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ITC Ruling Has Serious IP Implications For Foreign Imports

By **Paul Ainsworth and Cristen Corry** (May 15, 2024, 3:49 PM EDT)


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It is no secret that the U.S. International Trade Commission is a friendly forum for intellectual property owners.

A recent ITC decision confirms that its authority to investigate extraterritorial acts of trade secret misappropriation extends to trade secrets developed outside the U.S. and to intellectual property owners with modest domestic investments.

While the decision is a win for trade secret owners who can demonstrate injury to a U.S. domestic industry, the decision also means that companies operating in foreign jurisdictions will be subject to the requirements of U.S. trade secret law even if their only connection to the U.S. are acts of importation.

It is well-settled that the ITC has authority to find a Section 337 violation based on trade secret misappropriation and that its authority extends to acts of misappropriation occurring outside the U.S.[1]

But in the case of Certain Raised Garden Beds and Components Thereof, the ITC held on April 1 that a Section 337 violation may be found based on misappropriation occurring outside the U.S. of a trade secret developed outside the U.S.[2]

The facts in Raised Garden Beds are typical of trade secret misappropriation claims. The complainant, Vego Garden Inc., a Houston-based company, designed raised metal garden bed products and accessories.

Vego Garden used a third party to manufacture its products using specialized equipment supplied by a separate third party. Vego Garden's trade secrets included information relating to the manufacture of its metal garden beds, and it sought to protect these trade secrets through a series of confidential agreements between and among its third party supplier and manufacturer.

The trade secret misappropriation occurred when employees of these third parties used Vego Garden's confidential information regarding Vego Garden's manufacturing process to develop and sell competing raised metal garden products.

The respondents argued that the ITC lacked jurisdiction because the asserted trade secrets were neither developed nor misappropriated in the U.S.[3] The ITC rejected this argument explaining that the "locus

of the development of the trade secrets does not affect the Commissions' statutory authority."[4]

In defending its statutory authority, the ITC explained that prior cases did not rest upon whether a trade secret had been developed in the U.S.[5] The ITC also rejected the argument that because the confidentiality agreements arose under foreign contract law that the ITC lacked authority to investigate alleged trade secret misappropriations.[6]

Finally, the ITC also rejected the argument that enforcing trade secrets under these circumstances amounted to enforcing foreign patent rights.[7]

Rather, the ITC analogized its authority under such circumstances to authority to investigate infringement of U.S. patents developed abroad, explaining that it was "only enforcing Vego Garden's trade secret rights as defined by U.S. law rather than foreign law."[8]

Although the ITC decision is very favorable to companies with an injured domestic industry, it has serious implications for foreign companies who import products into the U.S. This is because there are potentially significant differences in trade secret protections outside the U.S.[9]

As a consequence, persons engaged in the importation of articles into the U.S. will need to be sure that their trade secret compliance programs and confidentiality agreements adhere both to applicable local law and to U.S. law. This is because the ITC will apply federal law to any allegations of trade secret misappropriation.[10]

Another important takeaway from Raised Garden Beds relates to the domestic industry requirement in trade secret cases. The ITC found a domestic industry on the complainant's expenditure of between $271,400 and $426,800 in payroll expense pertaining to the domestic industry product.[11]

The ITC found this expenditure to be significant in view of the complainant's expenditure of $200,00/1-/200,000 in total payroll expense outside the U.S.[12]

This conclusion undermines the common perception that the ITC is only a suitable forum for large domestic industries. Rather, a modest investment in domestic research and development may satisfy the domestic industry requirement provided that it is significant for the complainant.

While federal court remains the most common venue for bringing trade secret cases, the Raised Garden Beds investigation represents the latest in an overall uptick in the number of such cases before the ITC.[13]

There are many possible reasons attributable to this uptick in trade secret misappropriation cases at the ITC aside from the ITC's broad authority to investigate foreign trade secret misappropriation.

First and foremost, the availability of a limited exclusion order is a powerful remedy that can justify initiating a Section 337 investigation even if only for a short period of time. In the case of Raised Garden Beds, the complaint sought and obtained a one-year bar on importation.[14]

In previous investigations, the ITC has issued exclusion orders lasting as long as 26 years.[15] And, importantly, a respondent subject to an exclusion order can be required to prove that future imported articles are made without use of the misappropriated trade secrets.[16]

Second, the speed of Section 337 investigations — with target dates between 14 and 16 months — is substantially faster than the two to three years it can take to reach a decision in U.S. district court.

Third, the broad and expedited discovery permitted in Section 337 investigations provides complainants with a greater ability to obtain the fact discovery necessary from foreign respondents and third parties. Discovery can often be more challenging to obtain in district court.

For decades, the ITC has had a well-earned reputation as a favorable forum for intellectual property owners seeking to vindicate their rights.

The Raised Garden Beds investigation further opens that door to companies to defend their trade secret rights — even those developed abroad — so long as they have sustained an injury to even a modest domestic industry.

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[1] TianRui Grp. Co. Ltd. v. Int'l Trade Comm'n, 661 F.3d 1322 (Fed. Cir. 2011).

[2] Certain Raised Garden Beds and Components Thereof, Inv. No. 337-TA-1334, Comm'n Op. (April 1, 2024), at 9-10.

[3] Id. at 6.

[4] Id.

[5] Id. 7-8.

[6] Id. at 8

[7] Id. at 8.

[8] Id. at 9.

[9] For example, there are significant trading partners with the United States, such as India, that lack any specific trade secret laws. See https://www.trade.gov/country-commercial-guides/india-protecting-intellectual-property.

[10] TianRui, 661 F.3d at 1327.

[11] Certain Raised Garden Beds and Components Thereof, Inv. No. 337-TA-1334, Comm'n Op. (April 1, 2024), at 24.

[12] Id.

[13] See Moreno, I., Trade Secret Cases Are Up as Clients Eye Patent Alternatives, Law360 (March 15, 2024) (available at https://www.law360.com/articles/1813855/trade-secret-cases-are-up-as-clients-eye-patent-alternatives).

[14] Id. at 26-28.

[15] See Certain Balanced Armature Devices, Products Containing Same, and Components Thereof, Inv. No. 337-TA-1186, Comm'n Op. at 37-38 (Oct. 29, 2021).

[16] See Certain Botulinium Toxin Products, Processes for Manufacturing or Relating to Same and Certain Products Containing Same, Inv. No. 337-TA-1145, Comm'n Op. at 62 (Jan. 13, 2021).