

Client Alert

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Trade Secret Owners Flock to the International Trade Commission to Combat Overseas Misappropriation

The International Trade Commission (“Commission”) has seen a spike in investigations related to the misappropriation of trade secrets since the Federal Circuit’s determination in *TianRui Group Co. Ltd. v. U.S. Int’l Trade Comm’n*, 2010-1395 (Fed. Cir., Oct. 11, 2011) (“*TianRui*”). *Tian Rui* affirmed that Section 337 of the Tariff Act of 1930 (“Section 337”) applies to trade secret misappropriation where the unfair act occurs exclusively overseas. It also created a uniform federal common law standard for addressing trade secret theft under Section 337 that effectively replaced the Commission’s former approach of using state trade secret laws, which differ from state to state. Section 337 makes unlawful unfair methods of competition and unfair acts in the importation of articles into the United States, or in the sale of such articles by the owner, importer, or consignee, if such importation injures or threatens to injure an industry in the United States.

In the past month, the Commission received two new complaints requesting the institution of investigations of trade secret misappropriation, each alleging unfair acts occurring exclusively overseas. The most recent complaint, *Certain Robotic Toys and Components Thereof*, Inv. No. 337-2930, was filed in January 2013, by Innovation First International, Inc., Innovation First, Inc. and Innovation First Labs, Inc. (“Innovation First”). Innovation First alleges unlawful importation into the United States of robotic toys by a domestic retailer. Innovation First alleges that the retailer imports and sells robotic toys manufactured by Zuru Inc. as a result of misappropriation of complainant’s trade secrets in China. The complaint alleges that Zuru deliberately engaged an Innovation First engineer in China who stole trade secrets from Innovation First and provided them to Zuru. This investigation is unique in that Innovation First named as a respondent only the retailer and did not name Zuru, the entity alleged to have engaged in the trade secret misappropriation. Innovation First’s decision not to name the parties alleged to have stolen its trade secrets may limit the ITC’s ability to afford relief. At a minimum, it will diminish Innovation First’s ability to obtain the foreign discovery needed to prove trade secret misappropriation. Although discovery between the parties does not require special procedures, discovery against non-parties must proceed by ordinary channels of foreign discovery, such as the Hague Convention or Letters Rogatory.

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On January 22, 2102, the Commission instituted an investigation in *Certain Paper Shredders, Certain Processes for Manufacturing or Relating to Same*, Inv. No. 337-TA-863, based on another recently filed complaint. The Commission also has before it two pending investigations instituted in 2012 involving trade secret misappropriation, both of which allege unfair acts occurring exclusively overseas in China: *Rubber Resins and Processes for Manufacturing Same*, Inv. No. 337-TA-849, instituted in June 2012 and the consolidated investigation *Electric Fireplaces, Components Thereof, Manuals for Same*, Inv. Nos. 337-TA-826/791, instituted in 2012 and 2011, respectively. Also in 2012, the Commission instituted an enforcement proceeding in *DC-DC Controllers and Products Containing the Same*, Inv. No. 337-TA-698, which reviewed the respondents' compliance with a consent order stemming from the original investigation instituted in January 2012, alleging trade secret misappropriation based on unfair acts occurring exclusively overseas in Taiwan.

These investigations represent a substantial surge in trade secret misappropriation cases at the Commission. Before these six investigations, the Commission instituted only five investigations since 1996, none since February 2006. And the Commission has instituted fewer than 45 total investigations involving trade secrets since the enactment of the Trade Act of 1974.

As evidenced by these recent filings, the Commission has become a preferred forum for combating international trade secret theft as a result of the *Tian Rui* decision. In addition to affirming that Section 337 applies to unfair acts occurring exclusively overseas, *Tian Rui* held that a single federal standard should be used to determine whether there has been a misappropriation of trade secrets sufficient to establish an "unfair method of competition" under Section 337. The uniform federal standard is consistent with previous Commission decisions on trade secrets and generally requires a showing that (1) one or more trade secrets exist and are not within the public domain; (2) the complainant is the owner of the trade secret or possesses a proprietary interest therein; (3) the complainant disclosed the trade secret to the respondent while in a confidential relationship, or the respondent wrongfully obtained the trade secret by unfair means; and (4) the respondent used or disclosed the trade secret, causing injury to complainant.

The *TianRui* court also affirmed that it is not essential that the complainant's domestic industry use the trade secret, provided that the misappropriation of that trade secret caused injury to the complainant's domestic industry. In contrast to Section 337 investigations based on patent, trademark, or copyright infringement—which do not require the complainant to show injury—complainants who allege trade secret misappropriation as the unfair trade practice in a Section 337 case must show that the "threat or effect" of the importation of articles using the misappropriated trade secrets is "to destroy or substantially injure an industry in the United States" or "to prevent the establishment of an industry in the United States."

The Commission also has traditional jurisdictional and discovery advantages over district courts for combating trade secret theft. For example, the Commission has national *in rem* jurisdiction over imported products and permits global discovery over parties to the investigation. Respondents are required to answer the complaint and discovery or a default can issue excluding their products from importation. In addition, Section 337 investigations are much faster than district court cases, typically decided by the Commission within 16 months from institution of the investigation. And evidentiary standards are substantially more liberal than in the federal courts. Although the Commission cannot issue money damages, it can exclude all infringing articles from entry into the United States. The Commission also may issue a cease and desist order prohibiting the person found to violate Section 337 from importing, selling, marketing, distributing, offering for sale, selling, or otherwise transferring the articles concerned in the United States.

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Please contact us if you have any questions about the application of Section 337 or ways in which it might be used to combat unfair methods of competition.

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