

Secret journey

David C Vondle examines US trade secret-based investigations and recent developments to the injury requirement at the US ITC

Trade secret owners have the option to protect their intellectual property (IP) in several different venues if their trade secrets have been misappropriated. One such venue is the US International Trade Commission (ITC), an independent federal agency that provides trade expertise to the legislative and executive branches of the US government.

Among other tasks, the ITC investigates complaints involving the unfair importation of articles into the US, and issues determinations after concluding an investigation. These investigations are governed by a federal statute, 19 USC 1337 (section 337), as well as by the rules of the ITC and the administrative law judge (ALJ) assigned to each investigation.

The expansive language of section 337 applies to any “unfair methods of competition and unfair acts in the importation of articles”.¹ These methods include the importation of articles that are alleged to infringe statutory IP rights, such as patents and trademarks.² Under the language of section 337, complainants can pursue other claims, including non-statutory IP violations such as trade secret misappropriation.³

Historically, the vast majority of section 337 investigations at the ITC have involved allegations of patent infringement, with claims of other alleged IP rights violations and claims of unfair competition far behind.⁴

Recent data, however, indicates an increase in unfair competition claims based on non-statutory claims, in particular trade secret claims. For example, in calendar year 2015 four section 337 complaints included a trade secret claim, while in 2018 that number was only two.⁵ In calendar year 2019, however, there were 15 section 337 complaints that included a claim for trade secret misappropriation.⁶ While that number of complaints filed at the ITC dipped for most of calendar year 2020 due to the Covid-19 pandemic, there was a flurry of complaints filed at the end of the year, including three directed to trade secrets. With the ITC successfully transitioning from in-person trials as of March 2020 to virtual

trials as of October 2020,⁷ it is expected that the number of complaints involving claims for trade secret misappropriation will return to pre-pandemic levels in short order.

Why trade secret owners may seek relief at the ITC

There are several advantages for a trade secret owner to pursue a claim for misappropriation in the ITC rather than federal district court or state court. In addition to the speed at which the ITC resolves section 337 investigations – typically 17-18 months after the complaint is filed – the ITC can also award equitable relief to a successful complainant, a remedy rarely granted by federal courts.

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The primary remedy issued by the ITC is an exclusion order that prevents articles manufactured abroad from entering the US, which can be a powerful remedy. The ITC can issue two forms of an exclusion order:

- A limited exclusion order, which applies only to products of the respondent(s) specifically named in the investigation;
- Or (2) a general exclusion order, which applies to all companies that manufacture and import the accused products, regardless of source, even companies not named as respondents.⁸

In addition to an exclusion order, the ITC may also issue a cease-and-desist order, which requires the respondent to cease and desist from engaging in unfair acts involving commercially significant inventories of imported articles in the US.⁹ Any person who violates a cease-and-desist order can be subject to significant civil penalties, including fines per day of up to \$100,000 or twice the domestic value of the articles.¹⁰

Notably, monetary damages are not an available remedy to a successful in ITC proceedings. Therefore, a complainant may wish to consider an action in federal district court or in state court if a complainant's primary interest is in pursuing a damages award rather than injunctive relief in the form of an exclusion order and/or a cease-and-desist order.

The injury requirement in trade secret investigations

All section 337 investigations require the complainant to demonstrate the existence of a domestic industry in the US.¹¹ Unlike investigations based on patents, however, trade secret-based investigations require the complainant to show substantial injury to the domestic industry.¹² This injury can be an actual substantial injury or the threat of substantial injury.¹³ Injury determinations are highly fact specific, and the ITC considers a “broad range of indicia” in assessing the alleged injury to the domestic industry, including:

- The volume of imports and their degree of penetration into the market;
- The complainant's lost sales; and
- Underselling by the respondent; and other factors.¹⁴

Over the last year, several ALJs and the ITC have addressed the injury requirement in trade secret-based investigations. A number of these investigations involved a domestic industry based on non-manufacturing activities and the complainant's alleged injury, including two recent decisions by the ITC either affirming or reversing the ALJ's determination that there



was no injury to the domestic industry.

First, in *Bone cements and components thereof*, the complainant alleged a domestic industry existed through its investments in education, training, domestic support, research and development, quality control, marketing, sales, and other activities.¹⁵ After an evidentiary hearing, ALJ Cameron Elliott issued an initial determination (ID) on 6 May 2020, finding only the expenses for education, training, and research and development properly qualified as domestic industry investments.¹⁶ Even assuming these investments constituted a domestic industry, ALJ Elliott determined these activities were “wholly insulated from competition”, and the complainant could continue these activities even if the respondents captured the entire market for the accused products at issue in the investigation. As a result, the ALJ found there was no injury (or threat of an injury) to the domestic industry.¹⁷

On 12 January 2021, the ITC agreed with ALJ Elliott that the complainant did not establish an injury to the domestic industry.¹⁸ Accordingly, the ITC found there was no section 337 violation.

Secondly, in *Foodservice equipment and components thereof*, the complainant alleged a domestic industry based on its investments in “design, development, engineering, prototyping, testing,” and other activities.¹⁹ The complainant’s alleged injury to the domestic industry included lost revenue, lost sales, and other injuries.²⁰ On 9 July 2020, ALJ Dee Lord issued an ID granting a motion for summary determination, finding that the complainant’s generalised lost profits and lost sales, “without connecting these alleged losses to the specific [domestic industry] activities”, was insufficient to show harm.²¹ The ALJ also determined that lost sales or lost profits were not relevant where the product at issue is manufactured abroad and imported into the US because there was no connection between the non-manufacturing activities relied upon by the complainant and lost profits or sales.²²

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On 14 December 2020, the ITC reversed the ID and remanded the investigation to the ALJ.²³ In its opinion, the ITC held the ID erroneously required the complainant to provide direct evidence of substantial harm to its domestic activities and investments, as circumstantial evidence can also be sufficient.²⁴ In addition, the ITC held that lost sales and diminished profits may be used to show injury or threatened injury to the domestic industry, including where a domestic industry is based on non-manufacturing activities, as alleged by the complainant.²⁵ Accordingly, the ITC remanded the investigation to the ALJ for further proceedings.²⁶ A trial is currently scheduled for later in 2021.

Summary

While the Covid-19 pandemic may have caused a temporary dip in the number of trade secret-based complaints filed at the ITC, it is expected the numbers will rebound with the ITC having successfully transitioned to virtual trials in late 2020. The ITC therefore

remains an attractive place to litigate trade secret disputes, provided that complainants can provide sufficient evidence of a substantial injury to a domestic industry.

Footnotes

1. 19 USC 1337(a)(1)(A).
2. 19 USC 1337(a)(1)(B) – (E).
3. 19 USC 1337(a)(1)(A).
4. Section 337 Statistics, https://www.usitc.gov/intellectual_property/337_statistics_types_unfair_acts_alleged_active.htm, visited 10 Feb 2021.
5. 337 info, https://pubapps2.usitc.gov/337_external/; search for “trade secrets” on 10 Feb 2021.
6. Id.
7. *Certain high-density fiber optic equipment and components thereof*, inv no. 337-TA-1194.
8. 19 USC section 1337(d)(2).
9. See 19 USC section 1337(f)(1).
10. 19 USC section 1337(f)(1).
11. 19 USC section 1337(a)(1)-(2).
12. 19 USC section 1337(a)(1)(A)(i).
13. *Certain rubber resins & processes for Mfg. Same*, nv no. 337-TA-849, comm’n op at 10 (26 Feb 2014).
14. Id, at 60-61.
15. *Certain cone cements, components thereof and products containing the same (Bone cements)*, inv no. 337-TA-1153, initial determination, at 59-60 (6 May 2020) (citation omitted).
16. Id, at 60.
17. Id, id. at 78.
18. *Bone cements*, notice of comm’n determination (21 January 2021).
19. *Certain foodservice equipment and components thereof (foodservice equipment)*, inv no 337-TA-1166, order no. 52 (initial determination), at 6-7 (9 July 2020).
20. Id, at 12.
21. Id, at 16.
22. Id, at 24-25.
23. *Foodservice equipment*, comm’n opinion remanding the investigation (14 Dec 2020).
24. Id, at 13-14.
25. Id, at 14.
26. Id, at 18-19.

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