Podcast Transcript

The Emerging New Era for Noncompetes and Trade Secrets: Global Reach: Extraterritoriality and DTSA Enforcement Beyond the U.S.

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Rubenking: The restriction of legislation of noncompete agreements is gaining traction around the country. In July, President Biden signed an Executive Order that discussed the regulation of noncompete agreements, which in the past, has only been the province of the States. To stay ahead of the game, both employers and executives need to know what changes to expect and how to best prepare for the future. To help us bring all this into focus we've created a six-part series called The Emerging New Era of Noncompetes and Trade Secrets. I'm Randall Rubenking and you're listening to BakerHosts.

Our third episode, Global Reach: Extraterritoriality and DTSA Enforcement Beyond the U.S., explores the reach of the Federal Defend Trade Secrets Act beyond the borders of the United States. Our guests today are John Siegel, Joyce Ackerbaum Cox, Leif Sigmond and Tiffany Miao, all members of BakerHostetler's Noncompete and Trade Secrets team. Let's listen in.

Cox: Welcome to Part 3 of our 6 part series that we have called The Emerging New Era for Noncompetes and Trade Secrets. My name is Joyce Ackerbaum Cox and together with my Partner, John Siegal, we co-chair BakerHostetler's Noncompete and Trade Secrets practice team. Our segment today is going to be lead by Tiffany Miao, who is a commercial litigator in our New York office and Leif Sigmond who is an Intellectual Property litigator in our Chicago office. So turning towards our presentation today, I think in last month's webinar we covered the Defend Trade Secrets Act, DTSA. Today we are going to talk about the Extraterritorial Actions under the DTSA as well as trade secret actions that are brought in the United States International Trade Commission, with the focus on enforcement against foreign entities.

Siegal: So, let's start with this, Tiffany, can you just briefly explain how the DTSA can be used to bring a lawsuit in the United States for trade secret misappropriation that occurs outside of the United States?

Miao: Sure. The DTSA draws its authority from the Commerce Clause, and so Federal Courts have original jurisdiction over cases related to a product of service used in, or intended for use in interstate or foreign commerce. So, to start, a plaintiff, the owner of the alleged misappropriated trade secret needs to show that the trade secret is related to a product or service used in or intended for use in interstate or foreign commerce.

So after the DTSA was enacted, the majority of cases that we saw, really the same ones that litigants would bring under state misappropriation laws. There wasn't much of any litigation involving misappropriation of trade secrets that occurred abroad. But now in just these past few years we've seen a significant uptake of cases involving extraterritorial claims and although no appellate court has addressed this issue, I think it's safe to say that for now, the DTSA does extend to alleged misappropriation that occurs outside of the U.S. So in order for a plaintiff to bring such a claim, the statute requires that the plaintiff must show that there was an act in furtherance of the misappropriation that was actually committed in the U.S.

And I do want to make one quick note, kind of backtracking. For those that aren't that familiar with the case law analyzing the DTSA's extraterritorial reach, the court in *Motorola v. Hytera Communications*, a 2020 case out of Northern District of Illinois, provides a pretty lengthy analysis on this issue. And what was clear to the court was that Congress intended for the DTSA to apply extraterritoriality. Largely in part because of its concern that in today's globalized economy U.S. trade secrets can be more easily be the subject of misappropriation occurring outside of the U.S.

Siegal: So, Tiffany, what constitutes an act in furtherance of the offense committed in the United States that would be the hook for extraterritorial application of DTSA in the United States courts?

Maio: The DTSA doesn't provide an actual definition for what constitutes an act in furtherance. The case law in this issue is still very new, suggests that there is kind of really a rather low bar to satisfy this requirement. For example, in the *Motorola* case that I just mentioned, the defendant had hired engineers for Motorola's Malaysian office who brought Motorola's trade secrets to Hytera relating to digital radios. Hytera then advertised and marketed its version of the digital radios, obviously embodying Motorola's trade secrets in numerous trade shows in the U.S.

So Hytera's promotion of its products in the U.S. was evidence of an act in furtherance of its misappropriation. In a situation also common to trade secrets cases, where one company seeks to acquire another, diligence process ensues, and NDAs are executed but one company's trade secrets eventually get stolen, although the actual misappropriation occurred abroad by a foreign individual for a foreign company, the fact that the underlying contracts, relating to the NDAs, were negotiated in the U.S., constituted an act in furtherance of the misappropriation. Another example, regular business trips to the United States by a foreign individual who was recruited by a foreign defendant to develop and manufacture products containing misappropriated trade secrets constitute an act in furtherance. And even where a foreign defendant is simply communicating, sending emails, making calls to individuals located in the United States to essentially help keep the plaintiffs in the dark while the defendants are executing the misappropriation, those communications were sufficient to be found as acts in furtherance.

And finally, even if, you know, just simply the use by U.S. customers of products that result from the misappropriation, that has been found to be a sufficient act in furtherance. And on the other hand, there are a few decisions that actually find that there was no domestic conduct in furtherance of the misappropriation, for example, if it's clear that all of the unlawful conduct occurred outside of the U.S. and the only thing the plaintiff can allege is that it lost customers as a result of it, that harm, the fact that the harm occurred in the U.S., does not constitute an act in furtherance. Similarly, in another case, a plaintiff had evidence that the defendants attended trade shows in the U.S., but failed to connect or provide any nexus between the defendant's U.S. presence and the actual misappropriation.

So what these early cases show is that the domestic conduct must arise in connection with the alleged misappropriation and notably the act in furtherance doesn't have to be committed by the actual defendant.

Siegal: When plaintiffs do sue foreign defendants for trade secret theft that occurred outside the United States, when they bring those suits in the U.S. courts, what litigation problems or issues arise?

Maio: Well, defendants obviously fight the case. They often litigate and argue that there was no act in furtherance, but now, given what appears to be a relatively low bar for that requirement, it seems that defendants are leaning more into, you know, other grounds for dismissal particularly lack of personal jurisdiction, which is related to, you know, which often related to you know, trying to establish that there were no acts in furtherance. Another common ground for dismissal is forum non conveniens and there are actually two cases out of the Northern District of Illinois this year where the Court denied moving the case from the Northern District of Illinois to a Chinese court. So in *Inventus v. Shenzhen*, the court denied the defendant's argument that the Chinese court was an appropriate form finding that China was not available for various reasons, but including that there were travel restrictions in place due to COVID. The Court also found that because Chinese Trade Secrets laws do not provide for injunctive relief in the same way the DTSA does, it was an inadequate forum.

In the second case *Phillips v. Braun*, also Northern District of Illinois, the Chinese defendant argued that the plaintiffs, they did not actually bring a law suit in their home forum where the plaintiff was a California company with its principal place of business in Cleveland and the second plaintiff, the co-plaintiff was a German affiliate. Although neither plaintiff had facilities in Illinois, the court denied dismissal on forum non conveniens grounds in part based on the plaintiff's choice of forum, finding that a home forum for a U.S. plaintiff is any federal district court in the United States. So these cases highlight how it could be difficult to see how a U.S. Federal Court would dismiss a trade secrets case on forum non conveniens grounds where the only alternative forum being presented is China. But also given the congressional intent for the DTSA to provide global protection for U.S. trade secrets. I think it would be hard to imagine a U.S. court relinquishing a case to a foreign jurisdiction really any less robust trade secrets laws than the United States.

Another challenge that plaintiffs might, or parties might face, is related to enforcement. A foreign defendant might not have any assets in the United States. Enforcement might be difficult based on the foreign country, and so it's important to sort of guide clients to think about even if you can prevail on an exterritorial claim against a foreign defendant for misappropriation abroad, if it's impractical or equally challenging to enforce a judgment then perhaps litigation doesn't make sense.

Siegal: So given these hurdles, you know and you've got to bear them in mind if you're going to bring a case, but given these procedural hurdles and enforcement hurdles. What are the benefits to a trade secrets plaintiff of commencing a DTSA action in the U.S. in a situation involving extraterritoriality?

Maio: Well for one the foreign jurisdiction might not recognize the particular, you know, information material as a trade secret whereas U.S. law will find it as a trade secret. U.S. laws also might provide for better confidentiality of trade secrets during litigation, and really also foreign entities can have access to United States discovery and jury system which may not be as robust or even available in a foreign jurisdiction. In situations like this, again, it's important to counsel your client, especially if they are a foreign entity, about the U.S. discovery system, including the requirement of preservation of all relevant material and evidence as soon as they are notified of a potential litigation. Most foreign litigants might not be aware of that requirement if they're not familiar with litigating in the U.S.

Also, injunctive relief might be available in the U.S. that might be more effective, you know, given that the defendant likely sells its products or goods in the U.S. The DTSA also includes and ex parte civil seizure remedy, which could be available. But at the same time, that might be difficult, or impossible to really enforce outside of the U.S. So really, you know, the big takeaway here is the DTSA expands a U.S. entity's ability to protect its trade secrets from misappropriation that occurs outside of the U.S. but on the flipside, foreign entities, you know those that can survive any sort of jurisdictional hurdles, they may also be able to avail themselves of the U.S. courts to litigate their trade secrets claims.

Of course, parties aren't limited to litigating trade secrets actions in just the U.S. courts, they can also pursue an action in the ITC.

Cox: So that brings us to Leif, the ITC being the International Trade Commission. Leif, will you tell us a little bit about the ITC and how it works?

Sigmond: Yeah. First I think it's important to understand what the ITC isn't and you know, what it can and can't do. ITC actions, what I'm going to talk about are in rem actions. And so the goal in bringing an ITC action is to stop importation, and that's really all you get, so there's no damages involved and there's no relief for past acts. It's really stopping importation of goods. Now, the good news is though, you don't have to have personal jurisdiction over the defendant, because again, this is an in rem action, and really the cases are all about the offending products. So just as an example, the names of these cases aren't like, *Smith v.*

Jones. But like, a couple of examples I jotted down, *In re Certain Steel Rod Trading Apparatus and Components Thereof*, or *In re Certain Food Service Equipment and Components Thereof*. So remember, these cases are about the goods and stopping them from coming in the U.S. There are no damages available at the ITC.

Now, these actions were established by this Tariff Act of 1930, and the law was intended specifically to provide a remedy for domestic industries against unfair methods of competition and unfair acts instigated by foreign concerns operating beyond the in personam jurisdiction of domestic court. So you know, kind of following on from what Tiffany said, this could be the perfect kind of action when in personam jurisdiction is tough to get. We call these 337 actions because they come under Section 337 of this 1930 Tariff Act. And the act, big picture, makes it unlawful to import articles into the U.S. that would injure industry or unfairly restrain trade in the U.S., including articles that misappropriate trade secrets. We often hear, and I've dealt with cases where patent infringement is kind of the reason for bringing the 337, but trade secrets are also a valid cause of action in a 337 action.

Now, since Congress delegated a portion of its power to regulate foreign commerce to the ITC, the International Trade Commission, that's where you bring these cases, at the International Trade Commission in Washington, D.C. Generally, Section 337 claims require either an unfair act, or an unfair method of competition, relating to, again, imported product, and where the intellectual property is in question is being exploited by an existing domestic industry. Domestic industry is a big topic in a lot of these cases, whether there is one or whether the importation is effecting one. We could do 30 minutes plus just on domestic industry, so I'll just leave it at that. But the unfair act, or unfair method of competition could be the sale, importation, sale for importation, or even the sale after importation of an article embodying a trade secret. So, all the way back to 1979 the Commission has found that misappropriation of trade secrets fall within the scope of Section 337. But again, one of the big hurdles is establishing a domestic industry injury.

Cox: So when we're looking at the ITC, what substantive laws applied as to whether a trade secret has been misappropriated?

Sigmond: Well, you know what, I find that kind of an interesting question. Generally the ITC applies what's called federal common law. So, and that was established later in the case law. The ITC looks to a single federal standard rather than the law of any particular state to determine what constitutes misappropriation of a trade secret, or even what a trade secret is. So they will consider sources of applicable law to include the Uniform Trade Secrets Act, the restatement of unfair competition, the restatement of torts, even the DTSA, the Defend Trade Secrets Act as kind of sources of law, but again, generally what they apply is the federal common law of trade secrets.

Cox: Interesting. Well you spoke about the Section 337 actions. Can those be used to cover situations when the misappropriation occurs in another country?

Sigmond: Yeah, they can. So the ITC determined an overseas act of misappropriation violates 337. Now, the International Trade Commission, the appeals court for the International Trade Commission is the U.S. Court of Appeals for the federal circuit in Washington D.C., and the federal circuit expressly looked at this question as it pertains to trade secrets, and this is the only case name I'm going to give you during my whole talk, but it's *Tianrui Group v. International Trade Commission, 661 F.3d 1322*. That case involved – and again these are all about goods – it involved cast steel railway wheels, you know, like the wheels you see on a train. The company called Amsted was the U.S. manufacturer of these wheels, and they had a trade secret, a way to make the wheels that they licensed to a manufacturer in China. A different manufacturer in China, the respondent in this case, in the ITC what we think of as defendants we call respondents. The respondent tried to license this technology from Amsted. Well, after failed negotiations, the respondent hired away nine employees from Amsted's licensee in China, so we have a situation where they hire these employees in China. All the misappropriation occurred in China. And the question for the court was, can a 337 action cover actions where the misappropriation is just occurring in a different country? So, in its analysis, the court acknowledged this longstanding principle that legislation of Congress is really meant to apply only when the territorial jurisdiction is the U.S., unless a contrary intent appears otherwise. But the federal circuit in this case found that the presumption against extraterritoriality didn't occur for three reasons. One, 337 governs importation of articles into the U.S. Second, the statute's focus is on the act of importation, and the injury resulting from the act of importation. And then finally, an issued exclusion order, which I'll talk about in a minute, wouldn't purport to regulate foreign conduct. It's only effecting the importation or stopping the importation. So, with that being said, the unfair acts are, they can't be wholly extraterritorial. The misappropriation has to be tied to a domestic industry. In other words, the ITC isn't a venue to litigate claims that have no nexus to the U.S. So, 337 can remedy importation into the U.S. of articles that are the product of misappropriation, even when that misappropriation occurs overseas.

Cox: You talked about these cases at the ITC being all about goods. What can a complainant expect in terms of an available remedy in this forum?

Sigmond: Yeah, well, and I mentioned it because, I won't say it surprises people, but all you're talking about is kind of injunctive relief, right? The complainants, the plaintiffs, are restricted to equitable remedies, so there's no relief for the past, and there's no money awarded. So, while the case is going on, importation might continue, and there's not a lot, well there is some relief for that which I'll talk about in a second in the form of cease and desist. So, if the ITC finds a violation of 337, the commission will fashion prospective relief. It typically involves the commission directing that certain articles be excluded from entry into the U.S. unless – and this is another factor we could talk for another half hour about – the commission finds that public interest outweighs the need for an exclusion, so they weigh that as a factor. So, as I said, 337 doesn't provide for monetary remedies, it only provides for exclusion orders to prevent the importation of offending goods. And there's two types of exclusion orders you can get, general and limited. Limited is kind of the, I don't want to say the default, but the one you

see the most. But general directs the U.S. customs and border patrol to exclude all infringing articles regardless of their source, whereas a limited exclusion order directs U.S. customs and border control to exclude infringing articles from some specific entity. In addition, the ITC can issue cease and desist orders against named importers and other persons engaged in what they would call unfair acts. These cease and desist orders would direct a respondent in an investigation to cease unfair acts, such as, and this is just once example, selling imported articles out of its U.S. inventory. So, if a respondent stock piles a bunch of product before the exclusion order, a cease and desist order may stop them from selling that off. Unlike the exclusion order, cease and desists are enforced by the commission itself and a violation can result in civil penalties including fines up to, I think it's $100,000.

Cox: What can you expect if you are in this forum as to the pace of a case? How quickly or slowly do these ITC cases progress?

Sigmond: Well, you're not going to have a lot of nights and weekends to yourself, I can tell you that, because the cases go fast. Discovery and motion practice happen way faster than a typical federal or state case, and I say typical, I know that there are some rocket dockets out there. So, it doesn't take long to get from the beginning to the end. In the procedures you first get this thing called an initial determination from the administrative law judge. After that the commission looks at that and issues a final determination, and then there's this period where the president reviews the final determination. So generally, just generally, you get an initial determination in about 12 months, and a final commission determination 4 months later, followed by a 60-day presidential review. So again, it happens really quickly. Just as examples, summary judgement motions, depending on the judge, you might have a couple weeks to respond to a big summary judgment motion, whereas if you do a lot of work in district court, you usually get a lot longer than that, so it's fast.

Cox: So what would be the benefits of litigating a trade secrets case in the ITC court?

Sigmond: Well first, I won't answer your question, I'll say the downside is there's no monetary damages, right? But you can get really fast relief in the form of an exclusion order, and maybe a cease and desist. And you know that exclusion order can be powerful. Imagine you get an exclusion order so some respondent can no longer import something it needs to make its product. So it's a powerful remedy, even though there's no damages. And because these are in rem actions where the goal is to stop importation, there's no question of personal jurisdiction, right? And importantly, and probably the topic that we're covering today, the court has found that it can cover misappropriation like we saw in the Amsted, that happened outside the U.S. So it's a powerful tool, even though, no damages.

Cox: Well, I think that both the information that you provided, as well as the information Tiffany provided have been very helpful to our audience to understand different options they have out there. John?

Siegal: Yeah, and look, this is an emerging area that we're going to continue to follow and continue to update our clients and friends on as these cases, particularly the extraterritorial cases in the district courts work their way through the system. So, Leif, thank you, very, very informative, very interesting. Most of us have never been anywhere near the ITC, I know you have a great deal, and it's great to hear your experience and your wisdom. And Tiffany, thanks as always, really appreciate your presentation.

Thanks again, and we'll see you next time.

Rubenking: Thank you John, Joyce, Leif and Tiffany. If you have questions for any of the attorneys, their contact information is in the show notes. Please join us next time for episode 4, Legislating Fairness, the national movement toward legislation regulating the use of noncompetes. Partners Marc Antonetti and Sabrina Shadi will discuss the progress we have seen toward curbing the use of noncompetes for low wage workers in the last five years, what this means for the rest of the nation, and where it is all heading from here.

As always, thanks for listening to BakerHosts.