-universal-jurisdiction-rejoinder/>.

<sup>204</sup> Anthony J. Colangelo, *A Unified Approach to Extraterritoriality*, 97 VA. L. REV. 1019, 1047 (2011).

<sup>205</sup> *Enercon GmbH v. U.S. Int’l Trade Comm’n*, 151 F.3d 1376, 1383 (Fed. Cir. 1998).

knowingly ships its goods subject to customs controls at a U.S. port of entry, it has notice of unfair competition statutes conforming to the TRIPS standard.<sup>206</sup> Any foreign entity, including an upstream manufacturer, who exports goods for sale into the United States, has sufficient notice of the Commission's in rem jurisdiction.<sup>207</sup> *Small, Morrison, and Microsoft* stand for the proposition that the context of a federal statute and focus of its language can successfully rebut the strong presumption against extraterritoriality and allow it to be applied in a manner consistent with its terms. *International Shoe* and *Shaffer*, along with prescriptive jurisdiction, allay concerns over due process.

## II. The Commission's Extraterritorial Reach Is Warranted and Can Be Extended

### A. The *Tianrui* Decision Has Broad Support from U.S. Jurisprudence

It is clear that section 337 complaints provide a remedy for certain victims of foreign trade secret misappropriation. The Commission has held that its investigative powers "are not limited to proscribing only those acts which occur during the actual physical process of importation."<sup>208</sup> Despite the Supreme Court's approval of limited extraterritoriality, some commentators still argue that Congress must codify any such application.<sup>209</sup> Yet Congress has done nothing in response to the ITC's decisions holding that (1) the misappropriation of a trade secret outside the United States could support the finding of a section 337 violation; (2) foreign manufacturers who sold their goods to companies that later exported the articles to the United States were subject to ITC jurisdiction; and (3) allegations that a respondent conspired to steal trade secrets in order to manufacture a product for importation into the United States were sufficient to state a basis for relief under section 337.<sup>210</sup>

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<sup>206</sup> See *Sealed Air Corp. v. U.S. Int'l Trade Comm'n*, 645 F.2d 976, 985 (C.C.P.A. 1981) (holding that an exclusion order operates against goods, not parties, and is therefore not contingent upon a determination of personal jurisdiction over a foreign manufacturer); *Certain Large Video Matrix Display Sys. & Components Thereof*, Comm'n Op. 30, Inv. No. 337-TA-75, 213 U.S.P.Q. 475, 477, 487 (BNA) (USITC June 1981) (stating that personal jurisdiction over a particular respondent is required only where a complainant seeks a cease and desist order as a remedy against a particular entity or person).

<sup>207</sup> See *Sealed Air Corp.*, 645 F.2d at 985. A respondent could conceivably raise a defense under foreign law via an analogous provision in the USTA or state competition law. *Id.*

<sup>208</sup> *Certain Welded Stainless Steel Pipe & Tube*, Comm'n Determination & Action, Inv. No. 337-TA-29 (USITC Feb. 22, 1978), available at 1978 WL 50692, at \*8.

<sup>209</sup> See *id.*

<sup>210</sup> See *supra* Part I.C.1.

Congress has clearly let the Commission use its remedial scheme to attack unfair acts before the goods reach U.S. shores.

### **B. The WTO Has Addressed National Treatment Concerns Under Section 337**

Previous findings by the WTO have addressed national treatment concerns arising from the Commission's jurisdiction over products downstream from the misappropriation, a practice that may contravene the Chinese Supreme People's Court holding in *Avery*.<sup>211</sup> The TRIPS agreement is silent on downstream products: it requires that a person lawfully in control of a trade secret must prevent it "from being disclosed to, acquired by, or used by others without their consent in a manner contrary to honest commercial practices."<sup>212</sup> Under the Paris Convention, a signatory nation promises both national treatment—a promise to give the same protection to citizens of member nations as the signatory nation gives to its own citizens—and a defined minimum level of protection for certain rights.<sup>213</sup> Article 10*bis* of the Paris Convention requires member nations to provide "effective protection" against unfair competition—defined as "[a]ny act of competition contrary to honest practices in industrial or commercial matters"—to foreign persons from treaty nations.<sup>214</sup> Article 10*ter* of the Convention obligates members of the Union "to assure to nationals of the other countries of the Union appropriate legal remedies effectively to repress all the acts referred to in Articles 9, 10, and 10*bis*."<sup>215</sup> The provision gives no guidance as to what constitute appropriate legal measures; these details are left to each country to decide. If a member country affords less protection than is granted by the Paris Convention, then as a signatory nation, it still promises to protect citizens of other signatory nations from

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<sup>211</sup> See Bai, *supra* note 57, at 371–72.

<sup>212</sup> See Marrakesh Agreement Establishing the World Trade Organization, Agreement on Trade-Related Aspects of Intellectual Property Rights, Annex 1C, pt. II, § 7, art. 39, Apr. 15, 1994, 1869 U.N.T.S. 319, 336 (stating "manner contrary to honest commercial practices" includes breach of contract, breach of confidence and inducement to breach, as well as the acquisition of undisclosed information by third parties who knew, or were grossly negligent in failing to know, that such practices were involved in the acquisition).

<sup>213</sup> Paris Convention for the Protection of Industrial Property, arts. 2, 10*bis*, July 14, 1967, 21 U.S.T. 1583, translated in G.H.C. BODENHAUSEN, GUIDE TO THE APPLICATION OF THE PARIS CONVENTION FOR THE PROTECTION OF INDUSTRIAL PROPERTY (1968) [hereinafter Paris Convention]; 5 MCCARTHY ON TRADEMARKS AND UNFAIR COMPETITION § 29:25 (4th ed. 2008).

<sup>214</sup> Paris Convention, *supra* note 213, arts. 10*bis*.

<sup>215</sup> *Id.* art. 10*ter*.

the unfair competition as defined by Article 10bis.<sup>216</sup> Section 337 actions raise national treatment issues because it treats importers and domestic producers differently, and exerts jurisdiction over property rather than persons.<sup>217</sup>

Section 337 practices have already been challenged at and approved by the WTO. In 1981, in *United States—Imports of Certain Automotive Spring Assemblies*, the Canadian government brought a claim for violations of the national treatment principle on behalf of an exporter of automotive spring assemblies.<sup>218</sup> The United States argued that an exclusion order against the infringing products was a better remedy than a court injunction against the producer and was necessary to enforce U.S. patent law.<sup>219</sup> The GATT panel agreed, concluding that no alternative to section 337 would provide an effective remedy.<sup>220</sup> It deemed the statute permissible under the general exceptions

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<sup>216</sup> Patricia V. Norton, *The Effect of Article 10bis of the Paris Convention on American Unfair Competition Law*, 68 *FORDHAM L. REV.* 225, 240 (1999). Here, the citizens of other signatory nations would actually have more protections in a court in that nation than its own citizens would receive. *See id.* at 252.

<sup>217</sup> *See* *BP Chems. Ltd. v. Jiangsu Sopo Corp.*, 429 F. Supp. 2d 1179, 1185–89 (E.D. Mo. 2006) (providing an overview of the argument and details the decisions of earlier courts and holding that the Paris Convention do not create a federal cause of action for misappropriation of trade secrets); Jeffrey S. Neely & Hideto Ishida, *Section 337 and National Treatment under GATT: A Proposal for Legislative Reform*, 13 *FORDHAM INT'L L.J.* 276, 277, 283 (1989). “U.S. courts appear split on the issue of whether the unfair competition standard of the Paris Convention is incorporated into its domestic laws” as a substantive right through Article 44 of the Lanham Act, or whether “the Paris Convention and Article 44 simply grant reciprocal rights.” Seth M. Reiss, *Commentary on the Paris Convention for the Protection of Industrial Property*, LEX-IP, at 9–10 (2008–2010), <http://www.lex-ip.com/Paris.pdf> (last visited Apr. 20, 2013).

<sup>218</sup> GATT B.I.S.D. (30th Supp.) at 3 (1984) (arguing that U.S treatment of the imported spring components for automatic transmissions was clearly less favorable than that given to U.S. products where there is alleged patent infringement); *see also* Report of the Panel, *United States—Section 337 of the Tariff Act of 1930*, L/6439-36S/345 (Nov. 7, 1989), GATT B.I.S.D. (36th Supp.) at 46 (1990) (“For these reasons the Panel believed that there could be an objective need in terms of Article XX(d) to apply limited in rem exclusion orders to imported products, although no equivalent remedy is applied against domestically-produced products.”), <http://www.worldtradelaw.net/reports/gattpanels/sec337.pdf>; Neely, *supra* note 217, at 279 (citing Report of the Panel, *United States—Imports of Certain Automotive Spring Assemblies*, L/5333 (May 26, 1983)).

<sup>219</sup> *See* Scott Hewett, *Section 337 and the WTO: Can GATT Panel Precedent Predict the Future?*, 3 *U.C. DAVIS J. INT'L L. & POL'Y* 57, 73 (1997).

<sup>220</sup> *Id.* The United States had pointed to the problems of service of process and enforcement of judgments against foreign parties outside the United States and argued that enforcement of judgments against foreign parties could be difficult and costly, effectively immunizing foreign infringers from suits in district court. *Id.*

to national treatment in Article XX(d) because it was a narrowly construed measure “necessary to secure compliance with laws or regulations . . . relating to customs enforcement . . . the protection of patents, trade marks and copyrights, and the prevention of deceptive practices.”<sup>221</sup>

Foreign and domestic companies do receive equal treatment under section 337. For example, if a non-exporting Chinese manufacturer complying with Chinese law was named as a respondent in a section 337 complaint, China might argue that the Chinese entity was being treated differently from a U.S. citizen because it was not allowed to import and sell its goods into the United States.<sup>222</sup> Under the *Spring Assemblies* ruling, however, it is clear that countries are allowed to address unfair methods of competition.<sup>223</sup> If an unfair act occurs overseas, the only way to deal with it is through capturing the finished products.<sup>224</sup> By including downstream products made from stolen trade secrets within its definition of unfair acts, the ITC augments protection given by the TRIPS floor.<sup>225</sup> The Commission’s in rem jurisdiction has no national bias because section 337 does not distinguish between a domestic and foreign rights holder; a foreign-based rights holder which has established a U.S. industry would receive the same treatment in the ITC with respect to unfair acts in the importation of good into the United States.<sup>226</sup>

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<sup>221</sup> See General Agreement on Tariffs and Trade, art. XX(d), Oct. 30, 1947, 61 Stat. (5), (6), T.I.A.S. No. 1700, 55 U.N.T.S. 194. The United States argued that an injunction against such a party therefore would not be effective if the court issuing it couldn’t attach assets to enforce it. See *Hewett*, *supra* note 219 at 272–73. Thus it reasoned that ITC general exclusion orders against the infringing products was not only superior to a district court injunction against the producer, but also necessary to enforce U.S. patent law. See *id.*

<sup>222</sup> See General Agreement on Tariffs and Trade, art. III:A, ¶ 4 (1994), [http://www.wto.org/english/res\\_e/booksp\\_e/analytic\\_index\\_e/gatt1994\\_02\\_e.htm#article3A4](http://www.wto.org/english/res_e/booksp_e/analytic_index_e/gatt1994_02_e.htm#article3A4), for the insight:

The products of the territory of any contracting party imported into the territory of any other contracting party shall be accorded treatment no less favourable than that accorded to like products of national origin in respect of all laws, regulations and requirements affecting their internal sale, offering for sale, purchase, transportation, distribution or use.

*Id.*

<sup>223</sup> See Report of the Panel, *United States—Imports of Certain Automotive Spring Assemblies*, L/5333 (May 26, 1983), GATT B.I.S.D. (30th Supp.) at 15 (1984); see also, *Hewett*, *supra* note 219, at 281.

<sup>224</sup> See Report of the Panel, *United States—Imports of Certain Automotive Spring Assemblies*, L/5333 (May 26, 1983), GATT B.I.S.D. (30th Supp.) at 4 (1984).

<sup>225</sup> See *id.* at 14.

<sup>226</sup> This can be viewed a unique treatment given to mutually exclusive parties rather than national treatment discrimination based on a domestic industry presence. A foreign company that developed a domestic industry within the United States would be given the same protection under section 337.

### C. The ITC Should Consider, but Not Defer to, Decisions of Foreign Courts

Foreign findings of fact and conclusions of law may be considered by the ITC, but they have not been regarded as binding under the doctrines of *res judicata* or collateral estoppel.<sup>227</sup> An argument—one that is appealing to potential complainants such as AMSC—can be made that the ITC should institute procedures giving accord to foreign decisions in TRIPS acceding countries, because TRIPS provides a floor for protection.<sup>228</sup> The problem is that in certain jurisdictions such as China, practice differs from theory and litigants reap poor results. Another option in cases such as *Tianrui*, where no foreign-based action was instituted, would be to allow the ITC to rule on the facts using that jurisdiction's rules.<sup>229</sup> This would be difficult given the limited discovery available in Chinese civil cases; substantive differences in definitions and defenses in trade secret law also make this impractical.

### Conclusion

The danger remains that the *Tianrui* decision creates a slippery slope that will allow complainants access to remedies based on any foreign-based unfair business act. Where do we draw the line on unfair competition? Do we define unfair competition with the typically enumerated acts such as such as predatory pricing, tortious interference, trademark or copyright infringement, and misappropriation of trade secrets? Or do we broaden the definition to include any act in which the effects on trade, consumers, and society as a whole are more detrimental than beneficial? A cast steel railway wheel made with a process involving a misappropriated trade secret is clearly linked to importation. But what about a wheel made with a fairly licensed

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<sup>227</sup> See Hnath, *supra* note 141, at 108 (citing Certain Processes for the Mfg. of Skinless Sausage Casings & Resulting Prod., Inv. No. 337-TA-148/169, USITC Pub. 1624, at 252 (Dec. 1984) (stating that judgments made by the foreign courts are relevant to, but do not necessarily decide, the limited issue of the occurrence of theft, and in no way relieve complainant of its burden of establishing every other necessary element incident to trade secret protection)).

<sup>228</sup> See *Intellectual Property: Protection and Enforcement*, WTO, [http://www.wto.org/english/tratop\\_e/trips\\_e/intel2\\_e.htm](http://www.wto.org/english/tratop_e/trips_e/intel2_e.htm) (last visited Apr. 15, 2013). The World Trade Organization makes clear that TRIPS is a floor, stating that TRIPS “sets out the minimum standards of protection to be provided by each Member. . . . The TRIPS Agreement is a minimum standards agreement, which allows Members to provide more extensive protection of intellectual property if they so wish.” *Id.*

<sup>229</sup> Note that the *Tianrui*'s expert admitted that the company stole the trade secrets in question—such testimony could be used in the ITC. See *Tianrui Grp. Co. v. U.S. Int'l Trade Comm'n*, 661 F.3d 1322, 1325 (Fed. Cir. 2011).

process by a Chinese company that employs child laborers or by a company that pollutes a local river? In the name of fair competition, is it better for the Commission to ban the exporter's products and have a child risk starvation or allow the imports and let the company pay the child twenty-five cents a day? The courts have broadly defined the definition of unfair acts, and thus the Commission's power: "[I]t is evident from the language used [in section 337] that Congress intended to allow wide discretion in determining what practices are to be regarded as unfair."<sup>230</sup>

This broad definition is proper because no exporter has the right to unfairly compete in the U.S. market—regardless of the type of unfair trade act employed. Access to domestic markets should be based on a domestic definition of unfair competition that conforms to acceptable (e.g. WTO) standards. The challenge lies in the nexus between an unfair act and importation. AMSC likely did not seek a section 337 remedy action because Sinovel imports wind towers not turbine control software.<sup>231</sup> If a good is produced from the results of trade secret misappropriation, there is little difference between U.S. based and foreign based acts in the context of importation. Technology knows no borders; today's global markets also know no borders.

The Federal Circuit's decision in *Tianrui* reaches far beyond our borders, but it does not encroach on Chinese sovereignty.<sup>232</sup> It simply acknowledges the Commission's authority over imports into, and sales in, the United States.

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<sup>230</sup> Reiziss, *supra* note 136, at 234; *see also In re Certain Universal Transmitters for Garage Door Openers*, Notice of Comm'n Determination to Affirm Initial Determination Denying Temporary Relief, Inv. No. 337-TA-497, USITC Pub. 3670 (Jan. 2004), 2004 ITC LEXIS 108, \*23–25 (noting that there is a large body of law analyzing unfair methods of competition under § 5 of the FTC Act, and accordingly the Commission has great latitude in deciding what constitutes unfair methods of competition or unfair acts in importation and thereby, whether jurisdiction exists).

<sup>231</sup> In July 2012, the U.S. Commerce Department imposed a 26% anti-dumping tariff on imports of Sinovel wind towers. *See* Brian Wingfield & William McQuillen, *U.S. Sets Duties on Chinese, Vietnamese Wind Towers*, BLOOMBERG (Jul. 27, 2012, 5:17 PM), <http://www.bloomberg.com/news/2012-07-27/u-s-sets-duties-as-high-as-73-on-chinese-tower-imports.html>. The agency concluded producers in the China and Vietnam, which exported \$301 million in wind towers to the U.S. in 2011, sold the utility-scale towers below production costs. *See id.* Tariff calculations generally take into account production input costs and exports price but do not account for any unfair trade practices perpetrated by the exporter. *See* Utility Scale Wind Towers from the People's Republic of China: Preliminary Determination of Sales at Less than Fair Value and Postponement of Final Determination, 77 Fed. Reg. 46,034, 46,040 (Aug. 2, 2012). Moreover, in the Sinovel case, the nacelles, which contain the control software, were not included in price calculations. *See id.* at 46,035.

<sup>232</sup> For example, *Tianrui* is still free to sell its cast steel railway wheels to companies outside the United States. *Tianrui*, 661 F.3d at 1332.

Relations between the two superpowers have shifted. China's remarkable progress over the past thirty years—fueled by leaders who pushed through painful economic and social changes, and an increasingly educated and motivated workforce focused on collecting knowledge from around the world—and its funding of much of the American budget deficit have given it a much stronger bargaining position. China must remember that its economic prospects—which will continue to be driven by IPR—are intertwined with those of the United States. The United States is correct to remind China that its global technology leadership aspirations are better served by a stronger domestic protection regime. Chinese firms have seen section 337's sword; some will surely use its shield.

The signs of cooperation remain encouraging. At the most recent meeting of the U.S.-China Strategic and Economic Dialogue, China agreed to prioritize trade secret protection policies and increase enforcement against misappropriation.<sup>233</sup> The *Tianrui* decision gently reinforces these efforts. The court's message will inspire—be it through aspirations for global leadership or economic pragmatism—its Chinese counterparts to deliver trade secret protection as envisioned by TRIPs.

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<sup>233</sup> See U.S. DEP'T TREASURY, *supra* note 17.