

Trade Secrets at the United States International Trade Commission: Recent Trends and Strategies

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Agenda

- ITC Background
 - Jurisdiction, remedies, timing, costs, domestic industry, extraterritorial effect
- Trade Secrets at the ITC
- ITC Cons for Trade Secrets
- ITC Pros for Trade Secrets

The International Trade Commission

Section 337 Cases

- ITC Section 337 cases apply to any type of intellectual property
 - Historically mostly patents, but also trade secrets
- No jury, administrative law judges, ALJ makes a determination, reviewed by the Commissioners, subject to presidential review
- Only power is to block imports into the US, no money damages
- April 2021:
 - SK Innovation's lithium-ion battery factory in Georgia alleged to use stolen LG trade secrets
 - LG sued at ITC to block imports of materials needed for the batteries
 - ALJ and Commission agreed, sent to Biden for review
 - Tension between protecting US jobs and American battery manufacturing, and protecting IP
 - Republicans argued lost jobs; Progressives argued for linking this with waiving IP protection on COVID vaccines
 - Parties settled for \$1.8 billion and running royalties

The ITC's Jurisdiction

- Created in 1930s to protect American companies from unfair foreign competition
- Requires a “domestic industry” in the IP at issue
 - Tends to discourage NPEs, who have trouble proving a domestic industry
- Most multinationals with US operations can use the ITC against US or foreign competitors
- But can only block imports into the US
- Any sort of IP
 - Traditionally and still overwhelmingly patent cases
 - Increasing numbers of trade secret cases

ITC Cases—Costs and Timing

- Start to finish 15-18 months
 - Recent trend on costs: \$3.5 million to \$6 million+
 - Similar to Federal court cost, but costs compressed into short period
 - Short discovery periods impose burdens on both sides, tend to have large teams
 - Preparing for hearing in 6-8 months from start
- Terminology:
 - Case is an “Investigation”; Plaintiff is a “Complainant”; Defendants are “Respondents”; trial is a “Hearing”
 - ITC rules of discovery and evidence are essentially based on US Federal court rules
 - Unlike Federal court, filing a complaint does not automatically start a case—ITC reviews complaint and decides whether to start Investigation.
 - More than 90% of complaints become Investigations

ITC—Intellectual Property; Decisions

- Any type of intellectual property—patents, trademarks, trade secrets, copyrights
 - Trade secret cases remain relatively rare
 - ITC cost may limit trade secret to highly technical, high-value cases
 - ITC rules on domestic industry and importation limit all cases, including trade secret
- ALJ does not make the final decision
 - ALJ issues an “Initial Determination”
 - Reviewed by the ITC Commissioners—6 President-appointed members, many with economics backgrounds
 - They can uphold, modify, reverse all or part of the ALJ’s decision
 - Finally, before decision is final, US President can review; very rare for President to change ITC decision

ITC—International Effect in US Market

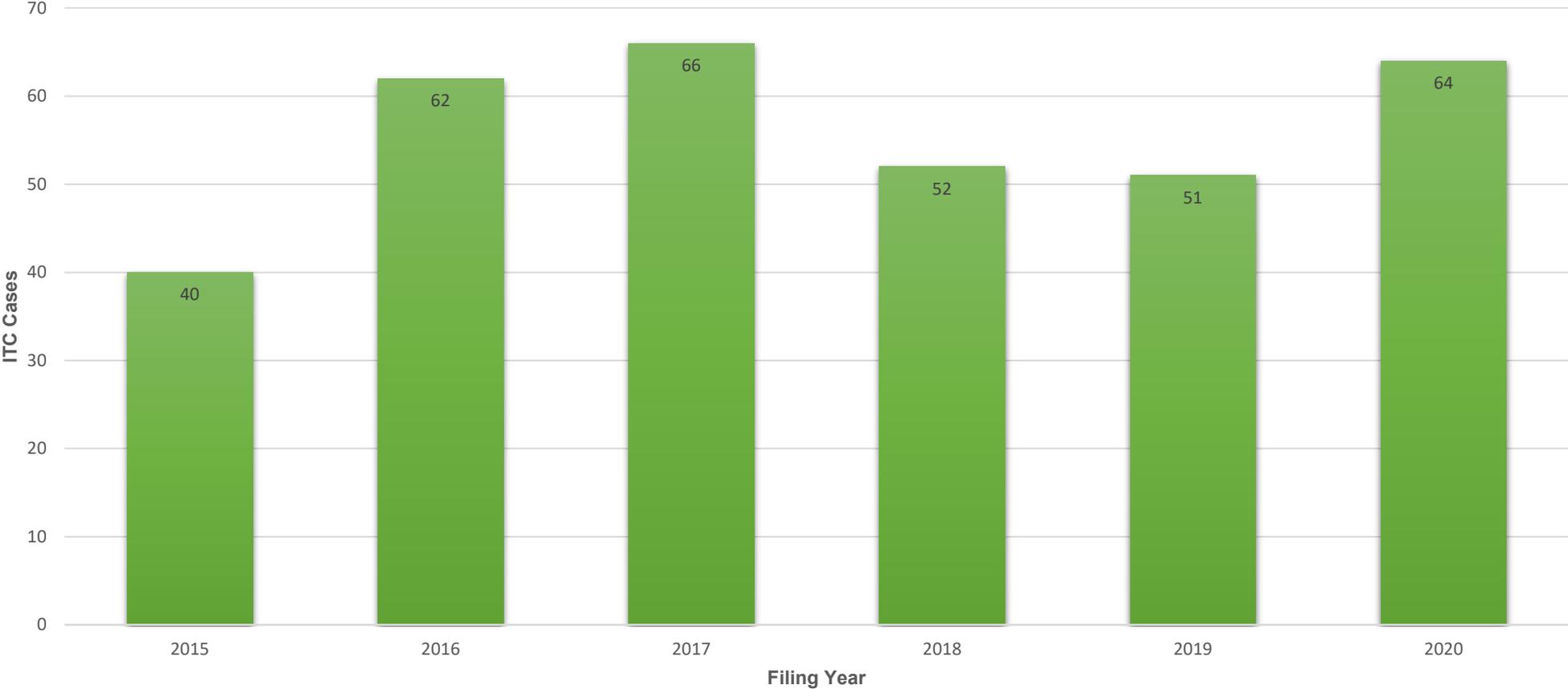
- Cases in ITC apply to things, not people or companies
 - Example: Cell phones—the case is against the phones and about whether they should be blocked from importation into the US
 - Not relevant where manufactured so long as it is imported into US
 - Not relevant if US Federal court would have jurisdiction
 - Not relevant to even know all manufacturers
 - Ignoring an ITC case will lead a default judgment and Customs exclusion
- Exclusion orders—Excluding import into US

ITC—“Domestic [US] Industry”

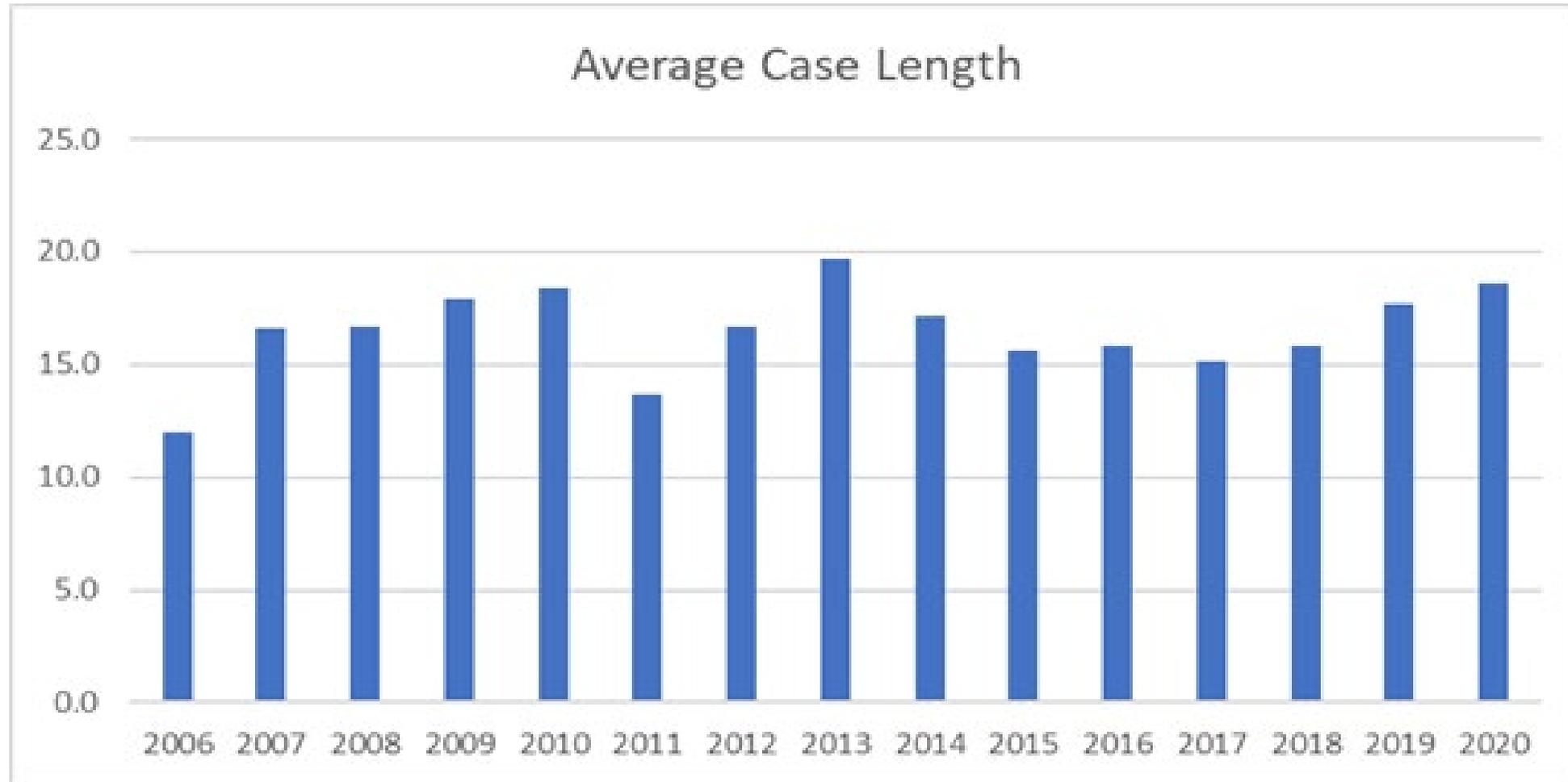
- ITC can be used by any company with a “domestic industry,” regardless of whether company has non-US headquarters
 - Research and development, use of trade secrets, manufacturing, sometimes sales or licensing within the US
 - Regardless of where the company is based or where it does the bulk of R&D
 - But the domestic industry has to be linked to the product at issue
 - Example: If I import cell phones and televisions, but my US trade secrets are only related to televisions, I do not have a domestic industry in cell phones, and cannot use the ITC for the cell phones
- With multinational companies and global supply chains, domestic industry can be hard to prove
- Common to see problems with link between US trade secrets, and the product at issue

ITC Cases Year Over Year

ITC Cases (2015 to 2020)



ITC Cases Remain Comparatively Fast



ITC—New Strategies

- Complainants:
 - Put pressure on manufacturer by naming downstream resellers
 - Work with ITC Staff for extra support before the ALJ
 - Don't rush the complaint filing—needs strong evidence of domestic industry, the trade secret misappropriation, and explanation of the trade secrets
 - ITC Staff can review and suggest changes before filing—very valuable chance to get a “preview” of what Staff thinks and wants to see
 - Also a chance to test explanation of the trade secret(s)

ITC—New Strategies, cont.

- Respondents:
 - In trade secret case, push for detailed specificity in list of trade secrets
 - The Complainants' first list is never detailed enough
 - In a trade secret case, be careful that employees not communicate with the people who allegedly stole the trade secrets
 - Is there a domestic industry in the product at issue?
 - For downstream resellers, consider a consent decree—settles case with agreement not to sell the product unless ITC finds no misappropriation
 - Is a countersuit (Federal court or ITC) against the Complainant an option?

Trade Secrets—Impact of Extraterritorial ITC Jurisdiction

- Even outdated trade secrets can lead to exclusion order
 - In *TianRui*, the US company had new trade secret processes to make railroad wheels
 - The Chinese competitor allegedly poached employees and technology, was using the old trade secret process
 - Traditionally, this would be a lack of domestic industry in the wheels
 - But both parties' wheels competed with one another; that was enough
- Contrast with Federal courts using DTSA
 - Most courts limit DTSA jurisdiction because there must be “an act in furtherance of the offense [that] was committed in the United States.” 18 U.S.C. § 1837(2).
- ITC offers a powerful remedy
 - Some nations require trade secret disclosures to set up operations there; ITC gives protection, at least as to products imported into the US

Trade Secrets—Impact of Extraterritorial ITC Jurisdiction, Cont.

- *Sino Legend Chemical*:
- Over rubber resins; Sino Legend hired SI's plant manager and began making rubber resins; SI went to the ITC to block import
- ITC excluded products that had been developed in China, by Chinese nationals, and with the misappropriation happening in China.
- China's government filed an amicus brief asking for certiorari
- Argued these were acts by Chinese nationals; in China; at Chinese companies; doing things Chinese courts found lawful
- The core argument by the Chinese Ministry of Commerce was that
 - (1) U.S. trade secret laws in general do not apply extraterritorially,
 - (2) there is no sign that Congress intended in writing Section 337 that it should apply extraterritorially, and
 - (3) *Sino Legend* was an appropriate opportunity for the U.S. Supreme Court to reverse the Federal Circuit's decision in *TianRui*.
- Supreme Court denied the petition, effectively adopting the *TianRui* decision (and *Sino Legend*) as U.S. law.

ITC—Trade Secret Cases

- Until recently, trade secret cases were fairly rare: only 5 trade secret cases were instituted from 1996-2008.
- Federal law governing trade secrets (“DTSA”) came into effect in 2016
- Gave ITC explicit power under Federal law
 - E.g., TianRui: US trade secret law applied to non-US activities
- e.g., Hitachi subsidiary in the US argued that Chinese SOE had used stolen trade secrets to compete in ultra-thin metal technology
 - Compelling evidence that the retired Hitachi engineers had been paid to visit Chinese manufacturers
 - But Hitachi couldn’t find clear proof of misappropriation

ITC Trade Secret Cases

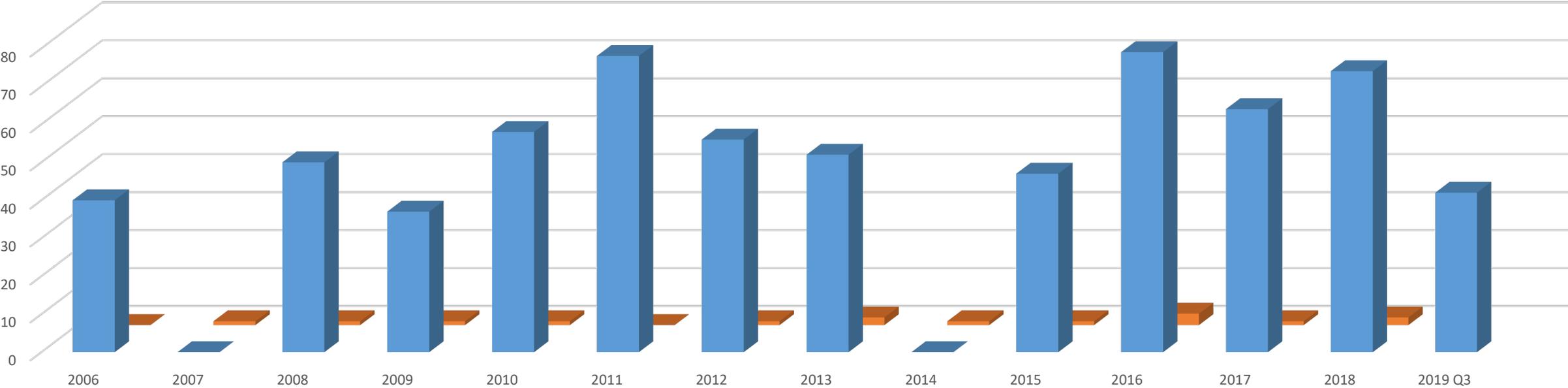
- e.g., 2020 Botox case
 - Against Korean drugmaker Daewoong
 - Alleged trade secrets in Botox manufacturing, and in the bacterial strain
 - ALJ found trade secret misappropriation happened in Korea and issued exclusion order
 - Respondents argued for Commission review:
 - “foreign dispute about exclusively foreign alleged trade secrets”
 - Commission found trade secret misappropriation only on manufacturing, affirmed exclusion
- e.g., 2020 bone cement case (fill gaps between bone and artificial joints)
 - Of 145 alleged trade secrets, 35 were found protectable and misappropriated
 - ALJ recommended exclusion order

ITC Trade Secret Cases

- e.g., 2021 lithium-ion battery trade secret case
- LG argued that SK systematically raided its battery group:
 - Scientists
 - Manufacturing engineers
 - Sales team
- LG argued it had lost a billion dollars in sales from the misappropriations
- ITC issued 10-year ban on imports of SK batteries (with exception for Ford F-150 that relied on SK batteries)
- Parties settled for \$1.8 billion and running royalties
- Tricky politically had case gone to Presidential review

ITC 2006-2019--Increasing Trade Secret Cases (Red):

(2019 is through July)



ITC—Trade Secret Cases

- Judge will order early disclosure of the claimed trade secrets
- Standard ITC protective order keeps these confidential
- Defenses same as in US Federal court:
 - Trade secret is not secret; is publicly known
 - Trade secret was independently developed
 - Trade secret was not misappropriated
- Trade secret cases are powerful
 - Applies to any business/manufacturing process, regardless of patent filings
 - Often easier for Judge to understand

ITC Cons for Trade Secret Cases

- Cost
 - Often much more than District Court trade secret case, and compressed into 15-18 months
- No jury—for some plaintiffs, this is a drawback
- No money damages, and only remedy is an exclusion order at Customs
- Need to have a domestic industry in the product using the trade secret, not merely a domestic industry of some sort
- Extremely detailed complaints are required, and ITC can decide whether or not to begin an investigation
 - 90% success rate here

ITC Pros for Trade Secret Cases

- Extraterritorial effect can be hugely important
- Speed (approx. 15-16 months from start to decision)
- Administrative Law Judge only, no jury
- Extraterritorial discovery
- Exclusion order possibility often encourages respondents to settle
- Highly likely to go to trial compared to most district courts
- High odds of winning compared to most district courts

A low-angle, upward-looking photograph of several tall skyscrapers against a bright blue sky filled with scattered white clouds. The buildings are seen from the bottom corners, creating a sense of height and scale. The central text is overlaid on the sky.

Thank you.
Questions?