

TRADE SECRETS: EUROPEAN UNION CHALLENGE IN A GLOBAL ECONOMY

Introduction

Trade secrets have become increasingly important to the success of industries worldwide. This is particularly true in the European Union, where most industries rely upon rapid, continuous and incremental innovation to add value to their product lines. In this way these companies foster brand loyalty and compete for a share in mature markets. This accelerated pace of innovation compels a significant reconsideration of trade secrets as a critical component of intellectual property (IP). Trade secrets are particularly vulnerable to misappropriation that inhibits innovation and disadvantages individuals and companies that do not engage in such illicit trade practices.

Although the European Union has recognised the significance of intellectual property for its long-term economic development, it remains ambiguous as to whether trade secrets are classified as intellectual property. Moreover, enforcement of trade secrets rights is exceedingly difficult because of an inconsistent trade secrets regime across EU Member States. Trade secrets in common law nations, for instance, are protected mainly under general contract and tort law. While some Member States provide criminal penalties for theft of trade secrets others limit remedies to monetary damages.

The objective of this Paper is to examine trade secrets issues in the European Union and consider the need to establish harmonised laws among Member States to provide an environment in which EU industries can compete fairly and effectively in the EU and world markets.

Our discussion is organised as follows:

- § 1. The growing importance of trade secrets in the global economy
- § 2. Comparison of trade secrets with other forms of intellectual property
- § 3. Challenges to trade secrets protection in the 21st Century
- § 4. Trade secrets legislation within the European Union and beyond
- § 5. Trade secrets enforcement in the US: a prototype for the European Union?
- § 6. Urgent need for enhanced protection of trade secrets in the European Union

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§ 1. The Growing Importance of Trade Secrets in the Global Economy

- Trade secrets are commercially valuable information deliberately kept confidential to preserve competitiveness.
- The accelerated pace of product development in the 21st Century demands constant innovation often best protected as confidential information.

Trade secrets are intangible information with the following attributes:

1. **Not commonly known:** This requirement is akin to the “non-obviousness” of patented inventions. Even information familiar only to relatively few players within a particular industry may be considered commonly known and cannot be regarded as a trade secret.
2. **Commercial advantage:** Formulae or processes underlying the manufacture of profitable goods obviously meet this criterion. So might information about unprofitable formulae and methods. If a company has invested in developing an unsuccessful product, it may wish to conceal that fact not only to protect its reputation but also to accrue competitive advantage in the event that a competitor devotes resources to a similar unproductive path.
3. **Deliberately kept secret:** The proprietor of undisclosed information must take reasonable measures to maintain its secrecy; once disclosed, information can never again qualify as a trade secret. This has become increasingly problematic because of ever more sophisticated reverse engineering tools.

Trade secrets have become increasingly critical to the viability of a growing range of industries competing in a global high-technology market where there is a need to engage in a constant cycle of incremental product development. This pressure is present across industry sectors ranging from telecommunications (e.g., smartphone innovations) to fragrances (more than 7000 new fragrances are commissioned each year). Within this environment of rapid innovation trade secrets are frequently the most expedient means to prevent unfair competition and to protect a legitimate competitive advantage.

§ 2. Comparison of Trade Secrets with Other Forms of Intellectual Property

- Patents provide an absolute monopoly for a limited term; trade secrets may be protected perpetually but do not guarantee a monopoly.
- Trade secrets can be a valuable alternative or addition to patent protection.

Trade Secrets versus Patents

Patents provide a monopoly over novel and useful inventions. Trade secrets may offer a similar exclusivity provided competitors have not obtained the secret information through independent innovation, theft or reverse engineering.

Patent protection comes with a price, namely public disclosure of the invention. Upon expiry of its term of protection the invention is placed permanently in the public domain. A significant number of trade secrets

could qualify for patent protection but proprietors may eschew patenting their inventions given the potential for competitors to gain advantage from the attendant disclosure.

Patent prosecution and enforcement are lengthy and expensive propositions that small and mid-size companies may be unable to afford. This is particularly true in Europe where the cost of obtaining a patent is typically over ten times that in the United States.² These substantial costs might not be offset by any commercial advantage that might accrue from a modest innovation and the period of time needed to obtain a patent might exceed that of the commercial window of opportunity of the innovation. Also, for small companies the number of individuals entrusted with valuable proprietary information can be very limited. Finally, some trade secrets involve incremental innovations in the form of minor but profitable modifications to existing products and services, and will not meet patents' relatively high standards of novelty, non-obviousness, and utility.³

Ultimately, trade secret protection may be an attractive alternative or valuable complement to patent, particularly as it involves neither patent's formalities nor administrative delays. Nevertheless, legislation for enforcement of patents is more robust and harmonised among EU Member States than is that for trade secrets. Within the EU trade secrets law is still perceived mostly as a matter of unfair competition rather than of intellectual property. The ambiguous status of trade secrets law will affect the choice between patent and trade secrets protection.

Trade Secrets and Other Forms of Intellectual Property

Unlike patents, copyrights protect original expression that is *not* primarily useful. There are no formalities required to obtain copyright and the threshold requirement of originality is low. Copyright provides an author exclusive rights typically for a term of 50 or 75 years beyond the author's life. While the majority of trade secrets is non-copyrightable information, valuable compilations of confidential information – e.g., annotated customer, supplier, and competitor lists – could satisfy copyright's originality standard. It is possible, therefore, to assert both trade secret and copyright in certain commercial information.

Trademarks protect words, images, and even sounds that consumers associate with the source of a particular product or service. There is little common ground between trade secrets and trademarks other than the possibility of perpetual protection as long as their respective contrary elements of *secrecy* or *publicity* are maintained.

Despite commonalities between trade secrets and other forms of intellectual property (see [Appendix 1: Trade Secrets compared to other Forms of Intellectual property](#)), trade secrets have never enjoyed the legal status – nor the graphical markers © ® - conferred upon patents, trademarks, and copyrights. Trade secrets' position on the margins of EU intellectual property law is of growing concern given their increasing importance.

This "step-child" status of trade secrets within the family of intellectual property rights can be traced to attributes of trade secrets betrayed by the term itself. The obvious fact that they involve secret commercial information implies that they offer no apparent benefit to the common good. Patents and copyrights, on the other hand ultimately enrich the public domain. In reality, however, many goods produced by means of non-disclosed information provide enormous benefits to the general public. It is therefore essential for the competitiveness of European industries that the proprietary information at the core of their assets be gathered into the body of intellectual property protection at the supranational level.

² Statement by Marielle Gallo, Member of European Parliament, IFRA Intellectual Property Protection Workshop, Brussels, 23 November 2011.

³ DuPont's "Kevlar", for instance, became enormously successful only after twenty years of gradual development and attendant market growth. This success could not have been achieved by patent protection, and depended overwhelmingly upon effective trade secrets protection by DuPont over several decades. Statement of Patrick Schriber, Associate General Counsel, DuPont de Nemours, IFRA Intellectual Property Protection Workshop, Brussels, 23 November 2011.

§ 3. Challenges to Trade Secret Protection in the 21st Century

- Greater employee mobility, high-technology start-ups, and outsourcing to foreign countries threaten traditional means of protecting trade secrets.
- Trade secrets may be legally appropriated by means of reverse engineering using increasingly sophisticated technologies.
- Pressure for greater transparency on ingredients, raw materials and manufacturing processes via legislation threaten the secrecy required to protect trade secrets.

Employment Trends

Mobility of employees: Greater mobility in career paths and reduced employment security has weakened loyalty between employees and companies.

Proliferation of start-ups: These small and agile competitors, often established by ex-employees of mid-size and large companies, are founded, in many cases, on know-how that may include trade secrets.

Outsourcing: Thanks, in part, to digital communications, a great deal of sensitive information has become much more difficult to control, particularly when the sub-contractor is not located in the EU.

High Technology and Reverse Engineering

The original proprietor of a trade secret enjoys market advantage until a competing product is launched. One way of legitimately developing such competing products is through reverse engineering – i.e. dismantling a product and then recreating a similar or identical good. Unless a product is protected by patent, it is vulnerable to reverse engineering. While increasingly sophisticated analytic and replication technologies such as gas chromatography and 3D imaging promote rapid innovation, they also present considerable opportunities for a fast-follower to ride the R&D and marketing investment of an innovator and to radically reduce product development cycle time.

While many instances of reverse engineering result in the production of legal imitations, the appearance of such copies in the marketplace imposes a demoralizing threat to an industry's *avant-garde*. As noted by former Intel Corporation counsel Michael Moradzadeh, “[q]uick imitation robs innovation of value.” To prevent or impede reverse engineering efforts innovators must take ever more creative measures to disguise the information that provides their product a competitive advantage, or make technically impossible the disassembly of their product. Along these lines, US law now prohibits breaching - by reverse engineering or other means - of anti-circumvention measures protecting copyrighted information.⁴

Technological wonders of the digital era have made for a smaller world in which geographical and temporal constraints have been diminished or even eliminated. These 21st-century communication technologies, however, are increasingly used to obtain proprietary information not through reverse engineering but by outright theft using computer hacking. The internet security company Symantec reported, for instance, an elaborate hacking operation in China targeting major chemical and defence companies in the US and Europe attempting to gain access to these companies trade secrets.⁵

⁴ U.S. Digital Millennium Copyright Act of 1988.

⁵ [bbc.co.uk](http://www.bbc.co.uk/news/technology-15529930), 31 October 2011 (<http://www.bbc.co.uk/news/technology-15529930>).

Expanding Regulation of Disclosure and Registration Requirements

Recent years have witnessed a steady trend towards greater transparency by manufacturers related to the revealing of raw materials, ingredients and manufacturing processes. This is a result of pressure from public interest groups that view secrecy as a way to avoid disclosure of allegedly hazardous materials within a product. This trend has been facilitated by regulators and policy-makers who view disclosure as an expedient means of pressuring manufacturers to remove from their products materials deemed hazardous to health or the environment.

The 2006 European Regulation known as REACH, for example, establishes a central register to administer the disclosure of information relating to chemical products. While REACH makes some accommodation for maintaining the confidentiality of trade secrets, its underlying purpose is to promote through product disclosure requirements, environmental and human well-being. This is, obviously, a desirable goal, but access to official documents as part of overarching transparency regulation could also unfairly expose information protected by trade secrets.

Promulgating and enforcing new product disclosure requirements in the EU is tempered by the principle of proportionality that limits the scope of such requirements to matters of demonstrated public interest.⁶ Likewise, in the US, to the extent product disclosure requirements involve the Federal Government's acquisition of commercially valuable information, the Government must compensate owners of such information for this constitutionally regulated "taking".⁷

§4. Trade Secrets Legislation within the European Union and Beyond

- **The increasing economic significance of trade secrets is reflected in TRIPS and ACTA –multinational agreements for the protection of intellectual property.**
- **The EU has not yet subscribed to ACTA, and has not yet clearly endorsed trade secrets as a form of intellectual property in EU-level legislation.**

The Unequivocal IPR Status of Trade Secrets in International Agreements

The Agreement on Trade Related Aspects of Intellectual Property Rights of 1994 ("TRIPS"), administered by the World Trade Organisation, conditions a member's access to major trade markets on its establishment and enforcement of IP rights including undisclosed information. As subscribers to TRIPS, both the EU and each of its Member States should embrace trade secrets within the ambit of IP rights.

Organised crime is often behind large-scale IP infringements – e.g. of pharmaceuticals, cosmetics, edibles, machinery – a fact that raises serious health and safety concerns. These concerns have led to direct participation of national customs in IP enforcement, and the establishment of criminal provisions to dissuade flagrant disregard for IP rights.

In October 2011, Japan, the U.S., and several other nations signed the Anti-Counterfeiting Trade Agreement ("ACTA") that addresses the proliferation of counterfeit products in the market and the efficacy of legal mechanisms to curtail it. ACTA is administered by its own governing body and promulgates both civil and criminal means of enforcing intellectual property rights in a global market. It also legislates

⁶ This principle was aired in the 2005 ABNA Case (European Union Court of Justice, 2005) involving livestock feed disclosure requirements promulgated in response to the outbreak of "mad cow" disease in Europe.

⁷ The Safe Cosmetics Act now pending in the US Congress will likely face "takings" challenges if this legislation is enacted.

Boarder Measures that implicate customs to combat the distribution of counterfeit goods. By subscribing to the scope of intellectual property set forth in TRIPs, ACTA's reach extends to trade secrets. The European Union participated in drafting ACTA but has not yet subscribed to it. Even if the European Union were to subscribe to ACTA there would likely be serious opposition within the current EU Parliament to its ratification because a large percentage of the currently active Deputies suspect that ACTA may be incompatible with other international treaties to which the European Union is a party.⁸

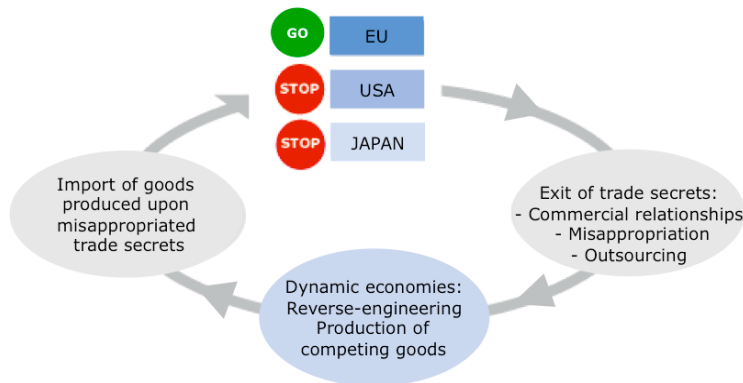
Narrowing the Focus: The Ambiguous Status of Trade Secrets in the European Union

TRIPs and ACTA both explicitly include trade secrets within their protective ambit and reflect current realities of the global marketplace in which industries, to remain competitive, must keep pace with rapid innovation. In the European Union, however, ambiguity as to the scope of intellectual property rights has been a persistent concern in drafting effective legislation. Although trade secrets increasingly drive innovation, they have not, hitherto, been well addressed within traditional mechanisms of IP protection. The European Commission and Parliament have identified this and has initiated an investigation of how to deal with this deficiency (see Appendix 2: Legislative History to Date).

§5. Trade Secrets Enforcement in the US; a Prototype for the European Union?

- **The US Tariff Act provides an effective trade secrets enforcement mechanism at the federal level. Under this law, administered by the US International Trade Commission, US Customs bars entry into the US of goods produced in violation of US trade secrets.**
- **The uncertain status of trade secrets within the EU IP regime threatens to place European industries at a disadvantage vis-à-vis competitors operating in nations providing effective protection for trade secrets – Japan and the US in particular.**

Trade secrets in the US are covered by state, not federal, law. Trade secrets laws of the 50 United States are not entirely harmonised – although they are far more uniform than the patchwork of trade secrets laws found in the EU. US trade secrets enforcement also differs from that in the EU because Section 337 of the US Tariff Act of 1930 curtails trade secrets violations by prohibitions on imported goods infringing trade secrets of US manufacturers. The effectiveness of Section 337 is borne out in the decision *Tianrui v. Amsted* that stopped importation into the US market of goods manufactured by a Chinese company in violation of proprietary information owned by an American company (Appendix 3: Tianrui v. Amsted).⁹



Comparison of trade secrets customs measures in developed economies

⁸ Statement by Marielle Gallo, Member of European Parliament, IFRA Intellectual Property Protection Workshop, Brussels, 23 November 2011.
⁹ *Tianrui v. Amsted*, No. 2010-1395, 2011 WL 4793148 (C.A. Fed., Oct. 11, 2011).

Without protection for trade secrets by means of EU legislation, ideally enforced via customs regulations, innovative products of European industries will continue to be an attractive target for unscrupulous competitors elsewhere. Unchecked, illicit undermining of commerce will force EU industries to retrench, shut down, or relocate within a more supportive trade secrets regime – like that of the US or Japan.

§ 6. Urgent Need for Enhanced Protection of Trade Secrets in the European Union

- **21st-century industry trends signal the growing significance of trade secrets.**
- **Weak trade secret protection threatens the viability of prestigious EU industries, especially SMEs.**
- **Effective EU-level legislation for protection of trade secrets will allow European industries to prosper.**

Our discussion has emphasised the growing significance of trade secrets for industries which, to remain competitive, must continually offer new goods reflecting incremental improvements. This rapid pace of innovation is especially prevalent in industries with deep R&D programs and those relying upon constant refinements of artisanal *savoir faire*.

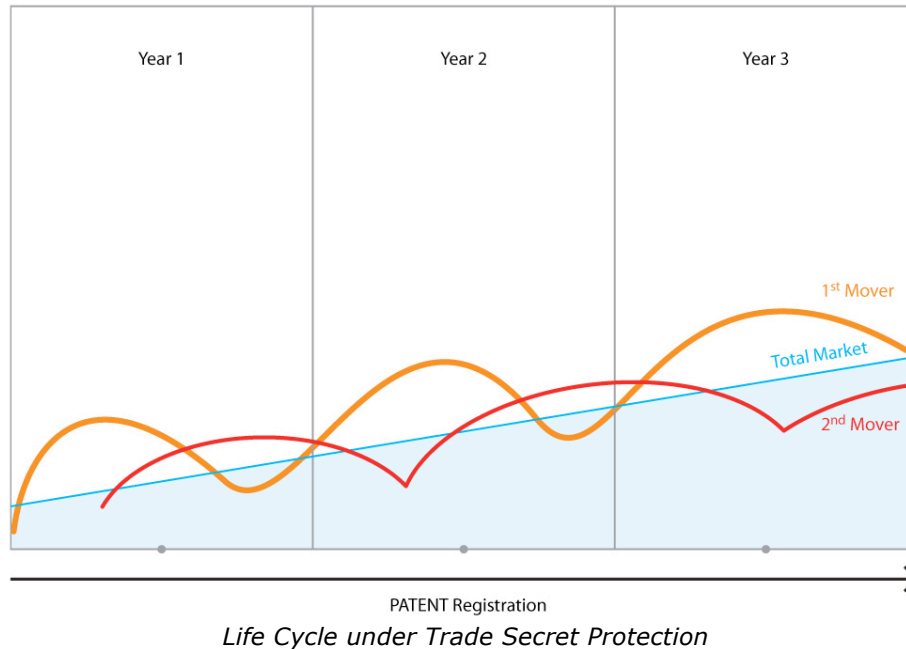
Trade secret is emerging as the most appropriate means to protect industrial innovation. Patents, when attainable, typically take years to obtain and are often ruinously expensive to defend. Small and mid-size companies particularly, need affordable protection for product innovations, the acquisition of which should not take longer than the marketable life of the innovation.

The toy industry illustrates the vital role of trade secret protection. This industry relies significantly on Christmas sales. After Christmas toy industry players resume innovative work knowing that in less than a year children will have abandoned the current hits. In this notoriously competitive and fast-moving industry toymakers protect their products with registered trademarks, copyrights, and even patents. Pragmatically, however, they rely upon trade secrets realizing that with respect to piracy “an ounce of prevention is worth a pound of cure.” Indeed, Barbie is protected not only by copyright and trademark but also by security guards that “patrol Mattel's R & D building in California as if it were a missile silo.”¹⁰ No doubt Mattel's European counterparts take analogous self-protection measures, as do myriad companies in other industries characterised by breakneck innovative churn. They must do so to protect their trade secrets and thereby maintain the window of opportunity for a return on investment.

The illustration below shows the short window of opportunity afforded the first mover in a market to recoup a return on investment before a second mover catches up on the innovation. Trade secrets protection allows for the existence of this window of opportunity and the functioning of a stable market.¹¹

¹⁰ N.R. Kleinfield, “The Toy Industry; Under the Christmas Tree in Christmases Past” (New York Times, 6 Dec. 1987).

¹¹ This “window of opportunity” is particularly vital in industries producing consumer goods, cosmetics, fragrances etc. The fragrance industry invests 20% of its turnover in R&D to develop new products that have a relatively brief “window of opportunity” to recoup their R&D costs. Statement of Pierre Sivic, President of IFRA, IFRA Intellectual Property Protection Workshop, Brussels, 23 November 2011.



In recent decades incentives to innovate, particularly within the European Union, have been weakened not only by piracy in Asia and other rapidly developing economies, but also by inconsistent trade secret protection within the European Union. “Own-label” and “me-too” brands threaten to undercut the prices of established brands and to capitalise on their innovations and prestige without incurring associated costs. Established brands are, therefore, caught in the bind of having to innovate to remain competitive while simultaneously having to abide blatant imitations of their innovations by competitive distribution brands upon which they depend, in part, to retail their products.¹²

Weak trade secret regulation implies not only economic losses and potential industrial demise, but also an insidious leeching of prestige long enjoyed by European industries. The virtual disappearance of France’s shoe manufacturing industry, for example, which once produced the finest shoes in the world, can be attributed not only to increased labour costs in France, but also to competition from non-European manufacturers replicating French shoe manufacturing methods and designs.

Trade secrets are part of Europe’s cultural patrimony and have enabled the incremental refinement of extraordinary goods like French wines and perfumes, Swiss watches, and German automobiles. Trade secrets also boost creativity in industries populated by small and medium-sized companies. Piracy of proprietary information that makes possible the development of a wide range of European goods will eventually weaken the competitive advantage such information provides and dampen the incentive for innovation across EU industry.

The European Union has an extraordinary concentration of industries for which trade secrets are essential to compete successfully in the global market. The prevalence of such industries makes it imperative that European Institutions determine an appropriate place for trade secrets within the European Union’s intellectual property regime. Otherwise, trade secrets will continue to depend for protection on inconsistent – or non-existent - national legislation. This wobbly defence will continue to be breached by unscrupulous competitors outside Europe, which will result in the bleeding of industrial innovation from the European Union, and ultimately, the compromising of the incentive to innovate and create that is the foundation of all forms of intellectual property.

¹² The annual report for 2010 of the Autorité de la concurrence notes that producers of established brand goods “run the risk of finding the profits of their R&D investments captured by distributors, and could be discouraged from such investment upon seeing such swift imitation.” (http://www.autoritedelaconcurrence.fr/user/standard.php?id_rub=406)

Appendix 1: Trade Secrets Compared to other Forms of Intellectual Property

| | Copyright | Trademarks | Patents | Trade Secrets |
|---------------------------------------|--|---|---|---|
| Protected interests | Original expression | Consumer association with source (good will) | Inventions | Undisclosed information of commercial value |
| Subject Matter | Authorial work : verbal, musical, dramatic, recorded performances, graphical, sculptural, etc. | Words, images, colours, sounds | Formulae, processes, machines, compositions of matter | Formulae, methods, data, programs, processes, customer and supplier lists, etc. |
| Examples | <i>Harry Potter and the Deathly Hallows</i> | Xerox ® | iPhones, Amazon 1-click process, Prozac | Coca-Cola recipe |
| Variations (sui generis rights) | Semiconductor chips, haute couture, cuisine | Service mark, trade dress | Design patent, utility model, plant patent | Unfair competition |
| Protection requirements | Perceptible and original | Distinguish goods or services, use in commerce | New, useful, non-obvious | Secret and valuable |
| Formalities | Registration (not mandatory) | Registration and maintenance | Prosecution and maintenance | None |
| Disclosure | Yes | Yes | Yes | No |
| Term of Protection | Lifetime of author plus at least 50 years | Potentially unlimited if maintained | 20 years | Unlimited as long as secrecy is maintained |
| Approx. cost for worldwide protection | None, unless registered | Filing fees per class/ research costs and attorney fees | Application and prosecution fees | Only those incurred by maintaining secret |
| Covered/TRIPS | Yes | Yes | Yes | Yes |
| Conduct prohibited | Copying, distributing, performing, etc. | Likelihood of confusion, deception, dilution | Making, using or selling | Misappropriation i.e unauthorised use or disclosure |
| Reverse-Engineering | NA | NA | Prohibited | Not prohibited |
| Independent development | Not prohibited | Prohibited | Prohibited | Not prohibited |

Appendix 2: Legislative History to Date

Europe 2020, a Communication of the European Commission from 2010, sets forth sweeping goals for the European Union during the current decade, along with concrete recommendations for measures to recover from the economic malaise and attendant social setbacks of the past several years. To foster innovation in Europe, already lagging behind Japan and the United States in terms of investment in research and development, *Europe 2020* urges the expansion, at both the Union and national level, of mechanisms for protection of intellectual property.

The 2004 Parliament Directive on the enforcement of IP rights includes “industrial property” but does not specifically incorporate trade secrets.¹³ When Member States pressed for clarification, the Commission promulgated, in 2005, a non-exhaustive Statement of the scope of these rights, without adequately addressing trade secrets.¹⁴

The European Commission studied the efficacy of the 2004 Directive in a Communication to the Parliament in 2009 and in a 2010 Report.¹⁵ Both documents suggest that realisation of the 2004 Directive has fallen short of expectations. Apart from the fact that many Member States have been dilatory in implementing the Directive, the persistent ambiguity as to covered rights, as well as serious disparities among national laws, have further eroded its potential as an effective means of combating IP piracy.

In its 2009 Communication, the European Commission established a Counterfeiting and Piracy Observatory to gather, monitor and report information related to all IP infringements within the EU.¹⁶ The same Communication recommends the enabling of non-legislative means for combating the theft of IP, specifically the establishment of coalitions among stakeholders affected by counterfeited or pirated goods.

In response to the Commission’s 2009 Communication, the European Parliament issued in 2010 a Report expressing both scepticism as to the efficacy of the 2004 Directive and concern over proliferating IP piracy and its deleterious effect on the proper functioning of the internal market.

The Commission, in turn, in a 2011 Communication to the Parliament, proposed redoubling efforts at the Union level for the development of a single market for intellectual property rights and a productive milieu for industrial innovation.¹⁷ This Communication specifically identifies trade secrets’ marginalised status in EU legislation, and the weak protection currently afforded trade secrets because of considerable variances among Member States’ legislation.

In July 2011, the Commission published its Synthesis of public comments on its Report on the 2004 Directive. The ambiguous status of trade secrets within IP regimes was again raised, with a significant majority of industry stakeholders recommending that trade secrets be harmonised and enforced at the European Union level. Member States commenting on the matter were divided as to the appropriate status of trade secrets; the majority believed trade secrets were fundamentally different from other areas of IP and should not be bundled with them in pan-EU legislation.

In August 2011, the Commission issued a call for tender for a comprehensive study of the economic significance of trade secrets for European industry.

13 Directive 2004/48/EC of the European Parliament and of the Council of 29 April 2004 on the enforcement of intellectual property rights.

14 Statement by the Commission concerning Article 2 of Directive 2004/48/EC of the European Parliament and of the Council on the enforcement of intellectual property rights (2005/295/EC).

15 Communication from the Commission to the Council, the European Parliament and the European Economic and Social Committee – Enhancing the enforcement of intellectual property rights in the internal market, Brussels, 11.9.2009 (COM(2009) 467 final) and Report from the Commission to the European Parliament, the Council, the European Economic and Social Committee and the Committee of the regions - Application of Directive 2004/48/EC of the European Parliament and the Council of 29 April 2004 on the enforcement of intellectual property rights, Brussels, 22.12.2010 (COM(2010) 779 final).

16 The IP Observatory should be functional by May, 2012. Statement of Jean Bergevin, DG Market Head of Unit Services, EU Commission, IFRA Intellectual Property Protection Workshop, Brussels, 23 November 2011.

17 Communication from the Commission to the European Parliament, the Council, the European Economic and Social Committee and the Committee of the regions - A Single Market for Intellectual Property Rights Boosting creativity and innovation to provide economic growth, high quality jobs and first class products and services in Europe, Brussels, 24.5.2011 (COM(2011) 287 final).

Appendix 3: Tianrui v. Amsted

Amsted is a Chicago company whose trade secrets are protected under Illinois state law. Amsted licensed limited use of secret manufacturing information to Datong, a company in China. Several employees left Datong to join another Chinese manufacturer, Tianrui. These employees absconded with Amsted's trade secrets that Tianrui subsequently used to manufacture products to compete with Datong's in the American market. This misappropriation of trade secrets and subsequent implementation of them occurred entirely outside US borders, between entities not governed by US law. Despite this tenuous link between Amsted and Tianrui, the US International Trade Commission found that Tianrui's misappropriation violated US law and barred Tianrui's product from the US market.

Upon Tianrui's subsequent appeal, the US Court of Appeals for the Federal Circuit upheld the Commission's decision. The Court left no doubt as to the capacity of the US International Trade Commission as an enforcer of trade secret rights:

"We hold that a single federal standard, rather than the law of a particular state, should determine what constitutes a misappropriation of trade secrets... The question... is not whether the policy choices of a particular state's legislature or those reflected in a particular state's common law rules should be vindicated, but whether goods imported from abroad should be excluded because of a violation of the congressional policy of protecting domestic industries from unfair competition, which is a distinctly federal concern as to which Congress has created a federal remedy".

Rationalizing their decision the Appeals Court drew an analogy between the underlying objective of Section 337 and that of US immigration law. US immigration law does not attempt to regulate the conduct of foreigners while outside the US. It is only when they wish to enter the US that this conduct will trigger the application of US law. In other words, just as immigration law prevents foreigners with criminal records entry into the US, trade law – and Section 337 in particular – prevents entry of similarly tainted foreign goods whose manufacture depends upon a violation of unfair competition law as promulgated under US law as well as various international agreements.

In fact, jurisdiction in Section 337 investigations is *in rem* rather than *in personam*. This simply means that the US International Trade Commission, which initiates Section 337 investigations, may assert jurisdiction over an allegedly infringing *thing* (i.e. an imported product that violates US intellectual property interests) rather than a foreign person or corporation over which jurisdiction might be rather more difficult to assert.