

# Executive COUNSEL

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## Combating Trade Secret Theft Abroad through Legal Action at Home

By Michael Strapp



**T**heft of corporate trade secrets abroad is on the rise. Security experts and government officials are increasingly concerned about breaches of corporate networks. In January, the director of national intelligence warned the Senate Intelligence Committee of overseas actors that are targeting the intellectual property of U.S. companies in an effort to “save themselves the time and expense of doing R&D.”

U.S. companies, aware of the risks

involved in conducting business abroad, are taking extraordinary measures. As the New York Times reported in February, at AirPatrol, a Maryland-based company that specializes in wireless security systems, employees take only loaner devices to China and Russia, never enable Bluetooth and always switch off the microphone and camera.

What happens when such measures are not enough? Can corporations seek redress in U.S. courts for the theft of

trade secrets, even when those trade secrets are stolen abroad?

Addressing these very questions, a federal appeals court recently determined that the International Trade Commission, a quasi-judicial federal agency, does have authority to bar the importation of products made abroad using misappropriated trade secrets that were developed in the United States. The appeals court relied on a statute that prohibits “unfair methods

of competition and unfair acts in the importation of articles . . . into the United States.”

The case decided by the appeals court involved Amsted Industries, a domestic manufacturer of cast steel railway wheels. Amsted owned a secret process for manufacturing such wheels but no longer used that process in the United States. It licensed it instead to several firms with foundries in China.

The TianRui Group, a Chinese manufacturer of railway wheels, also sought to license Amsted’s technology, but the parties could not agree on terms. Then, after the failed negotiations, TianRui hired employees away from one of Amsted’s Chinese licensees, Datong.

In proceedings before the ITC, Amsted proved that the Datong employees hired by TianRui had been trained in the secret Amsted process, knew that the process was proprietary and confidential, but nonetheless disclosed it to TianRui. Amsted also proved that TianRui, after misappropriating the Amsted trade secret, imported into the

United States the wheels it had manufactured using the trade secret.

At the appeals court, TianRui argued that the jurisdiction of the ITC cannot reach trade secret misappropriation that occurs outside the United

States. Although the court agreed that Congressional legislation typically applies only within the territorial jurisdiction of the United States, it rejected the argument advanced by TianRui. The statute at issue focused on the inherently international transaction of importation, the appeals court explained, and so the presumption against extraterritoriality did not govern the case.

While the appeals court agreed that ITC jurisdiction could reach trade secret theft abroad, it placed an important limitation on that jurisdiction. The court ruled that the ITC’s authority to address misappropriation of trade secrets

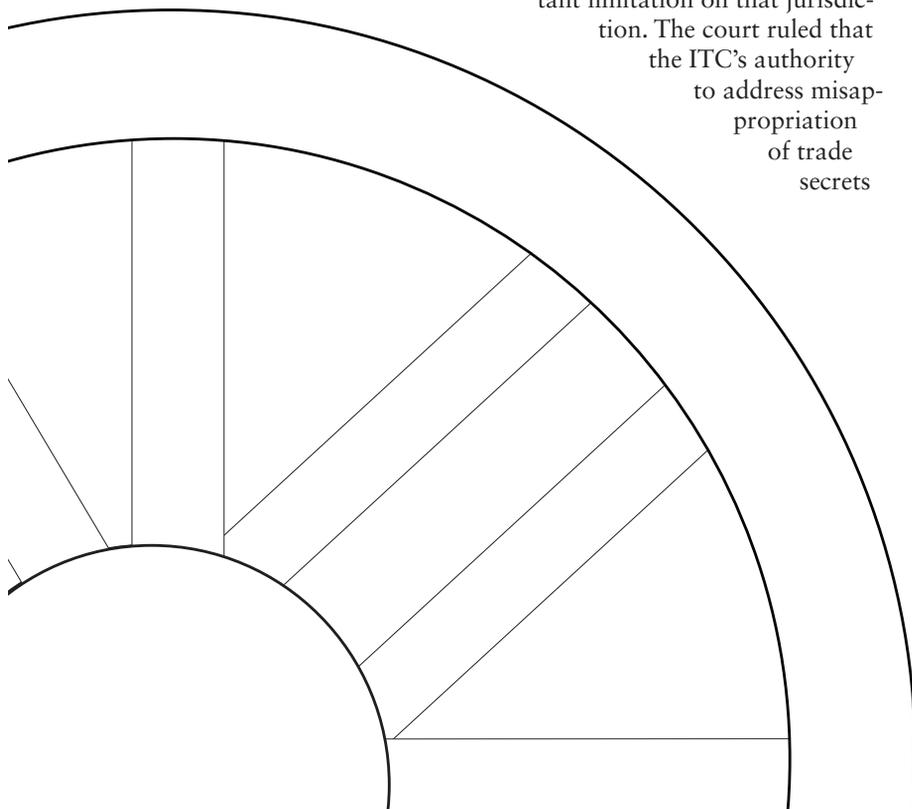
abroad is limited to those situations where the act of misappropriation abroad results in the importation of goods into the United States. As the appeals court explained, “the Commission has no authority to regulate

conduct that is purely extraterritorial. The Commission does not purport to enforce principles of trade secret law in other countries generally, but only as that conduct affects the U.S. market.” The TianRui decision is important for U.S. corporations that do substantial business in countries where the theft of corporate trade secrets is widespread. Domestic corporations that learn of trade secret theft abroad can now obtain an order from the ITC excluding from importation goods that are made using stolen trade secrets. An exclusion order may not deter trade secret theft by entities abroad that have no intention of selling their goods in the United States, but it will be a powerful weapon against those that are selling, marketing, or intend to sell and market, products made with stolen trade secrets in the United States.

An ITC exclusion order is not the only U.S. legal tool to combat the theft of trade secrets abroad. The Economic Espionage Act, passed by Congress in 1996, makes theft of trade secrets a federal crime. In particular, the EEA prohibits espionage on behalf of foreign governments for purposes of obtaining trade secrets from U.S. businesses. More generally, the EEA also outlaws the theft of trade secrets when it is undertaken for the economic benefit of someone other than the rightful owners.

Under the EEA, information is a trade secret if (1) the owner took reasonable

## The ITC’s authority to address misappropriation of trade secrets abroad is limited to those situations where the act of misappropriation abroad results in the importation of goods into the United States.



measures to keep it secret and (2) the information has independent economic value because of its secrecy.

The wide scope of the EEA is consistent with the purpose behind it. Legislative history indicates that in the wake of the Cold War, Congress recognized that espionage had evolved to focus on secrets that lead to a commercial and economic advantage. Congress also acknowledged that corporate trade secrets are an important national economic resource. In this context the EEA was passed, to directly and systematically address economic espionage.

The EEA not only criminalizes trade secret theft in the United States, it also explicitly prohibits the theft of trade secrets abroad if the offender is a U.S. citizen or corporation, or if any act in furtherance of the offense was committed in the United States. While prosecutions under the provision of the EEA criminalizing trade secret theft abroad have not been common, that may change soon with the rise in international corporate espionage.

Thus, businesses seeking legal redress in the United States for the theft of trade secrets abroad face an important choice: Should they try to initiate criminal proceedings under the Economic Espionage Act, or should they petition the International Trade Commission for an exclusion order?

In certain circumstances the answer is clear. If the trade secret theft abroad has not and will not lead to the importation into the United States of products made using the purloined secrets, the ITC is not an option. Conversely, if the theft was carried out abroad by a foreign national acting on behalf of a foreign entity, and no act in furtherance of the theft occurred in the United States, the conduct would not fall within the ambit of the EEA.

If criminal and civil options to combat trade secret theft abroad are both avail-

able – for example, where a U.S. citizen stole trade secrets abroad on behalf of a foreign company, and the foreign company then imported goods made with the stolen secrets into the United States – companies must weigh the risks and benefits associated with pursuing an exclusion order at the ITC versus a criminal indictment under the EEA.

## The Economic Espionage Act, passed by Congress in 1996, will under some circumstances make theft of trade secrets a federal crime.

One important benefit of an ITC action is the swift pace of ITC litigation. The entire discovery period is typically about six months, and a trial usually occurs in less than a year. The entire investigative process is only 15-16 months from institution of the investigation.

Another important benefit to an ITC action, especially in comparison to seeking criminal charges, is that the bar to instituting an investigation by the ITC is quite low. Indeed, investigation by the ITC is mandatory upon the filing of a complaint under oath, alleging a violation.

The benefits of initiating a criminal proceeding under the EEA instead of pursuing an investigation before the ITC are first, as Congress noted when passing the Act, a criminal prosecution does not tax the resources of smaller businesses that can't afford the legal fees and costs of an ITC investigation.

Additionally, the deterrent effect of a successful criminal prosecution may outweigh the punitive aspects of an exclusion order. Under the EEA, individuals may be fined up to \$500,000 and face up to 15 years in prison, and organizations may be fined up to \$10,000,000.

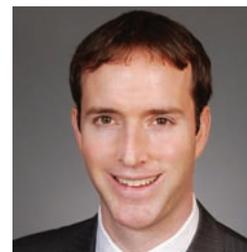
Complementing the penalty provi-

sion, the EEA authorizes both mandatory and discretionary forfeiture that targets proceeds of the crime and any personal property used in the commission of the crime.

U.S. companies considering what steps to take to combat trade secret misappropriation abroad should be aware of both options. If the primary

goal is to swiftly shut down the importation of infringing products, the ITC is the logical venue. Because there is no need for personal jurisdiction and service need not be made pursuant to the Hague Convention, a lawsuit can be commenced without delay. Time to trial is very short, and injunctive relief, in the form of an exclusion order, is awarded as a matter of right.

If on the other hand a company does not have the resources to pursue an ITC action, or it wishes to send a powerful deterrent message to the entity that has misappropriated the trade secret, initiating a criminal prosecution may be a viable and more attractive option. ■



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