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## Trade Secret Litigation At The ITC: A Perfect Match?

*Law360, New York (January 04, 2010)* -- The outsourcing of American advanced technology to foreign contract manufacturers — particularly in Asia — is politically controversial in the United States.

But the short-term economic benefits are undeniable: lower labor costs abroad, combined in Asia with manufacturing expertise and an impressive regional supply chain, are compelling.

Yet in transferring manufacturing operations abroad, U.S. companies often fail to take adequate steps to protect the valuable intellectual property embodied in specialized production processes.

In some cases, the nature of a proprietary production process does not lend itself to patent protection. In other cases, U.S. companies are reluctant to spend resources to protect production technology used offshore, because traditional litigation cannot provide timely or meaningful relief from imported goods made using proprietary production technology, even if that technology has been stolen.

The remedies offered by the United States International Trade Commission, in conjunction with a new generation of trade secret law embodied in the Uniform Trade Secrets Act and adopted by many states, may offer a new alternative for companies seeking both to protect their proprietary (but not patentable) or patentable production techniques and to obtain meaningful relief when that technology is misappropriated.

The ITC is a specialized forum that adjudicates cross-border intellectual property disputes under Section 337 of the Tariff Act.

The main ITC remedy — rapid closure of the border to infringing goods — is uniquely suited to companies which believe their U.S.-based intellectual property has been misappropriated and used to manufacture goods overseas, which are then imported to the United States.

The typical Section 337 proceeding at the commission lasts 15 to 18 months from the initiation of an investigation to the date that a remedy is applied, far less than a district court trial. Moreover, preliminary injunctive-type relief is available in five to seven months.

The ITC relies on a cadre of Administrative Law Judges — specializing in intellectual property law disputes — who stand in the shoes of a federal district court.

Today, most intellectual property litigation at the commission involves patent disputes. But Congress, in drafting Section 337 in the early 1930s, expressly intended to protect U.S. industries from a broad range of unfair practices — including trade secret misappropriation.

To use Section 337 successfully to litigate trade secret cases, a complainant must be prepared to overcome four evidentiary hurdles:

- 1) it must be able to document ownership of the asserted trade secrets;
- 2) it must show that the trade secrets exist — i.e. are not in the public domain and that the complainant took reasonable steps to keep the information secret;
- 3) it must demonstrate that a domestic industry exists that is being injured by the trade secret misappropriation; and
- 4) it must show that the domestic industry is suffering or likely to suffer from “substantial” injury as a result of infringing imports.

With respect to the first hurdle, the burden is on the plaintiff in a trade secret case to establish ownership. The commission’s regulations require that “at least one complainant is the owner or exclusive licensee of the subject intellectual property.” 19 CFR 210.12(7).

The commission’s rule is consistent with the prevailing modern view, particularly since the Supreme Court’s 1984 decision in *Ruckelshaus v. Monsanto*, that a trade secret is a property right protected by the Taking Clause of the Fifth Amendment of the U.S. Constitution. 467 U.S. 986 (1984).

See also, *Mextel Inc. v. Air Shields Inc.*, 2005 WL 226112 at 42 (2005 E.D.Pa.) (plaintiffs must “document its ownership of the allegedly confidential information”).

A plaintiff must also be prepared to demonstrate how the asserted trade secrets differ from information already in the public domain (and is therefore a secret).

Defendants will typically argue that each aspect of the asserted secret is no secret at all and would be understood by any skilled worker in the relevant industry.

A proprietary production process, however, can constitute a valid trade secret — even if it is a combination of individual steps that are known in the industry — if it can be shown that the process is a unique combination whose value arises out of its uniquely useful compilation. See *3M v. Pribyl*, 259 F.3d 587, 596 (7th Cir. 2001) (“unified process ... is a protectable trade secret”).

In a case involving an outsourced manufacturing process, the assertion of such a combination is often an effective strategy.

The “domestic industry” requirement for complainants at the Commission is, in effect, a standing issue. The goal of Section 337 is to protect U.S. industries — although complainants need not be U.S.-based.

As the legislative history explains, “[t]he ITC is to adjudicate trade disputes between U.S. industries and those who seek to import goods from abroad. Retention of the requirement that the statute must be utilized on behalf of an industry in the United States remains that essential nexus.” Report of the Committee on Finance, United States Senate, at 128. (June 11, 1987).

But the statute does not clearly define what constitutes a “domestic industry” in cases that do not involve federally protected intellectual property (such as patents or trademarks).

The “domestic industry” requirement can best be understood in conjunction with the statute’s parallel “injury” requirement — a trade secret complainant must also show that its U.S. operations have been substantially injured by the unfair act.

A trade secret complainant that can demonstrate that its domestic operations have been substantially injured by imported goods made using the misappropriated trade secret should be able to satisfy Section 337’s domestic industry requirement, particularly if it uses the trade secrets itself.

Although Section 337 litigation does involve important legal considerations that are unique to the forum, trial before an ITC ALJ has many aspects in common with federal district court — for example, the ITC’s rules of evidence and procedure are modeled on the federal rules.

After the conclusion of a trial, however, and the issuance of an opinion by the ALJ, differences between ITC and district court litigation become key.

Most important, the ALJ’s decision does not become final until reviewed and accepted by the commission itself, which is comprised of six presidentially appointed members.

This segment of ITC litigation is critical and is, in effect, equivalent to an immediate appeal, or the review of a magistrate’s opinion by a district court.

The commission is assisted in its review of ALJ decisions by an independent Office of General Counsel (which is staffed with experienced IP lawyers, most of them with clerking experience on the Court of Appeals for the Federal Circuit).

Given the commission's predisposition not to disturb the ALJ's factual findings, the fact-intensive nature of trade secret litigation makes full development of a persuasive record at trial particularly important.

Unlike in a patent case, when a commission rejection of the ALJ's claim construction can effectively restart the fact-finding process with respect to infringement, a trade secret case is largely defined by its facts.

Live witnesses, rare in patent cases (other than as experts), frequently take central stage in trade secret proceedings, where factual questions of ownership, whether the asserted secrets are distinct from information in the public domain, and whether reasonable measures were taken to protect the confidentiality of the asserted trade secrets, are of critical importance.

The protection of intellectual property as trade secrets has for nearly a century been the poor cousin of patent protection.

However, with the trend toward narrowing the scope of patent protection (with a potentially great impact on process and software patents), trade secret protection is now rapidly emerging as a meaningful alternative.

ITC proceedings can be particularly effective for multinational companies, which must apply their proprietary know-how in plants around the world, by providing a remedy for the misappropriation of their expertise by third-party manufacturers.

While the evidentiary burden of proving the existence and maintenance of trade secrets can appear stringent at first, the implementation of a limited number of disciplined internal procedures can place companies on a strong footing to claim and assert trade secrets as intellectual property before the ITC, with its rapid adjudication of disputes and unique authority to exclude infringing products from importation into the U.S market.

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