

10-2003

# Secrets and Spies: Extraterritorial Application of the Economic Espionage Act and the TRIPS Agreement

Robin Effron

*Brooklyn Law School*, [robin.effron@brooklaw.edu](mailto:robin.effron@brooklaw.edu)

Follow this and additional works at: <https://brooklynworks.brooklaw.edu/faculty>



Part of the [Intellectual Property Law Commons](#), [Legislation Commons](#), and the [Other Law Commons](#)

---

## Recommended Citation

78 N.Y.U. L. Rev. 1475 (2003)

This Article is brought to you for free and open access by BrooklynWorks. It has been accepted for inclusion in Faculty Scholarship by an authorized administrator of BrooklynWorks.

# SECRETS AND SPIES: EXTRATERRITORIAL APPLICATION OF THE ECONOMIC ESPIONAGE ACT AND THE TRIPS AGREEMENT

ROBIN J. EFFRON\*

*Trade secret theft, the unauthorized use and appropriation of proprietary information, recently has received significant attention at both the national and international level. The Economic Espionage Act of 1996 (EEA), the first federal law to address proprietary information, criminalizes the theft of trade secrets. Article 39 of the Trade-Related Aspects of Intellectual Property Rights Agreement (TRIPS), the World Trade Organization (WTO) agreement mandating minimum levels of intellectual property protection for member nations, is the first international treaty to require protection of proprietary information. This Note explores the relationship between the EEA and TRIPS. The EEA is an unusually protectionist trade secret statute, controversial in scope even within the United States. The EEA gives substantive trade secret protection to certain classes of information and actions, providing guarantees that are more extensive than under the TRIPS Agreement. This Note considers these differences in the context of extraterritorial application of the EEA and the sovereignty interests of other signatories to the WTO. It examines the legal framework within which U.S. courts considering the EEA may limit the extraterritorial scope of the statute. Using principles of international law and statutory interpretation, this Note concludes that the extraterritoriality provisions of the EEA can be given a limited construction that gives force to both the statute and the treaty.*

## INTRODUCTION

In 1992, when Jose Ignacio Lopez de Arriortua left his position as purchasing Vice President at General Motors (GM) for rival auto manufacturer Volkswagen AG, he did not simply take with him the cost-cutting policies that earned him the nickname “SuperLopez” at GM.<sup>1</sup> He also took four binders and several diskettes containing what GM alleged to be proprietary information. The documents contained sensitive data about new car models and supplier prices. GM had

---

\* B.A., 2001, Barnard College, Columbia University; J.D. Candidate, 2004, New York University School of Law. I would like to thank Professors Larry Kramer and Rochelle Dreyfuss for indispensable comments at every stage of writing this Note. I am also indebted to Andrew Effron and Daveed Gartenstein-Ross for thoughtful suggestions on earlier drafts. Finally, this Note would not have been possible without the editorial talents of Aparna Ravi, Amy Powell, Julie James, Cristina Diaz, the able direction of Larry Lee and Ming Hsu Chen, and the staff of the *New York University Law Review*.

<sup>1</sup> These facts are taken from VW Gives GM Disks and Binders Relating to the Lopez Dispute, *Wall St. J.*, Mar. 3, 1997, at C13; Carla Vitzthum, Life After VW: Lopez Rebounds, Turns into Busy Philosophizing Consultant, *Wall St. J.*, Feb. 28, 1997, at A10.

been planning to build a new super-efficient factory in Spain, and the company claimed that Lopez used proprietary information to build a manufacturing plant for Volkswagen in Brazil. Companies such as GM invest a tremendous amount of money to research, develop, and produce innovations. In addition to investing in the products themselves, firms invest with the goal of becoming the sole proprietor of the innovation. In some cases, a company might secure a limited monopoly through the protections of patent or copyright law. Alternatively, a company such as GM may protect its information by closely guarding it as a trade secret. In the United States, common law and statutes at the state level long have recognized such “know how” as proprietary information to which the innovator is entitled, as long as the innovator has taken reasonable steps to keep it secret.<sup>2</sup>

Trade secret theft can be costly to the innovators. As an example of the problem’s scope, American businesses claim to have lost an estimated \$100-\$250 billion in sales in 2000 due to trade secret theft.<sup>3</sup> There are also serious consequences for the companies accused of stealing trade secrets. In the Lopez example, Volkswagen settled a lawsuit by agreeing to buy \$1 billion in auto parts from GM over the next several years and to pay GM \$100 million.<sup>4</sup>

The consequences of trade secret theft are not limited to civil remedies. The Justice Department investigated Lopez and indicted him in U.S. district court in Detroit on charges of wire fraud and transportation of stolen property.<sup>5</sup> The government, however, was not able to charge him directly with trade secret theft because it was not a federal crime at that time. Had Lopez not taken the information in a manner that involved the removal of tangible documents or wire fraud, such as e-mailing the documents to himself,<sup>6</sup> he would have been beyond the reach of the federal criminal authorities.<sup>7</sup>

---

<sup>2</sup> See *infra* notes 25-33 and accompanying text.

<sup>3</sup> Office of the National Counterintelligence Executive, *Annual Report to Congress on Foreign Economic Collection and Industrial Espionage 2001* (2001), [http://www.nacic.gov/docs/fecie\\_fy01.pdf](http://www.nacic.gov/docs/fecie_fy01.pdf).

<sup>4</sup> VW Gives GM Disks and Binders Relating to the Lopez Dispute, *supra* note 1, at C13.

<sup>5</sup> David Cloud, U.S. Charges Former GM Vice President with Giving Secret Data to Rival VW, *Wall St. J.*, May 23, 2000, at A3.

<sup>6</sup> See 18 U.S.C. § 1343 (2000), amended by Pub. L. No. 107-204, 116 Stat. 805 (2002). E-mailing documents often will fail to count as “wire fraud” because the theft does not defraud the owner within the meaning of the statute as it has been construed by the courts. See James H.A. Pooley et al., *Understanding the Economic Espionage Act of 1996*, 5 *Tex. Intell. Prop. L.J.* 177, 186 (1997).

<sup>7</sup> See *infra* Part II.A.1 for a discussion of the perceived need for a federal response to the problem of trade secret theft.

Until 1996, federal legislation did not expressly address trade secret theft. To American businesses and the counterintelligence community, the Lopez incident, along with other high profile instances of economic espionage, illuminated gaps in federal law. In response, Congress passed the Economic Espionage Act of 1996 (EEA), criminalizing the theft of trade secrets.<sup>8</sup>

The EEA significantly expands the ability of American firms to pursue trade secret protection. First, the EEA broadens the definition of "trade secret" beyond the traditional common law definition.<sup>9</sup> Second, the EEA gives the United States wide extraterritorial authority to enforce this law.<sup>10</sup>

At the same time that Congress sought to increase protection of undisclosed information domestically, the United States pursued measures to ensure greater protection of intellectual property, including undisclosed information, in foreign countries.<sup>11</sup> This effort resulted in an agreement under the World Trade Organization (WTO), the Trade-Related Aspects of Intellectual Property Rights (TRIPS) Agreement, establishing uniform minimum standards of intellectual property protection for all member nations.<sup>12</sup> Though the agreement requires all member nations to adopt laws ensuring enforcement of the minimum standards, TRIPS acts merely as a floor, and indicates that, beyond meeting the minimum standard, nations are free to establish individual levels of intellectual property protections and mechanisms of enforcement.<sup>13</sup>

When the EEA was enacted in 1996, there was little consideration given to the relationship between the trade secret provisions of the new law and the scope of trade secret coverage under TRIPS. This Note explores the relationship between the EEA and TRIPS, and describes how certain extraterritorial applications of the EEA might be problematic in light of TRIPS. Part I considers the theory

---

<sup>8</sup> Economic Espionage Act, Pub. L. No. 104-294, 110 Stat. 3488 (codified as amended at 18 U.S.C. §§ 1831-1839 (2000)) [hereinafter EEA].

<sup>9</sup> See *infra* Part II.A.1. Changing the definition of trade secret is more than a technical adjustment to the law. It requires a government to make fundamental policy choices between favoring innovation and favoring competition. By changing what information is protected, for how long it is protected, and from what sort of third party conduct it is protected, a nation can change the balance between protection of proprietary information and business competition.

<sup>10</sup> See *infra* Part II.A.1.d.

<sup>11</sup> See *infra* notes 102-103 and accompanying text.

<sup>12</sup> Agreement on Trade-Related Aspects of Intellectual Property Rights, Apr. 15, 1994, Marrakesh Agreement Establishing the World Trade Organization [hereinafter WTO], Annex 1C, Legal Instruments—Results of the Uruguay Round vol. 31, 33 I.L.M. 81 (1994) [hereinafter TRIPS].

<sup>13</sup> See *infra* Part II.A.2.

behind innovation policy, explaining the interests at stake when countries create laws protecting trade secrets. Part II outlines applicable trade secret law in the United States and compares the EEA with current state laws, concluding that the EEA is an unusually protectionist trade secret statute, controversial in scope even within the United States. Part II then compares Article 39 of TRIPS<sup>14</sup> with the EEA, revealing that the EEA gives substantive trade secret protection to certain classes of information and action that the TRIPS Agreement does not guarantee. Part III discusses the type of extraterritorial enforcement of the EEA that might conflict with the sovereignty interests of other signatories to the WTO. Part IV then examines the legal framework within which a U.S. court enforcing the EEA may limit the EEA's extraterritorial scope, concluding that the scope of the extraterritoriality provisions can satisfactorily be limited to give force to both the statute and the treaty by appealing to principles of international law and statutory interpretation, and proposing that, even though a conflict of laws analysis is not fruitful, the principles of international comity should apply.

## I

### TRADE SECRET PROTECTION: THE POLICY CHOICES OF INNOVATION LAW

Intellectual property law,<sup>15</sup> particularly patent law, traditionally is conceived of as a bargain between the state and the innovator<sup>16</sup> in which the state grants the innovator the right to use the invention while excluding others from its use. In exchange, the innovator discloses the invention and the information enters the public domain after a certain period of time. This bargain is thought to benefit all involved: The limited right of exclusivity gives the innovator the incentive to invest time and resources in research and development, and the disclosure and subsequent entry into the public domain allow the public and competitors to build upon that work in fostering newer and cheaper innovations. The parameters of this bargain contribute to a state's innovation and competition policy.

---

<sup>14</sup> TRIPS, *supra* note 12 (covering minimum standards for trade secret protection).

<sup>15</sup> Intellectual property laws typically include patent, copyright, trademark, and trade secret protection. G. Gregory Letterman, *Basics of International Intellectual Property Law* 3-4 (2001). These laws together protect "such creations of the mind as inventions, literary and artistic works, and symbols, names, images, and designs used in commerce." *Id.* at 1.

<sup>16</sup> Rochelle C. Dreyfuss, *Trade Secrets: How Well Should We Be Allowed to Hide Them? The Economic Espionage Act of 1996*, 9 *Fordham Intell. Prop. Media & Ent. L.J.* 1, 1 (1998).

Trade secrets alter this balance because the rights holder never has to disclose this information as long as the information remains secret and meets other judicial criteria allowing for the preservation of its secrecy. A nation with weak patent laws and even weaker (or no) laws protecting undisclosed information has decided to favor heavily a policy based on competition that will produce a high quantity of inexpensive goods for its citizens. A state with more stringent protection of intellectual property has chosen to favor innovation, particularly in fields that require high expenditures for research and development.<sup>17</sup> These sectors are thought to need the promise of a limited monopoly to encourage innovation efforts.<sup>18</sup> To elaborate, a state with very relaxed intellectual property laws is thought to value industry competition,<sup>19</sup> reasoning that “[t]he dynamism of a competitive economic system depends on leakage, spillovers [and] cross-germination of skills and ideas.”<sup>20</sup> When an innovation receives limited or no protection, “second-comers” are free to manufacture the goods in question and the entry of multiple competitors lowers the price of goods.<sup>21</sup> Thus, states with less stringent intellectual property laws are those that wish to make goods available to the most people at the lowest possible prices.<sup>22</sup> These states are often those lesser-developed countries that lack the resources to invest in expensive product development and that desire to provide goods that citizens would not be able to afford at monopoly prices. That leads some to argue that strict intellectual property laws can harm developing nations.<sup>23</sup> This is because highly protectionist intellectual property laws create “barriers to entry and other anti-competitive conditions that . . . tend to suffocate the small and medium-sized firms whose incremental innovations are often the real engines of domestic economic growth.”<sup>24</sup>

States can choose to grant legal protections to innovators’ work by either patent or trade secret laws.<sup>25</sup> In the United States, a patent

---

<sup>17</sup> See Letterman, *supra* note 15, at 7-8.

<sup>18</sup> See *id.* at 7-8.

<sup>19</sup> Duncan Matthews, *Globalising Intellectual Property Rights: The TRIPs Agreement* 8 (2002).

<sup>20</sup> J.H. Reichman, *From Free Riders to Fair Followers: Global Competition Under the TRIPs Agreement*, 29 N.Y.U. J. Int’l L. & Pol. 11, 24-26 (1997) (arguing that developing countries should adopt pro-competition interpretation of TRIPs Agreement).

<sup>21</sup> See *id.* at 24 (discussing disadvantages of protectionist policies, including decreased competitiveness).

<sup>22</sup> See *id.*

<sup>23</sup> Letterman, *supra* note 15, at 8.

<sup>24</sup> Reichman, *supra* note 20, at 23.

<sup>25</sup> A party may also be entitled to copyright protection in the case of databases or software. See generally Arthur R. Miller, *Copyright Protection for Computer Programs, Databases, and Computer-Generated Works: Is Anything New Since CONTU?*, 106 Harv.

grants “the right to exclude others from making, using, offering for sale, or selling the invention throughout the United States or importing the invention into the United States.”<sup>26</sup> The monopoly is limited, however, because it is granted only for limited subject matter,<sup>27</sup> and the exclusive right lasts only for the statutory period—currently twenty years from the date of application.<sup>28</sup>

An innovation that potentially falls within the scope of both patent law and trade secret law may be protected by either, but the innovator must choose at the outset.<sup>29</sup> A business may choose not to patent its innovation, either because it falls outside the scope of patent law, or for other business and legal reasons.<sup>30</sup> In this case, the innovator may keep its invention secret and rely on protecting the innovation as undisclosed information—that is, as a trade secret.<sup>31</sup> Some factors influencing the choice between patent and trade secret law include the likelihood of reverse engineering<sup>32</sup> (suggesting a choice of patent law), the likelihood of independent development, and other economic factors. For example, protection through trade secret might be much cheaper than filing for and enforcing a patent.<sup>33</sup>

---

L. Rev. 977 (1993). Trademarks may also grant exclusivity. For example, it is often argued that the taste of Coca-Cola is trademarked. See generally David D. Mouery, Comment, Trademark Law and the Bottom Line—Coke Is It!, 2 *Barry L. Rev.* 107 (2001).

<sup>26</sup> 35 U.S.C. § 154(a)(1) (2000).

<sup>27</sup> Patents are granted for “any new and useful process, machine, manufacture, or composition of matter, or any new and useful improvement thereof.” § 101. The invention must be non-obvious, that is, it must be something that a typical person with “skill in [that] art” would find inventive. § 103(a).

<sup>28</sup> § 154(a)(2).

<sup>29</sup> See *Kewanee Oil Co. v. Bicron Corp.*, 416 U.S. 470, 475, 480-84 (1974) (explaining that patentees sacrifice right to keep information secret in exchange for protection).

<sup>30</sup> See Andrew Beckerman-Rodau, The Choice Between Patent Protection and Trade Secret Protection: A Legal and Business Decision, 84 *J. Pat. & Trademark Off. Soc’y* 371, 380-406 (2002) (listing twenty legal and business factors that firms consider in choosing between patent and trade secret protection).

<sup>31</sup> Allowing innovators to claim intellectual property rights without the public disclosure required by patent law allows innovators to take into account certain business factors. Despite the recognizable uncertainties in trade secret law, many business enterprises go to great and successful lengths to protect valuable trade secrets. For example, the producers of artificial flavors find trade secrecy “essential for protecting the reputation of beloved brands” because producers of commercial food products “understandably, would like the public to believe that the flavors of their food somehow originate in their restaurant kitchens, not in distant factories run by other firms.” Eric Schlosser, *Fast Food Nation: The Dark Side of the All-American Meal* 121 (2001). For an account of how chemical companies protect the secret formulas for artificial flavors, see *id.* at 120-29.

<sup>32</sup> Reverse engineering describes the practice of “starting with the known product and working backward to divine the process which aided in its development or manufacture.” *Kewanee Oil Co.*, 416 U.S. at 476. At common law, trade secrets are not protected from reverse engineering. For a discussion of the EEA’s treatment of reverse engineering, see *infra* notes 82-86 and accompanying text.

<sup>33</sup> Beckerman-Rodau, *supra* note 30, at 398-401, 405.

The interests of the innovator are only part of the calculus a state will use in deciding whether and how much to protect undisclosed information. All intellectual property laws involve a balance between encouraging innovation and promoting competition, and a bargain between the innovator and the state.<sup>34</sup> Trade secret protection can disrupt the balance of interests and the bargain between innovator and state. Patent laws encourage innovation by granting a monopoly over use to the innovator, but this monopoly is limited in duration. Thus, the state maintains an interest in competition, as well as intellectual property protection, because the information is: (1) immediately disclosed so that others may build upon the knowledge; and (2) ultimately released into the public domain for use.<sup>35</sup> When a state decides to grant legal protection to undisclosed information, it must consider the possibility that neither the general public nor the relevant scientific and creative communities will benefit from disclosure of the knowledge. The public also will never benefit from increased access to the products inevitably resulting from the entry of second-comer producers into the market. For these reasons, scholars have criticized government efforts to strengthen trade secret protection.<sup>36</sup>

## II PROTECTING INTELLECTUAL PROPERTY AT HOME AND ABROAD

In the United States, innovators may avail themselves of both federal and state intellectual property laws.<sup>37</sup> One such law, the EEA of 1996, resulted from the efforts of high technology companies that preferred to protect information by maintaining its secrecy, rather than through other legal methods such as patent protection.<sup>38</sup>

---

<sup>34</sup> See *supra* notes 16-28 and accompanying text.

<sup>35</sup> See Dreyfuss, *supra* note 16, at 1.

<sup>36</sup> See, e.g., *id.*, at 42-44 (arguing that stronger trade secret laws may encourage more firms to protect information as trade secrets instead of through patents, limiting entry of information into public domain and further innovation); Geraldine Szott Moohr, *The Problematic Role of Criminal Law in Regulating Use of Information: The Case of the Economic Espionage Act*, 80 N.C. L. Rev. 853, 859 (2002) (same).

<sup>37</sup> The federal government has preemptive jurisdiction over patent claims, and state courts sometimes decide patent issues as well. See 28 U.S.C. § 1338(a) (2000); *Intermedics Infusaid, Inc. v. Regents of Univ. of Minn.*, 804 F.2d 129, 132-33 (Fed. Cir. 1986) (holding that, although federal courts have original jurisdiction, state courts can decide patent issues that are properly before them). The federal government promulgates trademark laws as well. Lanham Act, 15 U.S.C. §§ 1051-1129 (2000 & West Supp. 2003). Historically, trade secret law was the domain of state common law and statutory regimes. The EEA is the first piece of federal legislation to regulate trade secrets. See *infra* notes 50-52 and accompanying text.

<sup>38</sup> Cf. *infra* notes 63-65 and accompanying text.



Amidst increased globalization of world markets, concern about trade secrets took on an international dimension. Businesses that had been concerned with protecting their trade secrets at home became increasingly interested in enforcing trade secrets and other intellectual property rights abroad.<sup>39</sup> Firms in developed countries, such as the United States, sought stricter and more uniform intellectual property laws worldwide so that, for example, pharmaceutical companies could protect the manufacture of generic drugs in countries with more relaxed patent laws and enforcement than the United States.<sup>40</sup> The result was a treaty negotiated as part of the formation of the World Trade Organization (WTO) called the Trade-Related Aspects of Intellectual Property Rights Agreement, or TRIPS.<sup>41</sup> TRIPS is annexed to the WTO, meaning that any country wishing to join the WTO must become a signatory to TRIPS.<sup>42</sup> As part of the WTO agreement, TRIPS provides member nations with a forum for binding dispute resolution.<sup>43</sup> Older agreements that existed before TRIPS covered only select areas of intellectual property law and did not establish effective enforcement mechanisms.<sup>44</sup>

---

<sup>39</sup> See Moohr, *supra* note 36, at 864-65 (describing testimony before Congress on economic losses caused by information theft).

<sup>40</sup> See Susan K. Sell, *TRIPS and the Access to Medicines Campaign*, 20 *Wis. Int'l L.J.* 481, 483-89 (2002) (detailing lobbying efforts by pharmaceutical companies in shaping TRIPS).

<sup>41</sup> TRIPS, *supra* note 12. TRIPS provides universal minimum standards for all areas of intellectual property law, and it is the first multilateral intellectual property agreement to include standards for the protection of trade secrets.

<sup>42</sup> Daphne Yong-d'Hervé, *Pre-TRIPS International Legal Framework; TRIPS Structure*, in *Intellectual Property & International Trade: A Guide to the Uruguay Round TRIPS Agreement* 8, 10 (1996). The result of signing is that a country that wanted to be a signatory to the General Agreement on Trade and Tariffs (GATT) to gain market access and trade benefits must also accept the minimum standards of intellectual property in TRIPS.

<sup>43</sup> TRIPS does not establish a judicial system for the direct enforcement of the minimum intellectual property rights specified in the agreement, but rather relies on the judicial system of each member country to enforce the relevant standards. TRIPS, *supra* note 12, at art. 41.5. A second-tier of enforcement is provided by the Dispute Settlement Body (DSB), the general enforcement arm of the WTO. See generally WTO, *supra* note 12, at Annex 2. Under this agreement, a member country can file a complaint against another member country alleging that the country has not provided and enforced the proper minimum standards under the TRIPS Agreement. If a member country does not comply with a DSB ruling, the DSB may authorize trade sanctions against the noncompliant country. For an overview of the DSB process, see Daphne Yong-d'Hervé, *Implementation and Administration of TRIPS and Dispute Settlement*, in *Intellectual Property & International Trade: A Guide to the Uruguay Round TRIPS Agreement*, *supra* note 42, at 72-79.

<sup>44</sup> See Rochelle C. Dreyfuss & Andreas F. Lowenfeld, *Two Achievements of the Uruguay Round: Putting TRIPS and Dispute Settlement Together*, 37 *Va. J. Int'l L.* 275, 277 (1997) ("[I]ntellectual property [was] previously the province of bilateral and multilateral agreements that generally lacked enforcement provisions.").

In reaching the TRIPS Agreement, many developing and lesser-developed countries relinquished practices they viewed as competitive in order to implement TRIPS standards that are far more protective of innovators.<sup>45</sup> Although the TRIPS negotiations produced unprecedented uniformity in intellectual property standards, the agreement still adheres to two traditional principles of intellectual property law: (1) Innovators must pursue and enforce intellectual property rights individually in each country; and (2) so long as a country adheres to the minimum standards of the TRIPS Agreement, it may set its own (perhaps more stringent) level of intellectual property rights and enforce these rights according to its own legal methods and practices.<sup>46</sup> Despite the TRIPS Agreement, the United States continues to use unilateral measures, such as special sanctions, to impose a greater degree of protection of intellectual property in foreign countries than TRIPS requires.<sup>47</sup>

Recent scholarship criticizes these actions as violating both the letter and the spirit of TRIPS and the WTO,<sup>48</sup> and disapproves of the

---

<sup>45</sup> Though the developing world generally opposed more protectionist intellectual property standards, particularly the protection of undisclosed information, membership in the TRIPS Agreement arguably benefits these nations. Foreign investors may be more willing to invest in developing countries where intellectual property is secure. This confidence may translate into increased transfer of technology, licensing, and ultimately, local innovation. Matthews, *supra* note 19, at 108-11.

<sup>46</sup> See TRIPS, *supra* note 12, at art. 1.1.

<sup>47</sup> The United States unilaterally imposes "Special 301" trade sanctions under section 301 of the Trade Act upon countries that it believes are not providing adequate protection of intellectual property. Trade Act of 1972 § 301, Pub. L. No. 93-618, 88 Stat. 2041 (1975) (codified as amended at 19 U.S.C. § 2411 (2000)). The United States used these trade sanctions before TRIPS as a means of achieving intellectual property laws favorable to the United States in other countries. Though the TRIPS Agreement established uniform minimum standards, the United States continues the use of Special 301 sanctions, even when "the foreign country may be in compliance with the specific obligations of the TRIPS agreement." J.H. Reichman, *Universal Minimum Standards of Intellectual Property Protection Under the TRIPS Component of the WTO Agreement*, 29 *Int'l Law.* 345, 384 (1995). For example, the United States has used special sanctions and a special sanctions "watch list" to effect changes or extract promises of changes to intellectual property laws in Brazil and Argentina, often bypassing or delaying the WTO dispute resolution process. See 19 U.S.C. § 2242 (2000) (establishing "watch list"); Sell, *supra* note 40, at 491-96 ("Since the adoption of TRIPS, its industry architects have remained vigilant in monitoring implementation and compliance. They have continued to avail themselves of the U.S. 301 apparatus to pressure developing countries to alter their domestic intellectual property policies.").

<sup>48</sup> See, e.g., Myles S. Getlan, *Comment, TRIPS and the Future of Section 301: A Comparative Study in Trade Dispute Resolution*, 34 *Colum. J. Transnat'l L.* 173, 213-14 (1995) (arguing that Article 23.2 of Dispute Resolution Understanding forbids WTO member nations from making unilateral determinations about trade violations); Grace P. Nerona, *Comment, The Battle Against Software Piracy: Software Copyright Protection in the Philippines*, 9 *Pac. Rim L. & Pol'y J.* 651, 672 (2000) ("TRIPS permits a member country to retaliate against another member country, but . . . in the same sector in which the member

United States for exporting its own higher standards to the rest of the world, despite the enforceable multilateral agreement.<sup>49</sup>

### A. *The EEA and TRIPS Article 39*

This Part compares the substantive trade secret protection under the EEA with that in Article 39 of TRIPS and concludes that the EEA is a very protectionist statute compared with both the common law of trade secrets and trade secret protection under TRIPS.

#### 1. *The Economic Espionage Act of 1996*<sup>50</sup>

Before Congress passed the EEA in 1996, the law of trade secrets fell entirely within the scope of statutory or common law at the state level. The Third Restatement of Unfair Competition summarizes the general common law position,<sup>51</sup> and the Uniform Trade Secrets Act (UTSA) represents the statutory position.<sup>52</sup> State laws generally define a trade secret as consisting of three elements: (1) information<sup>53</sup> (2) that has actual or potential economic value *because* it is secret<sup>54</sup> and (3) is, in fact, a secret.<sup>55</sup> The UTSA additionally requires that a potential rights holder make a reasonable effort to maintain the secrecy of the information. Section 39 of the Restatement reads in full:

##### Definition of Trade Secret.

A trade secret is any information that can be used in the operation of a business or other enterprise and that is sufficiently valuable and secret to afford an actual or potential economic advantage over others.<sup>56</sup>

---

country was injured . . . . Section 301 is more coercive and permits the [United States Trade Representative] to impose tariffs on . . . products . . . that have no relation to the product at issue."); Robert J. Pechman, Note, Seeking Multilateral Protection for Intellectual Property: The United States "TRIPs" Over Special 301, 7 Minn. J. Global Trade 179, 206 (1998) ("[A]ctions by the United States under Special 301 may very well violate WTO rules.").

<sup>49</sup> See, e.g., Nerona, *supra* note 48, at 672-75 ("Special 301 is unreasonable because it requires developing countries . . . to meet U.S. standards without regard to their level of economic development.").

<sup>50</sup> For a more general introduction to the EEA, see generally Chris Carr et al., *The Economic Espionage Act: Bear Trap or Mousetrap?*, 8 Tex. Intell. Prop. L.J. 159 (2000); Pooley et al., *supra* note 6, at 187-205.

<sup>51</sup> Restatement (Third) of Unfair Competition §§ 39-45 (1995).

<sup>52</sup> Unif. Trade Secrets Act (amended 1985), 14 U.L.A. 437 (1990) [hereinafter UTSA].

<sup>53</sup> Restatement (Third) of Unfair Competition § 39; UTSA § 1(4).

<sup>54</sup> See Restatement (Third) of Unfair Competition § 39; UTSA § 1(4)(i). The Restatement appears to have the additional requirement that the information must be used in the operation of a business or enterprise.

<sup>55</sup> See Restatement (Third) of Unfair Competition § 39; UTSA § 1(4)(ii).

<sup>56</sup> Restatement (Third) of Unfair Competition § 39.

Whereas section 1(4) of the UTSA states:

“Trade secret” means information, including a formula, pattern, compilation, program, device, method, technique, or process, that: derives independent economic value, actual or potential, from not being generally known to, and not being readily ascertainable by proper means by, other persons who can obtain economic value from its disclosure or use, and is the subject of efforts that are reasonable under the circumstances to maintain its secrecy.<sup>57</sup>

Though the state statutes and common law generally shared these elements, regimes for enforcing trade secret protection varied, resulting in a lack of national uniformity in trade secret laws. The UTSA has not appreciably clarified matters. Only forty-two of the states have adopted the UTSA<sup>58</sup> and have adopted it in so many different forms that one scholar has referred to it as the “non-Uniform” Act.<sup>59</sup> Only twenty-four states provide for criminal enforcement, the extent of which varies widely from state to state. Criminal statutes typically are narrower in scope than their civil counterparts.<sup>60</sup> Congress viewed the patchwork of state trade secret law as inefficient and ineffective,<sup>61</sup> and considered the lack of national trade secret protection “a glaring gap in Federal law.”<sup>62</sup> However, proponents of a nationally uniform intellectual property regime were not at the forefront of the drafting of the bill. The legislation emerged from the House Subcommittee on Crime, the Senate Select Committee on Intelligence, and the Judiciary Subcommittee on Terrorism. In drafting and debating the measure, witnesses came not from the intellectual property bar, but from the business and law enforcement communities.<sup>63</sup>

Rather than focusing on the policy concerns of intellectual property, lawmakers were concerned with trade secret theft as an issue of national economic well-being and security and as part of larger

---

<sup>57</sup> UTSA § 1(4).

<sup>58</sup> Moohr, *supra* note 36, at 871.

<sup>59</sup> James Pooley, *The Top Ten Issues in Trade Secret Law*, 70 Temp. L. Rev. 1181, 1188 (1997).

<sup>60</sup> See Moohr, *supra* note 36, at 875-77 (describing restrictive state law definitions of trade secret theft); Pooley et al., *supra* note 6, at 189 (same).

<sup>61</sup> The main reasons Congress considered state law to be an inadequate remedy for trade secret theft were that, first, gaps in federal and state law made prosecution of some theft difficult; and second, defendants often were judgment-proof, thus rendering state remedies expensive and ineffective. S. Rep. No. 104-359, at 10-11 (1996); H.R. Rep. No. 104-788, at 6-7 (1996), reprinted in 1996 U.S.C.C.A.N. 4021, 4025.

<sup>62</sup> 142 Cong. Rec. S12,201, 12,208 (daily ed. Oct. 2, 1996) (statement of Sen. Specter). The legislative history of the EEA is replete with examples of trade secret theft that state law had failed to redress and estimates of the loss to American businesses due to trade secret theft. See *id.*

<sup>63</sup> See Dreyfuss, *supra* note 16, at 4-5.

counterterrorism efforts.<sup>64</sup> They viewed trade secret theft as more than a simple violation of intellectual property rights or an anticompetitive activity. Instead, it was viewed as the product of a post-Cold War era in which intelligence efforts were now directed toward accumulation of valuable economic information to the detriment of the United States and its business enterprises.<sup>65</sup>

Congress was particularly concerned with foreign activity.<sup>66</sup> The drafters worried not only about foreign entrepreneurs and organizations, but about foreign governments "trying to get advanced technologies from American companies."<sup>67</sup> As a result of these policy choices, the protection of trade secrets under the EEA differs in several ways from state and common law protection. Part II.A.1.a describes the bad acts prohibited by the EEA, Part II.A.1.b demonstrates that the EEA broadens the definition of trade secret from the traditional understanding, and Part II.A.1.c describes how the meaning of "misappropriation" in the EEA differs from state and common law definitions. Part II.A.1.d then introduces the extraterritorial component of the EEA.

#### a. Acts Prohibited under the EEA

The EEA prohibits misappropriation of trade secrets, but actually creates two categories of unlawful activity based on the identity of the defendant—one category for private parties and another for foreign governments, or parties directly affiliated with foreign governments.<sup>68</sup> The two crimes differ primarily with respect to penalties<sup>69</sup> and the knowledge requirement. Economic espionage requires that

---

<sup>64</sup> See *infra* notes 96-99 and accompanying text.

<sup>65</sup> See S. Rep. No. 104-359, at 6-8 ("Economic superiority is increasingly as important as military superiority. And the espionage industry is being retooled with this in mind."); H.R. Rep. No. 104-788, at 4-5.

<sup>66</sup> See S. Rep. No. 104-359.

<sup>67</sup> 142 Cong. Rec. S740 (daily ed. Feb. 1, 1996) (statement of Sen. Kohl). For example, popular periodicals such as the *U.S. News and World Report* reported that foreign interests conducting industrial espionage were thwarting the ability of American businesses to capitalize on their hard work and ingenuity. The post-Cold War era meant that an excess of spy organizations had now turned their attention to gathering trade secrets from the United States. See Douglas Pasternak, *The Lure of the Steal*, *U.S. News & World Rep.*, Mar. 4, 1996, at 45 ("Rapid changes in technology are tempting many countries to try to acquire intellectual properties in underhanded ways, thus bypassing the enormous costs of research and development.").

<sup>68</sup> 18 U.S.C. §§ 1831-1832 (2000). "Economic espionage" occurs when a natural person or organization "intending or knowing that the offense will benefit any foreign government, foreign instrumentality, or foreign agent, knowingly" engages in the proscribed activity. § 1831(a). "Theft of trade secrets" concerns all other parties unrelated to foreign governments. § 1832(a).

<sup>69</sup> §§ 1831-1832.

the defendant intends or knows that her actions will benefit a foreign government.<sup>70</sup> Theft of trade secrets on the other hand, requires intent to misappropriate and intent or knowledge that “the offense will injure any owner of that trade secret.”<sup>71</sup> The knowledge requirement asks courts to determine state of mind in a way that other intellectual property statutes do not require, which could serve to limit the scope of the EEA.<sup>72</sup> Some commentators concerned with an expansive trade secret regime find the knowledge requirement a favorable limitation on the expansion of matter protected and behavior proscribed under the statute,<sup>73</sup> whereas others see the promise of limitation as only “illusory.”<sup>74</sup>

#### b. The EEA Broadens the Definition of Trade Secret

The EEA changes the definition of a trade secret significantly from the traditional common law and state statutory definitions.<sup>75</sup> While the EEA definition of a trade secret follows the same general contours as the UTSA and the Restatement, the EEA gives a more detailed list of protected material. To the UTSA’s “formula, pattern, compilation, program, device, method, technique, or process,”<sup>76</sup> the EEA adds “plans, . . . program devices, . . . designs, prototypes, . . . techniques, . . . procedures, . . . or codes” and expressly protects “financial, business, scientific, technical, economic, or engineering information.”<sup>77</sup> While this list is more comprehensive than the Restatement and the UTSA, scholars generally agree that the EEA applies to the same information as the UTSA because the UTSA has been read broadly.<sup>78</sup>

---

<sup>70</sup> § 1831(a).

<sup>71</sup> § 1832(a).

<sup>72</sup> Contra Dreyfuss, *supra* note 16, at 21-26 (concluding that EEA’s knowledge requirements are unlikely to narrow statute’s breadth).

<sup>73</sup> See, e.g., Moohr, *supra* note 36, at 883-84 (“[C]ulpability elements of the offense may limit enforcement. For instance, it may be difficult . . . to establish beyond a reasonable doubt that a defendant knew information was a trade secret if evidence sheds doubt as to whether a trade secret existed.”).

<sup>74</sup> Dreyfuss, *supra* note 16, at 21 (concluding that meaningful limitation is “unlikely”).

<sup>75</sup> See Dreyfuss, *supra* note 16, at 9-10; Moohr, *supra* note 36, at 877-82; see also *supra* notes 51-57 and accompanying text. This is surprising not only because it is unclear that Congress meant to expand or even change the meaning of the term, but also because in the older state law regimes, the criminal statutes gave a narrower definition of trade secret than their civil counterparts. See Pooley et al., *supra* note 6, at 189. Geraldine Szott Moohr argues that this makes trade secrets an “unlikely candidate for protection through criminal law.” Moohr, *supra* note 36, at 871-72.

<sup>76</sup> UTSA § 1(4) (amended 1985), 14 U.L.A. 438 (1990).

<sup>77</sup> 18 U.S.C. § 1839(3) (2000).

<sup>78</sup> Cf. Dreyfuss, *supra* note 16, at 10 (adding that EEA includes information such as marketing strategy and consumer lists that had been questionable in state cases); see also

Additionally, the EEA arguably changes the common law benchmark for determining secrecy. Under the Restatement and the UTSA, information is secret if it is not known by relevant competitors in the field.<sup>79</sup> Under the EEA, information is secret if it is not known by the "public."<sup>80</sup>

### c. The Meaning of "Misappropriation" under the EEA

The EEA's most significant divergence from state law is its definition of misappropriation. The EEA creates additional means of misappropriation of a trade secret that go far beyond the "improper means" found in the UTSA and the Restatement.

The Restatement and UTSA definitions are rather narrow and more traditional. The Restatement definition of misappropriation includes "theft, fraud, unauthorized interception of communications, [and] inducement of or knowing participation in a breach of confidence."<sup>81</sup> The UTSA definition includes "theft, bribery, misrepresentation, breach or inducement of a breach of a duty to maintain secrecy, or espionage through electronic or other means."<sup>82</sup>

In contrast, the EEA criminalizes the taking of a secret "without authorization."<sup>83</sup> The mere taking of a trade secret without authorization, when not combined with the elements of fraud and deception in the UTSA and the Restatement, includes some actions that are considered lawful under state civil law.<sup>84</sup> This means that a person could

---

Pooley, *supra* note 6, at 188-89 ("[T]he EEA will probably apply to the same types of information which qualify as trade secrets under the current civil standard.").

<sup>79</sup> Restatement (Third) of Unfair Competition § 39 cmt. f (1995); UTSA § 1(4).

<sup>80</sup> 18 U.S.C. § 1839(3)(B). Critics of expansive trade secret protection have flagged this language as problematic because, under this standard, it is easier for prosecutors "to establish . . . a trade secret than it is for plaintiffs in state civil cases." Moohr, *supra* note 36, at 878. Others argue that it is unlikely that Congress meant for such a dramatic change in the threshold for secrecy. Pooley et al., *supra* note 6, at 191. Thus far, the Third Circuit has chosen to understand "the public" as the *general* public. *United States v. Hsu*, 155 F.3d 189, 196 (3d Cir. 1998). The Seventh Circuit has questioned this qualifier. See *United States v. Lange*, 312 F.3d 263, 266-67 (7th Cir. 2002) (refusing to define "the public"). The court suggested, but did not hold, that other implied qualifiers before the word "public" may bring the EEA's definition closer to that of the UTSA and Restatement. See *id.* at 267. In both cases the issue of "public" was not dispositive to the case at hand, so the definition remains a circuit split in dicta.

<sup>81</sup> Restatement (Third) of Unfair Competition § 43.

<sup>82</sup> UTSA § 1(1), (2).

<sup>83</sup> 18 U.S.C. §§ 1831(a)(1)-(3), 1832(1)-(2) (2000).

<sup>84</sup> This distinction is not merely a difference in legal standards, but can be considered part of "robust" business competition. See Pooley et al., *supra* note 6, at 192-93 ("These terms might encompass the sort of lawful business espionage that has long been permitted . . . such as observing a competitor's property from across the street."). For example, although the statute does not explicitly prohibit memorization of information as a form of appropriation, scholars have suggested that this might fall under the scope of pro-

be prosecuted for analyzing information in the manner described in sections 1831 and 1832, including memorization or reverse engineering, even if the information itself was obtained legally under state law.

The prosecution of reverse engineering under the EEA would greatly increase the scope of information protected by trade secret law. Reverse engineering is a process by which a second-comer learns the process or structure of an innovation by careful deconstruction and study,<sup>85</sup> and involves copying or duplication of information obtained without authorization, which is arguably prohibited by the statute. Commentators argue that reverse engineering that courts have found to be lawful<sup>86</sup> (such as copying a program, decompiling it, and then using it to create a new product) may be proscribed by the EEA.<sup>87</sup> Reverse engineering has long been considered an important feature of lawful competitive commercial practices, and the Supreme Court has affirmed the importance of the practice.<sup>88</sup>

#### d. The Extraterritoriality Provisions of the EEA

The last novel feature of the EEA is extraterritoriality, that is, how the statute regulates conduct outside of the United States.<sup>89</sup> Sec-

---

hibited activity under the statute. Dreyfuss, *supra* note 16, at 14; Moohr, *supra* note 36, at 878; Pooley et al., *supra* note 6, at 189-90.

<sup>85</sup> See generally Pamela Samuelson & Suzanne Scotchmer, *The Law and Economics of Reverse Engineering*, 111 *Yale L.J.* 1575 (2002) (analyzing traditional acceptance of reverse engineering).

<sup>86</sup> See *Sega Enters. Ltd. v. Accolade, Inc.*, 977 F.2d 1510, 1527-28 (9th Cir. 1993) ("We conclude that where disassembly is the only way to gain access to the ideas and functional elements embodied in a copyrighted computer program and where there is a legitimate reason for seeking such access, disassembly is a fair use of the copyrighted work, as a matter of law.").

<sup>87</sup> See Dreyfuss, *supra* note 16, at 15; Pooley et al., *supra* note 6, at 195-97.

<sup>88</sup> See *Bonito Boats, Inc. v. Thunder Craft Boats, Inc.*, 489 U.S. 141, 160 (1989) (striking down state statute that prohibited reverse engineering on supremacy grounds and noting that "the competitive reality of reverse engineering may act as a spur to the inventor"). Although the Supreme Court held that the states cannot outlaw reverse engineering, this decision does not apply to Congress. Accordingly, it is still possible that the EEA may prohibit reverse engineering activities. See Dreyfuss, *supra* note 16, at 16.

Despite the possibilities for prosecution, ordinary reverse engineering practices seem to have survived the first five years of the statute's existence. For example, a former employee of an aircraft parts manufacturer was recently convicted under the EEA of stealing test data used to certify parts with the Federal Aviation Administration. The employer manufactured the airline parts by reverse engineering, and by prosecuting only the employee, the government seemed to endorse the employer's lawful control of the information gained from reverse engineering. See *United States v. Lange*, 312 F.3d 263, 264-65 (7th Cir. 2002).

<sup>89</sup> The statute reads:

This chapter [18 U.S.C. §§ 1831-1839] also applies to conduct occurring outside the United States if –



tion 1837 distinguishes the EEA from patent and copyright laws because those other forms of intellectual property protection have been held to be more territorially limited.<sup>90</sup> Thus far, the application of the EEA has been fairly modest,<sup>91</sup> and the indictments and prosecutions to date have all concerned conduct that occurred exclusively or substantially within U.S. borders.<sup>92</sup> However, there are reasons to believe that in the near future prosecutions under the EEA will become more frequent, and that the Justice Department will seek extraterritorial application of the statute.

First, in 2001, it became much easier for prosecutors to pursue indictments under the statute. When Congress first passed the EEA, the Justice Department responded to criticism that the statute was too broad by promising to pursue only the most obvious cases of trade secret theft.<sup>93</sup> In the first five years of the EEA, prosecutions under the Act required the express approval of the Attorney General or two designated representatives.<sup>94</sup> Now that the time period has expired, it will be much easier for U.S. Attorneys to indict under the statute. Over half of the cases prosecuted have been filed since early 2001.<sup>95</sup>

---

(1) the offender is a natural person who is a citizen or permanent resident alien of the United States, or an organization organized under the laws of the United States or a State or political subdivision thereof; or

(2) an act in furtherance of the offense was committed in the United States.

18 U.S.C. § 1837 (2000).

<sup>90</sup> See *infra* notes 180-84 and accompanying text.

<sup>91</sup> For a factual summary of eighteen indictments and prosecutions under the EEA between 1996 and 2000, see Carr, *supra* note 50, at 180-96.

<sup>92</sup> The majority of indictments and prosecutions involve U.S. citizens conducting the criminal activity within the borders of the United States. See, e.g., *United States v. Worthing*, Criminal Case No. 97-CR-9 (W.D. Pa. filed Dec. 9, 1996) (action against domestic citizens alleged to have stolen diskettes and other confidential information from American corporation to sell to another American corporation). Other prosecutions have an international element, but the conduct occurred wholly within U.S. borders. Most commonly, a person will steal trade secrets within the United States and then attempt to use the information in a foreign country. See, e.g., *United States v. Hsu* 155 F.3d 189 (3d Cir. 1998) (describing prosecution of three Taiwanese scientists accused of acquiring confidential information about manufacturing cancer drug in Philadelphia with intent to use information in Taiwan). Alternatively, the international dimension has been an attempt to sell information to a foreign corporation. See, e.g., *United States v. Krumrei*, 258 F.3d 535 (6th Cir. 2001) (rejecting appeal by American citizen who stole information from American corporation and attempted to sell it to Australian corporation). A further survey of the prosecutions revealed that most defendants were U.S. citizens. See *id.*

<sup>93</sup> See 142 Cong. Rec. S12,214 (daily ed. Oct. 2, 1996) (statement of Sen. Hatch) (reading letter from Janet Reno into record); Lorin L. Reisner, *Criminal Prosecution of Trade Secret Theft*, 219 N.Y.L.J. 1, 4 (1998) (reporting that Reno sent letter to Congress announcing that all prosecutions under EEA for first five years would require Justice Department approval).

<sup>94</sup> See 142 Cong. Rec. S12,214, *supra* note 93; Reisner, *supra* note 93.

<sup>95</sup> Paul Elias, *Espionage Act Proves Difficult to Prosecute*, San Diego Union Trib., Aug. 5, 2002, at A4.

One newspaper reported that “[s]ince 1996, when Congress passed the Economic Espionage Act, the Justice Department has prosecuted 47 people in 34 cases.”<sup>96</sup> The Justice Department has filed another case under the EEA since publication of that article, bringing the total to 35.<sup>97</sup> Furthermore, the Ashcroft Justice Department has begun to invoke sections of the Act that had been unused in the first five years of the EEA; in May of 2001, the Justice Department charged two Japanese molecular biologists under section 1831 of the EEA (theft benefiting a foreign government), the first such prosecution under the EEA.<sup>98</sup>

Second, since the terrorist attacks of September 11, 2001, counterterrorism measures have been at the forefront of the national agenda. Because Congress originally conceived of the EEA as a tool in combating terrorism, and especially in addressing foreign activity,<sup>99</sup> the Justice Department may begin to use the EEA as part of the war on terror.

Congress also indicated a concern with a link between trade secret theft and terrorist activity itself. Congress worried that America’s “ideological and military adversaries” would “continue to target U.S. economic and technological information as an extension of

---

<sup>96</sup> *Id.*

<sup>97</sup> Jennifer 8. Lee, *Student Arrested in DirecTV Piracy Case*, N.Y. Times, Jan. 3, 2003, at C2.

<sup>98</sup> See John Mangels, *Clinic Case Is First Use of New Law*, Plain Dealer (Cleveland), July 30, 2001, at A1.

<sup>99</sup> See *supra* notes 61-67 and accompanying text. The legislative history of the EEA reveals a consistent two-fold concern with terrorism and foreign activity. The drafters worried that in the post-Cold War era, technological and economic superiority would be as important for the United States as military superiority. See, e.g., S. Rep. No. 104-359, at 7 (1996) (“Typically, espionage has focused on military secrets. But even as the cold war has drawn to a close, this classic form of espionage has evolved. Economic superiority is increasingly as important as military superiority. And the espionage industry is being retooled with this in mind.”); H.R. Rep. No. 104-788, at 5 (1996), reprinted in 1996 U.S.C.C.A.N. 4021, 4023 (same); 142 Cong. Rec. S12,208, (daily ed. Oct. 2, 1996) (statement of Sen. Specter) (“The Intelligence Committee has been aware that since the end of the cold war, foreign nations have increasingly put their espionage resources to work trying to steal economic secrets.”). Many in government often equated economic security with U.S. national security. See Economic Espionage: J. Hearing Before the Senate Select Comm. On Intelligence, and the Subcomm. on Terrorism, Technology, and Government Information of the Senate Comm. On the Judiciary, U.S. S., 104th Cong. 11 (1996) (prepared Statement of Louis J. Freeh, Director, Federal Bureau of Investigation) [hereinafter Freeh Statement] (“Our nation’s economic integrity is synonymous with our national security.”). Thus, protection of proprietary information in the private sector would “advance [America’s] national security.” President’s Statement on Signing the Economic Espionage Act of 1996, 1996 Pub. Papers 1814, 1814 (Oct. 11, 1996).

the concerted intelligence assault on the United States,"<sup>100</sup> and that "[f]oreign targeting of American technology continues."<sup>101</sup>

Government officials continue to link economic espionage to military and terror threats. Recent statements by officials from the FBI and a U.S. Attorney's office express concern that foreign actors are "intent on swiping U.S. trade secrets for commercial and military use."<sup>102</sup> They report a recent increase in investigations and indictments of economic espionage, including investigations into security- and defense-sensitive industries.<sup>103</sup>

The legislative history of the EEA combined with the recent increase of EEA indictments and attention to foreign activity suggest that the Justice Department might soon invoke section 1837 in an EEA prosecution. Given the likelihood of increased and extraterritorial application of the statute, it will be important for courts to appropriately define and limit the scope of section 1837.<sup>104</sup>

## 2. *Uniform Minimum Standards for Intellectual Property Under TRIPS*

Developed countries long have had intellectual property laws that are designed both to protect the investment that innovators make in their products and to encourage competition. In contrast, developing countries often have much weaker laws, allowing second-comers to profit off of the research and development of the first innovators.<sup>105</sup> As the economy has become more global, developed countries such as the United States have become increasingly concerned that their businesses are losing considerable profits to companies manufacturing and selling goods in countries with weaker intellectual property laws.<sup>106</sup> In 1986, the United States and other developed

---

<sup>100</sup> H.R. Rep. No. 104-788 at 5.

<sup>101</sup> S. Rep. No. 104-359 at 7 (quoting *The Threat of Foreign Economic Espionage to U.S. Corporations: Hearings Before the Subcomm. on Economic And Commercial Law of the House Judiciary Comm.*, 102nd Cong. 59 (1992)). Witnesses such as CIA director Robert Gates testified before Congress that "technology is important for economic as well as military reasons." *Id.* FBI director Louis Freeh stated that "defense-related industries . . . remain the primary targets of the foreign economic espionage operations." Freeh Statement, *supra* note 99, at 12.

<sup>102</sup> Edward Iwata, *More U.S. Trade Secrets Walk Out Door with Foreign Spies*, U.S.A. Today, Feb. 13, 2003, at 1B.

<sup>103</sup> *Id.*

<sup>104</sup> See *infra* Part III.

<sup>105</sup> This policy allows a country to sanction the production of goods at much cheaper cost because of competition between multiple producers and the smaller research investments required of manufacturers. See *infra* Part I.

<sup>106</sup> Lynne Saylor & John Beton, *Why the TRIPS Agreement?*, in *Intellectual Property & International Trade: A Guide to the Uruguay Round TRIPS Agreement* 12 (Daphne Yong-D'Herve ed., 1996).

countries succeeded in adding intellectual property to the international trade negotiations agenda under the General Agreement on Tariffs and Trade (GATT), hoping to achieve more uniform minimum standards of intellectual property laws.<sup>107</sup>

In April 1995, 114 nations signed the TRIPS Agreement. TRIPS has important consequences for international intellectual property norms and for trade secret protection in particular. TRIPS is the first treaty to cover all aspects of intellectual property in a single agreement, to set minimum standards of protection for each of seven forms,<sup>108</sup> and to provide a binding enforcement mechanism for dispute resolution regarding WTO members' compliance with these standards. In several instances, TRIPS imposes uniformity by simply incorporating the standards from previous agreements,<sup>109</sup> and in others, TRIPS promulgates new standards, as with trade secrets. By agreeing to the WTO, each country agrees to use its own legal system and practices to establish and enforce the minimum standards in TRIPS.<sup>110</sup>

The setting of enforceable uniform minimum standards in TRIPS was a major victory for the developed world.<sup>111</sup> However, to maintain

---

<sup>107</sup> *Id.* at 13; see also Adrian Otten & Hannu Wager, *Compliance with TRIPS: The Emerging World View*, 29 *Vand. J. Transnat'l L.* 391, 393 (1996) (noting that TRIPS was "prompted by the perception that inadequate standards of protection and ineffective enforcement of intellectual property rights were often unfairly . . . prejudicing the legitimate commercial interests of [rights holders'] respective countries").

<sup>108</sup> TRIPS articles 9 through 40 convey the minimum standards for copyright, trademarks, geographical indications, industrial designs, patents, integrated circuits, and trade secrets. See TRIPS, *supra* note 12. TRIPS also addresses "anti-competitive practices in contractual licences." *Id.* at art. 40.

<sup>109</sup> See, e.g., TRIPS, *supra* note 12, at art. 9, which incorporates the standards of the Berne Convention as the minimum standards in copyright.

<sup>110</sup> Member countries are free to provide stricter protection than mandated in the agreement. TRIPS, *supra* note 12, at art. 1.1. TRIPS also provides most favored nation status to all members, meaning that each member country must extend the same rights to all other member states. TRIPS *supra* note 12, at art. 4. Disputes arising under TRIPS are adjudicated under the Dispute Settlement Body (DSB) of the WTO, which has the authority to issue trade sanctions to countries found in violation of the treaty. See TRIPS, *supra* note 12, at art. 64 (using procedures prescribed in General Agreement on Tariffs and Trade (1994) [hereinafter GATT]). The DSB functions under the rules and procedures promulgated in the Understanding on Rules and Procedures Governing the Settlement of Disputes, Dec. 15, 1993, WTO Agreement, Annex 2, Legal Instruments-Results of the Uruguay Round vol. 31, 33 *I.L.M.* 112 (1994).

<sup>111</sup> For this reason, TRIPS still is considered a controversial agreement in some respects. For example, there is considerable literature addressing the concern that TRIPS deprives the developing world of the opportunity to manufacture and distribute important and expensive medicines that are patented in the developed world, such as AIDS medications. See, e.g., John A. Harrelson, *TRIPS, Pharmaceutical Patents, and the HIV/AIDS Crisis: Finding the Proper Balance Between Intellectual Property Rights and Compassion*, 7 *Widener L. Symp. J.* 175, 179 (2001); Sell, *supra* note 40.

access to markets in the developing world, the developed countries had to negotiate the standards with care. Two aspects of the TRIPS Agreement that reflect the negotiations between the developed and the developing world have a significant bearing on how the United States should administer the extraterritoriality provisions of the EEA.

First, the uniform minimum standards did not take complete effect and have not taken effect as of this writing. The developing world was granted a two-tiered "transitional arrangement" for implementing intellectual property laws. Developing countries were granted five years to comply with the minimum standards,<sup>112</sup> and countries considered "least developed countries" by the United Nations have ten years to comply.<sup>113</sup> Not only do these transitional periods exhibit the bargain between the developed and developing countries, but they reflect the concern that it would be difficult economically for less-developed countries to make immediate and radical changes to intellectual property laws.<sup>114</sup>

Second, although the TRIPS Agreement establishes uniform minimum standards, it does not provide a forum for private enforcement of intellectual property rights. Rights holders must use the legal systems of individual member nations to protect their rights; the Dispute Settlement Board (DSB) only ensures that those national systems are in compliance with the TRIPS minimum standards.<sup>115</sup> Moreover, TRIPS "is not intended to be a harmonization agreement."<sup>116</sup> Article 1 and the limited jurisdiction of the DSB affirm that countries are still free to determine more or less stringent levels of intellectual property protection so long as the minimum standards are met. Thus, "provided that members conform to the minimum requirements established by the Agreement, they are left free to determine the appropriate method of doing so within their own legal system and practice."<sup>117</sup> Although extraterritorial application of the EEA in and of itself does not force a foreign country to change its trade secret laws, the kind of economic pressure that extraterritorial application could place on a country may have the effect of forcing a country to take a more protectionist approach.<sup>118</sup> Thus, extraterritorial applica-

---

<sup>112</sup> TRIPS, *supra* note 12, at art. 65.2.

<sup>113</sup> *Id.* at art. 66.1.

<sup>114</sup> See J.H. Reichman, *Compliance with the TRIPS Agreement, Introduction to a Scholarly Debate*, 29 *Vand. J. Transnat'l L.* 363, 373 (1996).

<sup>115</sup> See *Understanding on Rules and Procedures Governing the Settlement of Disputes*, *supra* note 110, 33 *I.L.M.* 112, 114.

<sup>116</sup> Otten & Wagner, *supra* note 107, at 394.

<sup>117</sup> *Id.*

<sup>118</sup> This is illustrated best by the conflict between the United States and Brazil over Special 301 sanctions. The United States imposed such sanctions on Brazil for allowing the

tion of the EEA might undermine the bargain that developing nations believed they entered into with the TRIPS Agreement by forcing countries to adopt more protectionist trade secret laws than the TRIPS minimum standards require.<sup>119</sup> Such laws might require developing countries “to pay supracompetitive prices in order to come up to world intellectual standards.”<sup>120</sup>

### III

#### IDENTIFYING DIFFERENCES BETWEEN THE EEA AND TRIPS AND THE POSSIBLE SOLUTIONS

This Part compares the EEA and TRIPS Article 39, identifying the points of substantive difference that might arise in an extraterritorial application of the EEA. It then suggests the doctrinal framework within which a court might limit the scope of extraterritorial application of the EEA to account for these differences.

##### *A. Comparing Trade Secret Protection Under TRIPS and the EEA*

This Section offers possible interpretations of Article 39 and examines how it compares to the EEA and American state law of trade secrets, concluding that application of the EEA to certain types of information and conduct would protect information beyond the scope of that required by the TRIPS Agreement, and by extension, beyond the scope of what WTO member countries might protect.

The situations in which the EEA imposes a higher level of trade secret protection than TRIPS are not merely quibbles about the technicalities of trade secret protection. Rather, they implicate a nation's attitude toward the fundamental policies of innovation and competition.<sup>121</sup> After the enactment of the EEA in 1996, commentators deliv-

---

manufacture of generic AIDS pharmaceuticals. The dispute began before the implementation of TRIPS but continued after TRIPS took effect. Despite the fact that, as a developing country, Brazil did not yet have to comply with the TRIPS standards, the unilateral Special 301 sanctions and 100% tariff on selected Brazilian pharmaceutical products eventually forced Brazil to change its laws. For a detailed account of the conflict, see Pechman, *supra* note 48, at 197-201, 204.

<sup>119</sup> Commentators have noted that it is unclear whether Special 301 sanctions are legal under the WTO. See, e.g., Paul Champ & Amir Attaran, *Patent Rights and Local Working Under the WTO TRIPS Agreement: An Analysis of the U.S.-Brazil Patent Dispute*, 27 *Yale J. Int'l L.* 365, 373 n.54 (2002) (describing legal arguments of developing countries against Special 301); Pechman, *supra* note 48, at 201-04 (“[I]t remains to be seen whether the amended Special 301 will be used in a manner that violates WTO obligations . . .”). However, it is undisputed that the United States *intends* to continue using Special 301 sanctions as a means of achieving desired levels of intellectual property protection in WTO member countries.

<sup>120</sup> Dreyfuss, *supra* note 16, at 28.

<sup>121</sup> See *supra* Part I.

ered a steady stream of literature criticizing the Act as a poor policy choice for the United States because expanding the definition of a trade secret and activities that qualify as misappropriation upsets the bargain of intellectual property.<sup>122</sup> WTO member nations are likely to share many of these concerns.<sup>123</sup> Thus, it is important to understand the grounds on which an extraterritorial application of the EEA will produce a result different from that reached under the laws of a WTO member nation.

In Article 39 of the TRIPS Agreement, the definition of a trade secret generally tracks the American standard found in the UTSA.<sup>124</sup> This Section identifies five aspects of trade secrecy law in which the United States could use the EEA to prosecute conduct that TRIPS does not require member nations to proscribe.

### *1. Class of Information Protected*

TRIPS is the first multilateral treaty to protect trade secrets, which it refers to as “undisclosed information.”<sup>125</sup> TRIPS does not give a precise definition of the information protected; rather, it mandates that member states protect any “information lawfully within [the] control” of the rights holder,<sup>126</sup> but, like the UTSA and the EEA, Article 39 states that the information must have “commercial value.”<sup>127</sup> A treaty should be interpreted according to the ordinary meaning of the terms, but also in “their context and in the light of [the treaty’s] object and purpose.”<sup>128</sup> Using this paradigm, the term “information” might be interpreted broadly or narrowly.

A plain reading of the Agreement suggests a broad interpretation of “information,” as the term is defined in neither the text nor the comments. Such a reading simply seems to indicate that any information qualifies for protection, so long as it is under the “lawful control” of the rights holder and meets the secrecy requirements.<sup>129</sup> A broad reading, however, does not match the definition given in the EEA.

---

<sup>122</sup> See *supra* note 36 and accompanying text.

<sup>123</sup> See *infra* notes 205-18 and accompanying text.

<sup>124</sup> Commentators regularly attribute the TRIPS definition to the language in the UTSA. See, e.g., Reichman, *supra* note 47, at 378.

<sup>125</sup> TRIPS, *supra* note 12, at art. 39.

<sup>126</sup> *Id.* at art. 39.

<sup>127</sup> TRIPS, *supra* note 12, at art. 39.2. The UTSA and EEA define the value as “independent economic value, actual or potential.” UTSA § 1(4) (amended 1985), 14 U.L.A. 437 (1990); 18 U.S.C. § 1839(3)(B) (2000).

<sup>128</sup> Vienna Convention on the Law of Treaties, May 23, 1969, art. 31.1, 1155 U.N.T.S. 331, 340.

<sup>129</sup> This is also consistent with understanding TRIPS as following the definitions found in the UTSA, because though the UTSA provides a list of examples of protected information, American courts have given “information” an expansive reading. See *supra* note 78.

The EEA provides a longer list of protected information than the UTSA does, though this is not problematic because the UTSA is read broadly.<sup>130</sup> However, the EEA broadly defines a secret as any information not known to “the public.”<sup>131</sup> TRIPS follows the UTSA<sup>132</sup> and more narrowly uses industry competitors as the benchmark for secrecy, asserting that information “is secret in the sense that it is not . . . generally known among or readily accessible to persons within the circles that normally deal with the kind of information in question.”<sup>133</sup> Thus an interpretation applying the EEA extraterritorially to information that is secret because the information is not known to the general public, as opposed to the scientifically relevant public, may require a country to protect more information as trade secrets than it might have otherwise done.<sup>134</sup>

The text may also support a narrower reading of “information,” but this too may require protection of a smaller class of information than the EEA. The term may cover only that information that is protected by the “honest commercial practices”<sup>135</sup> that govern whether a trade secret has been misappropriated.<sup>136</sup> Honest commercial practices might not only define misappropriation, but also dictate what sort of information is “fair game” for taking.<sup>137</sup> For example, some countries may consider commercially unfair the practice of taking commercial data produced by another company for marketing purposes, while others might consider this information an “externality created during legitimate competition in the market,” thus rendering the information free for the taking.<sup>138</sup>

## 2. *The Secrecy Requirement*

TRIPS, like other trade secret laws, requires that the rights holder keep the information secret in order for legal protection to attach. TRIPS follows the UTSA definition of secrecy by requiring that rights holders take “reasonable steps under the circumstances” to

<sup>130</sup> See *supra* note 78.

<sup>131</sup> 18 U.S.C. § 1839(3)(B).

<sup>132</sup> UTSA § 1(4)(ii) (“‘Trade Secret’ means information . . . that derives independent economic value . . . from not being generally known to . . . other persons who can obtain economic value from its disclosure or use.”).

<sup>133</sup> TRIPS, *supra* note 12, at art. 39.2.

<sup>134</sup> See *supra* Part II.

<sup>135</sup> See *infra* notes 141-46 and accompanying text for an exploration of the meaning of “honest commercial practices” under the TRIPS Agreement.

<sup>136</sup> TRIPS, *supra* note 12, at art. 39.2.

<sup>137</sup> See *infra* notes 141-46 and accompanying text.

<sup>138</sup> Carlos Maria Correa, *Unfair Competition Under the TRIPS Agreement: Protection of Data Submitted for the Registration of Pharmaceuticals*, 3 Chi. J. Int'l L. 69, 77 (2002).



keep the information secret.<sup>139</sup> In comparison, the EEA requires that the owner<sup>140</sup> of the trade secret take “reasonable measures” to maintain secrecy.<sup>141</sup> WTO member countries almost certainly will have different standards for what security measures count as reasonable efforts. These conflicts surface even within U.S. law. For example, courts must often decide whether an employer has taken reasonable steps to secure proprietary information with regard to employees. Minnesota requires an employer to explicitly tell the employee that the information is a valuable trade secret,<sup>142</sup> whereas Massachusetts does not require such disclosure.<sup>143</sup>

The TRIPS language is analogous to the UTSA and the EEA. Despite this similarity, situations remain in which an extraterritorial application of the EEA would impose higher trade secret standards upon a WTO member nation. Suppose a WTO member country has taken the Massachusetts position, in which disclosing to employees the fact that information is a valuable trade secret is not a reasonable effort to protect the information because it would only serve to signal to the employee exactly what information would be valuable if misappropriated. Further suppose that an American company maintains a factory in a WTO member country to manufacture the special glue used on sticky notes.<sup>144</sup> In order to run the factory, certain factory employees learn the ingredients and formula for the glue. The host country has trade secrecy laws as required by TRIPS that incorporate the Massachusetts rule. That is, a “reasonable effort” means *with-*

---

<sup>139</sup> TRIPS, *supra* note 12, at art. 39.2. The UTSA uses nearly identical language, requiring “efforts that are reasonable under the circumstances.” UTSA § 1(4)(ii) (amended 1985), 14 U.L.A. 437 (1990).

<sup>140</sup> The EEA refers to the person with rights under the Act as the “owner” instead of the more traditional “rights holder.” See 18 U.S.C. §§ 1831-1839 (2000).

<sup>141</sup> TRIPS delineates one specific category of information. Article 39.3 singles out undisclosed testing data used for government approval of “pharmaceutical or of agricultural chemical products which utilize new chemical entities” as protected information under the statute. TRIPS, *supra* note 12, at art. 39.3. Carlos Maria Correa suggests how article 39.3 may be interpreted and applied to the different commercial practices of WTO member nations. See generally Correa, *supra* note 138.

<sup>142</sup> *Electro-Craft Corp. v. Controlled Motion, Inc.*, 332 N.W.2d 890, 902 (Minn. 1983) (“If [the plaintiff] wanted to prevent its employees from [taking valuable information], it had an obligation to inform its employees that certain information was secret.”).

<sup>143</sup> See *Peggy Lawton Kitchens, Inc. v. Hogan*, 466 N.E.2d 138, 140 (Mass. App. Ct. 1984) (“We do not think that the absence of admonitions about secrecy or the failure to emphasize secrecy in employment contracts (if there were any in this relatively small business) is fatal to the plaintiff.”).

<sup>144</sup> This glue formula has been the subject of trade secret disputes and EEA prosecutions in the United States. See *United States v. Yang*, 281 F.3d 534 (6th Cir. 2002), cert. denied, 123 S. Ct. 1015 (2003) (upholding conviction for theft of glue formula under EEA); *Four Pillars Enters. Co. v. Avery Dennison Corp.*, 308 F.3d 1075 (9th Cir. 2002) (denying discovery order related to civil litigation in same dispute).

*holding* the fact that information is a valuable trade secret from employees so that they are not aware of what information would be valuable to take. The factory, however, informs the employees that the glue formula is a valuable trade secret. Suppose that a former employee uses the glue formula to start a competing sticky note firm in the country, driving down the cost of sticky notes and lessening the market share of the American company. If U.S. prosecutors using the EEA apply Minnesota's secrecy standard to conduct in the country, then the information would be deemed a trade secret because the factory owners have taken "reasonable efforts" to keep the information secret by informing employees of its value. However, because the host country follows the Massachusetts rule, it would not have protected the information as a trade secret, having defined the parameters of "reasonable efforts" for secrecy in a way that it considers best for both trade secret protection and healthy business competition. An EEA prosecution—which could likely result in the closure of the new factory—would thus seem to deprive that country of the ability to make a perfectly justifiable decision about "reasonable efforts."

### 3. *The Meaning of Misappropriation*

A claim of trade secret theft must include the bad act itself. TRIPS defines misappropriation by referring to "honest commercial practices."<sup>145</sup> In other words, under the minimum standards, information has not been misappropriated unless the method of taking falls outside the realm of honest commercial practice. As with "information," there are a few possible interpretations of "honest commercial practice." The comments to TRIPS indicate a minimum base for understanding the phrase. The term is to include "*at least* breach of contract, breach of confidence and inducement to breach, and includes the acquisition of undisclosed information by third parties who knew, or were grossly negligent in failing to know that such practices were involved in the acquisition."<sup>146</sup> Beyond these basic misappropriations, the term remains undefined, but there are a few possibilities for interpreting the phrase.

The first approach is to look to the commercial practices of the member country in whose territory the misappropriation primarily occurred. However, applying this interpretation too strictly could

<sup>145</sup> TRIPS, *supra* note 12, at art. 39.2. This allows member countries to fashion laws that conceive of trade secret theft as a type of immoral commercial practice, rather than as a form of intellectual property. See Jacques Combeau, Protection of Undisclosed Information, in *Intellectual Property and International Trade: A Guide to the Uruguay Round TRIPS Agreement*, *supra* note 42, at 58.

<sup>146</sup> TRIPS, *supra* note 12, at art. 39, n.10 (emphasis added).

undercut the effectiveness of Article 39. Many countries had little or no protection of undisclosed information prior to TRIPS.<sup>147</sup> They might thus argue that activities some countries label as trade secret theft are healthy business competition, and thus fall in the category of honest commercial practice. This would reduce the scope of the minimum standards to the few activities listed in the footnote to Article 39, and would exclude many of the activities considered unlawful by the Restatement and the UTSA, such as theft,<sup>148</sup> unauthorized interception of information,<sup>149</sup> misrepresentation, and espionage through "electronic or other means."<sup>150</sup> These are all activities that happen beyond the scope of a contractual or confidential relationship and what motivated specific trade secret laws in the first place. Thus, such a narrow reading of "honest commercial practices" would seem to defeat the purpose of including undisclosed information in the TRIPS Agreement.

Another possibility is to look to the general commercial practices of the WTO member countries, similar to the way one might use custom to determine a principle of international law. This would likely produce a broader interpretation than required by the footnote to Article 39, as many countries have laws that consider, for example, basic theft of undisclosed information to be contrary to honest commercial practices.

Under this reading, problems with extraterritorial application of the EEA may still remain. The EEA criminalizes some forms of misappropriation that are arguably honest commercial practices, even within the borders of the United States.<sup>151</sup> As the United States has some of the most protectionist trade secret laws in the world, it is very likely that the EEA criminalizes activities that other nations, both developed and developing, consider to be well within the boundaries of honest commercial practice.

Reverse engineering is an area that might be one source of tension. Although the United States has not thus far prosecuted any person under the EEA for conduct considered to be reverse engineering, there are hints that this might change. It is unlikely that the Justice Department would prosecute a party for reverse engineering from information lawfully obtained (buying old airline parts and disas-

---

<sup>147</sup> See Matthews, *supra* note 19, at 64-65.

<sup>148</sup> Restatement (Third) of Unfair Competition § 43 (1995); UTSA § 1(1) (amended 1985), 14 U.L.A. 437 (1990).

<sup>149</sup> Restatement (Third) of Unfair Competition § 43.

<sup>150</sup> UTSA § 1(1).

<sup>151</sup> See *supra* notes 81-85 and accompanying text.

sembling them, for example),<sup>152</sup> however, prosecutors may view the EEA as a tool for punishing conduct that is lawful under state law, but involves less desirable behavior, such as reverse engineering a computer program from a copy that has been *illegally* obtained. Second, applying the EEA extraterritorially, prosecutors may feel less constrained by the reasoning the Supreme Court gave for supporting reverse engineering in *Bonito Boats*.<sup>153</sup> Finally, Congress apparently intended to leave open the possibility that some types of reverse engineering would violate the EEA. Rather than categorically affirming the right of innovators to reverse engineer, Congress merely noted that the practice was lawful so long as it did not violate the terms of the Act, or other intellectual property statutes.<sup>154</sup> In many developing countries, reverse engineering is an economical way to make goods available at a competitive cost. Punishing foreign actors for conduct that even the U.S. Supreme Court says the states must make lawful would unilaterally export a much higher level of protection than countries thought were required when they agreed to TRIPS.

#### 4. Attempts

The TRIPS Agreement mandates minimum requirements for the protection of undisclosed information, but the specific laws and enforcement mechanisms are left to the discretion of member nations.<sup>155</sup> Thus, it is not surprising that TRIPS does not speak directly to the possibility of punishing *attempts* at trade secret theft, as this is generally a feature of criminal law.

The EEA makes attempted trade secret theft a punishable offense,<sup>156</sup> whereas TRIPS only mandates that persons have the opportunity to protect the information itself.<sup>157</sup> Member countries

---

<sup>152</sup> This was the type of reverse engineering at issue in *United States v. Lange*, 312 F.3d 263, 266, 269 (7th Cir. 2002) (holding that information taken by employee constituted trade secrets despite defense argument that anyone could obtain information through reverse engineering).

<sup>153</sup> See *Bonito Boats, Inc. v. Thundercraft Boats, Inc.*, 489 U.S. 141, 160-61 (1989) ("Reverse engineering . . . often leads to significant advances in technology . . . . The Florida statute substantially reduces this competitive incentive, thus eroding the general rule of free competition . . .").

<sup>154</sup> The managers' statement, intended to clarify ambiguities in the EEA, contains the following explanation: "The important thing is to focus on whether the accused has committed one of the prohibited acts of this statute rather than whether he or she has 'reverse engineered.'" 142 Cong. Rec. S12,212-13 (daily ed. Oct. 2, 1996) (Managers' Statement for H.R. 3723, The Economic Espionage Bill).

<sup>155</sup> See *supra* note 43.

<sup>156</sup> 18 U.S.C. §§ 1831(a)(4), 1832(a)(4) (2000).

<sup>157</sup> "Natural and legal persons shall have the possibility of preventing information lawfully within their control from being disclosed." TRIPS, *supra* note 12, at art. 39.2.

could reasonably interpret this to mean that it is enough to provide remedies for *actual* conversion of a trade secret, and that punishing conduct that does not result in an actual loss is beyond the TRIPS minimum standards.<sup>158</sup>

### 5. *The Knowledge Requirement*

TRIPS Article 39 protects information; it does not speak directly to conduct. Thus, like the absence of language for attempts, TRIPS does not directly address the state of mind element that a plaintiff or government would need to prove under many extant trade secret statutes.

The EEA makes it a crime for a person to receive a trade secret “knowing the same to have been stolen or appropriated, obtained, or converted without authorization.”<sup>159</sup> The “without authorization” clause may include a range of activities lawful in both U.S. state jurisdictions and other countries.<sup>160</sup> Thus, the United States may find itself prosecuting a party who in fact *did know* that the information was obtained without authorization, but did not know that this was criminal. Alternatively, a person may receive information and not discover that it was a pilfered trade secret until after having made considerable investments of time and money in establishing an enterprise to profit from this information.<sup>161</sup> Extending the reach of the EEA to recipients of information in this way conflicts with TRIPS in a manner similar to that described above. Suppose a person used such information to set up a factory in a developing country, providing goods that the country’s citizens would not otherwise be able to afford. A prosecution under the EEA would undermine the sort of business and investment policy that the country thought would be lawful under TRIPS, with detrimental effects to the country and its citizens.

---

<sup>158</sup> Additionally, the EEA has the same penalties for attempts as it does for completed crimes and conspiracies. 18 U.S.C. §§ 1831-1832. Member countries may look upon this punishment as unreasonable.

<sup>159</sup> 18 U.S.C. §§ 1831(a)(3), 1832(a)(3).

<sup>160</sup> See *supra* Part II.

<sup>161</sup> This distinction has produced different results in American law. Under the first Restatement of Torts, a party who profited from a stolen trade secret but did not learn until later that the information was stolen was allowed to continue to use and profit from that information. Restatement (First) of Torts, § 757. The current Restatement of Unfair Competition holds the contrary. Restatement (Third) of Unfair Competition § 40(b), cmt. d & illus. 3 (1995).

#### IV LEGAL ARGUMENTS FOR LIMITING THE EXTRATERRITORIAL SCOPE OF THE EEA

In the United States, most statutes do not address expressly the possibility of extraterritorial application—that is, using an American law to regulate conduct that occurs outside of the borders of the United States.<sup>162</sup> Statutes generally are presumed to operate territorially unless Congress has explicitly provided otherwise,<sup>163</sup> although there are a few notable areas of law in which the Supreme Court has not required such a direct expression of congressional intent.<sup>164</sup>

The presumption against extraterritoriality has been understood as more of an exercise in statutory interpretation, rather than a policy choice made by courts.<sup>165</sup> The EEA provides the necessary clarity and intent for extraterritorial application.<sup>166</sup> However, extraterritorial application of the EEA raises a concern distinct from mere statutory interpretation. This Note has argued that the substantive law of the EEA conflicts with TRIPS.<sup>167</sup> This Part explores the legal framework within which a court might limit the scope of extraterritorial application of the EEA, concluding that current extraterritoriality jurisprudence effectively precludes the application of conflicts of law analysis, and that a limitation of the EEA's extraterritorial scope must rest on principles of international comity.

##### A. *Current American Extraterritoriality Jurisprudence*

Current cases in extraterritoriality jurisprudence concern statutes that do not expressly address extraterritoriality. However, these cases

---

<sup>162</sup> William S. Dodge, *Understanding the Presumption Against Extraterritoriality*, 16 *Berkeley J. Int'l L.* 85, 87-88 (1998) (defining extraterritoriality).

<sup>163</sup> *Foley Bros., Inc. v. Filardo*, 336 U.S. 281, 285 (1949) (“[L]egislation of Congress, unless a contrary intent appears, is meant to apply only within the territorial jurisdiction of the United States . . .”). The Supreme Court affirmed that sentiment in *E.E.O.C. v. Arabian Am. Oil Co.* (“*Aramco*”), 499 U.S. 244, 248 (1991) (holding that Title VII anti-discrimination laws did not apply to acts by American company against American citizen when conduct occurred abroad). Recently, the Supreme Court has applied the presumption against extraterritoriality to the Foreign Sovereign Immunities Act, the Federal Tort Claims Act, and the Immigration and Nationality Act. See Dodge, *supra* note 162, at 87 (listing recent cases).

<sup>164</sup> These areas include: securities law, *Bersch v. Drexel Firestone, Inc.*, 519 F.2d 974 (2d Cir. 1975); antitrust law, *Hartford Fire Ins. Co. v. California*, 509 U.S. 764 (1993); and trademark law, *Steele v. Bulova Watch Co.*, 344 U.S. 280 (1952).

<sup>165</sup> See Roger E. Schechter, Comment, *The Case for Limited Extraterritorial Reach of the Lanham Act*, 37 *Va. J. Int'l L.* 619, 620-21 (1997).

<sup>166</sup> Section 1837 of the EEA specifies the conditions under which the Act “applies to conduct occurring outside the United States,” 18 U.S.C. § 1837 (2000), and the legislative history reveals that Congress was concerned with foreign activity, see *supra* Part II.

<sup>167</sup> See *supra* Part II.

may be instructive to courts when interpreting an extraterritoriality provision. This Note argues that courts may look to international law to place a limitation on the EEA's extraterritorial application. This is appropriate because courts may seek authority to do so in current extraterritoriality jurisprudence. The current state of the law is somewhat uncertain, but courts have roughly two lines of authority from which to choose.

In sanctioning the extraterritorial application of the Sherman Act, Judge Hand held in *United States v. Aluminum Co. of America* (Alcoa), that "any state may impose liabilities, even upon persons not within its allegiance, for conduct outside its borders that has consequences within its borders which the state reprehends."<sup>168</sup>

The Ninth Circuit added a balancing test to the more categorical *Alcoa* standard in a series of unfair competition decisions known as the "Timberlane" cases,<sup>169</sup> arguably in response to "[e]scalating foreign retaliation against the extraterritorial excesses" of the *Alcoa* standard.<sup>170</sup> The court opined that in some situations, "the interests of the United States are too weak and the foreign harmony incentive for restraint [is] too strong to justify an extraterritorial assertion of jurisdiction."<sup>171</sup> Thus, when deciding whether to assert jurisdiction, a court should consider the interests of other nations as a "matter of international comity and fairness."<sup>172</sup> The Third Circuit has followed this balancing test,<sup>173</sup> and the test has become a principle of foreign relations law included in the Restatement.<sup>174</sup>

Although still contained in the Restatement, the balancing test arguably has been limited by the Supreme Court decision in the anti-trust case of *Hartford Fire Insurance v. California*,<sup>175</sup> concerning a debatable conflict of law between the Sherman Act and the British antitrust regulatory regime.

---

<sup>168</sup> *United States v. Aluminum Co. of Am. (Alcoa)*, 148 F.2d 416, 443 (1945). This has become a well-settled principle of international law, known as the "effects test" for extraterritorial jurisdiction. See Restatement (Third) of Foreign Relations Law § 402 & cmt. d (1987).

<sup>169</sup> *Timberlane Lumber Co. v. Bank of Am. Nat'l Trust & Sav. Ass'n*, 749 F.2d 1378, 1382 (9th Cir. 1984); *Timberlane Lumber Co. v. Bank of Am. Nat'l Trust & Sav. Ass'n*, 549 F.2d 597, 609, 613 (9th Cir. 1976).

<sup>170</sup> Scott Fairley, *Extraterritorial Assertions of Intellectual Property Rights*, in *International Trade and Intellectual Property: The Search for a Balanced System* 141, 144 (George R. Stewart et al. eds., 1994).

<sup>171</sup> *Timberlane Lumber Co.*, 549 F.2d at 609.

<sup>172</sup> *Id.* at 615.

<sup>173</sup> See *Mannington Mills, Inc. v. Congoleum Corp.*, 595 F.2d 1287, 1297 (3d Cir. 1979).

<sup>174</sup> Restatement (Third) of Foreign Relations Law § 403 (1987).

<sup>175</sup> 509 U.S. 764 (1993).

Justice Souter cited to section 403 of the Restatement,<sup>176</sup> but did not use it for its traditional purpose of providing balancing factors. Rather, he concluded that a court should not reach the question of international comity so long as the conduct in question produced substantial effects in the United States<sup>177</sup> and where there is no “true conflict between domestic and foreign law.”<sup>178</sup> The status of the balancing test remains uncertain after *Hartford Fire*.<sup>179</sup> By using the rigid conflicts of law analysis, the *Hartford Fire* decision makes it very unlikely that courts would reach the stage of considering international comity, requiring only that, save for a direct conflict with foreign law, violations of the Sherman Act need only produce substantial intended effects within the United States.<sup>180</sup>

The *Hartford Fire* Court found no conflict between domestic and foreign law. The Court noted that even though the United Kingdom antitrust regulatory scheme treated the defendants’ conduct as lawful, such a finding did not make it impossible for the defendants to comply with *both* the United States and United Kingdom laws because “British law [did not] require[ ] them to act in some fashion prohibited by the law of the United States.”<sup>181</sup> One might argue that the EEA plays a role similar to the Sherman Act. That is, the EEA might require different conduct than the trade secret laws of other countries, but both the EEA and the hypothetically conflicting law do not *require* that a party act in a manner that would be unlawful in one country or the other.

Despite the fairly categorical language, *Hartford Fire* may not require lower courts to apply an unlimited scope of extraterritorial jurisdiction of the EEA. As a preliminary matter, commentators have been nearly unanimous in concluding that the *Hartford Fire* Court misconstrued the meaning of a “direct conflict” of law, because such

---

<sup>176</sup> Id. at 799.

<sup>177</sup> Id. at 796, 798-99.

<sup>178</sup> Id. at 798.

<sup>179</sup> See generally Larry Kramer, Extraterritorial Application of American Law After the *Insurance Antitrust Case*: A Reply to Professors Lowenfeld and Trimble, 89 Am. J. Int’l L. 750, 754-56 (1995) (discussing various approaches to international comity after *Hartford*). Some commentators have noted that this case seriously limits the ability of lower courts to consider the interests of other nations when deciding whether to exercise jurisdiction. See, e.g., Fairley, *supra* note 170, at 146-48 (stating that *Hartford Fire* “appears to endorse” *Alcoa* test); J. Thomas Coffin, Note, The Extraterritorial Application of the Economic Espionage Act of 1996, 23 Hastings Int’l & Comp. L. Rev. 527, 543 (2000) (“Whether or not *Hartford* spells the ‘demise’ of the balancing test . . . remains to be seen, but it certainly represents the clear re-establishment of an effects test which is largely at odds with that approach.”).

<sup>180</sup> *Hartford Fire*, 509 U.S. at 796-99.

<sup>181</sup> Id. at 799.



conflicts rarely exist and other conflicts can be quite problematic even if the conflicting laws do not compel two completely inconsistent courses of action.<sup>182</sup> Given these problematic consequences, the Court may, in the future, back away from the conflicts reasoning in *Hartford Fire* when deciding cases that do not concern the Sherman Act.

A more important aspect of the case was the very fact that the Court cited to section 403(2)—the balancing test—of the Restatement. Justice Souter held that there was “no need *in this litigation* to address . . . international comity,”<sup>183</sup> but did not categorically hold that there is no place for that analysis in extraterritoriality jurisprudence. This leaves room for distinguishing other situations which call for international comity analysis.

Second, the holding of *Hartford Fire* can be said to be limited to extraterritorial reach of the Sherman Act. While some traditional intellectual property laws such as patent<sup>184</sup> and copyright<sup>185</sup> generally do not operate extraterritorially, courts have been more willing to sanction extraterritorial application of unfair competition laws such as the civil trademark provisions<sup>186</sup> of the Lanham Act<sup>187</sup> and the Sherman Antitrust Act.<sup>188</sup> Trade secret protection has a strong theoretical basis in both property law and the law of commercial morality. Thus, courts might look to either tradition to construe the scope of extraterritorial jurisdiction of the EEA.

Although the EEA has a basis in the principles of unfair competition, there are compelling reasons to construe it as an intellectual

---

<sup>182</sup> See, e.g., Fairley, *supra* note 170, at 148 (criticizing *Hartford Fire*'s rejection of comity concerns); Kenneth W. Dam, Extraterritoriality in an Age of Globalization: The *Hartford Fire* Case, 1993 Sup. Ct. Rev. 289, 301-02 (explaining that scope of Justice Souter's opinion is limited to “worst-case scenarios”); Andreas F. Lowenfeld, Conflict, Balancing of Interests, and the Exercise of Jurisdiction to Prescribe: Reflections on the Insurance Antitrust Case, 89 Am. J. Int'l L. 42, 45-48 (1995) (noting that Justice Souter “seems to equate ‘conflict’ with ‘foreign compulsion’”).

<sup>183</sup> *Hartford Fire*, 509 U.S. at 799 (emphasis added).

<sup>184</sup> *Deepsouth Packing Co. v. Laitram Corp.*, 406 U.S. 518, 527 (1972). There are some minor exceptions to the territorial limit of patent laws. See Curtis A. Bradley, 37 Va. J. Int'l L. 505, 522-23 (1997).

<sup>185</sup> *United Dictionary Co. v. G.&C. Merriam Co.*, 208 U.S. 260, 266 (1908). There are also “arguabl[e]” exceptions to the territorial limit of copyright laws. See Bradley, *supra* note 184, at 525-26.

<sup>186</sup> As trademark is also considered a traditional part of intellectual property, some commentators consider the extraterritorial reach of the Lanham Act “difficult to reconcile” with the territorial reach of copyright and patent. Bradley, *supra* note 184, at 509.

<sup>187</sup> 15 U.S.C. §§ 1051-1129 (2000). *Steele v. Bulova Watch Co.*, 344 U.S. 280 (1952), affirmed the extraterritorial reach of the Lanham Act.

<sup>188</sup> 15 U.S.C. §§ 1-7 (2000). The extraterritorial reach of the Sherman Act was affirmed in *Alcoa*, 148 F.2d 416, 443 (1945).

property law for these purposes.<sup>189</sup> It is reasonable for a court to determine that Congress intended for the EEA to be more like patent and copyright statutes, and less like the Sherman Act and the Lanham Act. Therefore, when deciding *how* to interpret the extraterritoriality provisions of the EEA, courts may decline to apply the broad extraterritoriality of the Sherman Act to the EEA and account for principles of international comity. In other words, though the EEA explicitly calls for extraterritorial application, courts ought not be constrained if a limitation of extraterritorial scope may be otherwise justified. This Note now turns to principles of international law for that justification.

### B. *International Law Jurisprudence*

When the United States enters into a treaty, the treaty becomes part of the law of the United States, equal in authority to any statute passed by Congress. A body of jurisprudence exists solely for the purpose of addressing how courts must deal with conflicts between statutes and treaties.<sup>190</sup> However, this does not apply directly to the problem of extraterritorial application of the EEA for a number of reasons. First, Congress denied domestic legal effect to the provisions of TRIPS, meaning that parties cannot sue in a U.S. court to enforce the standards embodied in the TRIPS Agreement itself.<sup>191</sup> Thus, there will never be a direct conflict between the substantive law a court should apply in a trade secret case between the EEA and the substantive standards of Article 39. Second, courts are unlikely to see the differences between the EEA and TRIPS as a direct conflict of law. Article 39 of TRIPS does not require something *different* from the EEA, and a court following the strict conflicts of law analysis from the *Hartford Fire* decision is especially unlikely to treat this as a

---

<sup>189</sup> For example, Geraldine Szott Moohr argues that Congress clearly intended for the EEA to be a law not of unfair competition but of intellectual property, intending that "trade secret law serve[] the same general policy goal as intellectual property." See Moohr, *supra* note 36, at 900. Moohr finds this analogy inadequate, *id.*, but for the purposes of comparing the EEA to either intellectual property or unfair competition statutes, congressional intent is important. She notes that vesting rights in an "owner" as opposed to a rights holder indicates a property regime, that "criminalization confers an implicit property right: that which is stolen must be property," and that the ability of the owner to prevent unauthorized use confers something like an in rem property right whereby the owner effectively has rights against the whole world. See *id.* at 898-99.

<sup>190</sup> For example, there is a well-established principle that when a statute and a treaty conflict, a court should favor the most recent. See Restatement (Third) of Foreign Relations Law § 115(1)(a) (1987). In this case, a court would apply the EEA of 1996.

<sup>191</sup> See Uruguay Round Agreements Act, Pub. L. No. 103-465, §§ 101-103, 108 Stat. 4809, 4814-19 (1994).

conflict of law.<sup>192</sup> In other words, any “conflict” between the EEA and TRIPS comes from a holistic understanding of the principles and requirements of the TRIPS Agreement in its entirety, and not simply from inconsistent substantive standards of trade secret protection.<sup>193</sup>

A court may limit the scope of extraterritorial application of the EEA by relying upon other aspects of international law. That is, a court may recognize that existing precedent and standards of statutory construction do not preclude it from limiting the scope of extraterritorial application of a statute with specific extraterritorial provisions. This Note argues that, in certain circumstances, principles of both international law and statutory interpretation militate in favor of choosing the “international comity” standard<sup>194</sup> when interpreting the extraterritorial provisions of the EEA. That is, courts ought to choose a standard in which they may consider international comity, even in the absence of the “true conflict” required by the *Hartford Fire* decision.<sup>195</sup>

The standards of construction discussed in this Part do not “relieve the United States of its international obligation or consequences of a violation of that obligation.”<sup>196</sup> TRIPS obligates all member countries to enforce the uniform minimum standards for the various areas of intellectual property, but it also grants members the right to determine the manner and extent of enforcement of those standards.<sup>197</sup> It is thus prudent for courts to interpret the EEA in a manner that gives force to the statute, but also respects the parameters of the treaty.

Defining the nature and scope of the foreign relations obligations of the United States is primarily the role of Congress and the executive branch. However, the task of statutory interpretation affords the judiciary a role in construing these obligations. As a principle of statutory construction, Chief Justice John Marshall announced early in the history of American jurisprudence that “an Act of Congress ought never to be construed to violate the law of nations if any other possible construction remains.”<sup>198</sup> Courts have continued to respect this principle.<sup>199</sup> For example, in *Dames & Moore v. Regan*,<sup>200</sup> the Court

---

<sup>192</sup> See *supra* notes 180-181 and accompanying text.

<sup>193</sup> See *supra* Part II.B.

<sup>194</sup> See *supra* notes 168-174 and accompanying text.

<sup>195</sup> *Hartford Fire Ins. Co. v. California*, 509 U.S. 764, 798 (1993).

<sup>196</sup> Restatement (Third) of Foreign Relations Law § 115(1)(b) (1987).

<sup>197</sup> See *supra* Part II.A.2.

<sup>198</sup> *Murray v. Schooner Charming Betsy*, 6 U.S. (2 Cranch) 64, 118 (1804).

<sup>199</sup> See, e.g., *Chew Heong v. United States*, 112 U.S. 536, 539 (1884) (“[T]he court should be slow to assume that Congress intended to violate the stipulations of a treaty.”); *Sampson v. Fed. Republic of Germany*, 250 F.3d 1145, 1152 (7th Cir. 2001) (noting that, as

avored upholding the executive agreement negotiating the return of American hostages in the Iran hostage crisis, even though the agreement was “questionable under United States statutory law.”<sup>201</sup> The principle is also now embodied in the Restatement of Foreign Relations Law.<sup>202</sup> This Note argues that courts ought to use the considerations of international comity to limit the extraterritorial scope of a statute such as the EEA in some cases even when the statute expressly contemplates extraterritorial application.

In defending the *Hartford Fire* decision, Larry Kramer notes the difficulty in applying the balancing test from section 403(2) of the Restatement of Foreign Relations, arguing that the considerations of international comity “being weighed are always imprecise enough to permit several answers and to dictate none. . . . [T]hese problems are exacerbated by the incommensurable nature of the factors being balanced.”<sup>203</sup> Kramer, however, allows that a statute-by-statute consideration of the use of considerations of international comity might “remain relevant” if they are “built into clear and sensible rules of interpretation tailored to particular statutes.”<sup>204</sup> The EEA is a particularly good candidate for applying international comity analysis.

Though the EEA provides a good opportunity for using international comity principles, these principles do not dictate one rule for the entire statute. Rather, when combined with the express extraterritorial authorization from the EEA, it suggests that the rule for the statute should be further case-by-case analysis. A court should *presume* that the EEA applies extraterritorially, and will usually apply it as such. However, in a small number of cases, the principles of international comity will call for the court to limit the extraterritorial application of the EEA. This Note argues that the EEA is an appropriate statute for use of international comity analysis because it will allow the court to give force to the plain meaning of the statute in most cases and allow for considerations of the treaty in others. In these cases, limiting extraterritorial scope may be understood both as adhering to appropriate principles of international comity and as

---

matter of statutory interpretation, “Charming Betsy canon directs courts to construe ambiguous statutes to avoid conflicts with international law . . .”).

<sup>200</sup> 453 U.S. 654 (1981).

<sup>201</sup> William N. Eskridge, Jr. & Philip P. Frickey, Quasi-Constitutional Law: Clear Statement Rules as Constitutional Lawmaking, 45 Vand. L. Rev. 593, 604 (1992) (characterizing this complex decision); see *Dames & Moore*, 453 U.S. at 688.

<sup>202</sup> Restatement (Third) of Foreign Relations Law § 114 (1987) (“Where fairly possible, a United States statute is to be construed so as not to conflict with international law or with an international agreement of the United States.”).

<sup>203</sup> See Kramer, *supra* note 179, at 755.

<sup>204</sup> See *id.* at 758.

interpreting congressional silence with regards to the EEA.<sup>205</sup> Thus, principles of international comity supplement and enhance interpretation of the EEA, but do not replace or trump the interpretation of the extraterritorial provisions.

The EEA lends itself to interpretation using principles of international comity for a few reasons. First, the international interests are fairly well defined. Courts do not need to feel that they are engaging in broad-ranging analysis of U.S. foreign relations policy. By agreeing to TRIPS, the United States agreed to the principles and standards embodied in the agreement, and these can be seen as a clear statement of the foreign relations issues at stake. Contrast this with cases like *Hartford Fire* in which the Court may have been wary of engaging in the sort of policy analysis regarding American relations with foreign countries that ought to be the province of Congress or the executive branch.

In this situation, there are two reasons for the Court to incorporate a limited policy analysis in a decision to limit the extraterritorial scope of the EEA. First, because TRIPS is a treaty and not simply a free-standing foreign law, a court can argue that the policy reasons for limiting extraterritorial scope are not the independent policy reasons of the court. Rather, the court is merely adopting and applying the policies to which Congress and the Executive agreed in signing the treaty. Second, in applying a statute extraterritorially, it is appropriate for a court to determine the competing interests of the states involved; this is part of what it means for a court to consider the interests of "international comity,"<sup>206</sup> interests which a court has the authority to consider.<sup>207</sup> Here, the court can account for "indications of national interest by [a] foreign government"<sup>208</sup> by looking to the text and context of the TRIPS Agreement. A brief policy analysis of TRIPS reveals the policy interests that Congress may have with respect to the totality of the TRIPS Agreement, and also reveals the policy interests that foreign governments may have which echo the interpretation of TRIPS suggested in this Note.

The TRIPS Agreement embodies important policy objectives for the United States. Even if conflicts between EEA and TRIPS do not result in actual liability of the United States before the DSB, there are important policy considerations that caution against applying such high standards extraterritorially.

---

<sup>205</sup> See *infra* note 232 and accompanying text.

<sup>206</sup> See Restatement (Third) of Foreign Relations, § 403 & n.6.

<sup>207</sup> See *supra* notes 167-174 and accompanying text.

<sup>208</sup> See *supra* notes 167-174 and accompanying text; Restatement (Third) of Foreign Relations, § 403 n.6.

In the TRIPS negotiations, the developing nations opposed including trade secrets at all as a category of intellectual property.<sup>209</sup> The inclusion of undisclosed information was therefore a victory for the business interests of the developed nations. The international community may look more unfavorably upon extraterritorial application of the more controversial parts of the EEA, claiming that not only has the United States prevailed in imposing minimum standards on the rest of the world, but it now insists on imposing its own higher standards and method of implementation, contrary to the Article 1 grant to member nations that they "shall be free to determine the appropriate method of implementing the provisions of this Agreement within their own legal system and practice."<sup>210</sup> The United States would be subject to similar criticism for extraterritorial application of the EEA even in cases where the conduct is limited to that of the minimum standards, if the statute is applied to conduct occurring primarily in a lesser-developed nation that is not yet required to have laws incorporating the minimum standards of Article 39.<sup>211</sup>

The United States cannot easily disregard the sentiments of developing and lesser-developed nations. TRIPS embodies minimum standards that, when enforced in nations that previously had more relaxed rules, are of tremendous value to the United States and its businesses.<sup>212</sup> TRIPS and the DSB will continue to provide important means for American innovators to seek a minimum level of protection for intellectual property, but these standards are not without controversy. For example, TRIPS contains a provision that the minimum standards are supposed to be "conducive to social and economic welfare,"<sup>213</sup> and Article 27, which excludes from patentability those inventions which are "necessary to protect . . . human . . . health"<sup>214</sup> and "diagnostic, therapeutic and surgical methods for the treatment of humans or animals."<sup>215</sup> Developing countries and human rights activists have latched on to the latter provision to advocate the position that poorer countries should be able to manufacture cheaper generic forms of HIV/AIDS pharmaceuticals.<sup>216</sup> It is in the interest of the

---

<sup>209</sup> See Matthews, *supra* note 19, at 64.

<sup>210</sup> TRIPS, *supra* note 12, at art. 1.1.

<sup>211</sup> See *supra* notes 113-114 and accompanying text.

<sup>212</sup> See Saylor & Beton, *supra* note 106, at 12 (estimating costs to U.S. and Europe of inadequate intellectual property protection in 1980s).

<sup>213</sup> TRIPS, *supra* note 12, at art. 7.

<sup>214</sup> *Id.* at art. 27.2.

<sup>215</sup> *Id.* at art. 27.3(a).

<sup>216</sup> A reading of this literature is really quite amazing—one would think that the articles refer to a different treaty entirely. To the intellectual property community, TRIPS is a "victory," see, e.g., Obijiofor Aginam, *From the Core to the Peripheries: Multilateral Gov-*

United States to encourage a more traditional reading of the uniform minimum standards for patents. If the United States is more likely to encourage voluntary compliance with these standards (as opposed to the more time-consuming and expensive method of litigating before the DSB), then it would be wise to set an example of respecting *all* aspects of the TRIPS Agreement, especially those aspects that benefit the developing and lesser-developed nations. The intellectual property policies of the United States do not go unnoticed by the populations of developing nations. For example, a recent Chinese editorial piece criticizing American innovation policy and the EEA complained that scientific and research practices that are legal in China and Japan now face a “global threat . . . from powerful U.S. commercial interests aligned with the American Government . . . affecting developing nations . . . such as India and China.”<sup>217</sup>

There is also reason to believe that this conflict may not even be limited to the developing world. Examples from Spain and the United Kingdom illustrate the possible reactions of the developed world to the EEA.

By the time that the United States had indicted Jose Lopez de Arriortua for taking documents and diskettes from GM, he was already in his native country, Spain. The United States petitioned for his extradition and lost. Among other reasons, the Spanish court denied extradition because they did not consider the crimes in the indictment a serious offense<sup>218</sup>—crimes that the United States is now willing to punish with substantial fines and prison sentences of up to ten years.<sup>219</sup> Though this case arises out of conduct occurring within the United States, the Spanish court decision signals the trouble that the United States may have in trying to impose higher standards of trade secret theft abroad.<sup>220</sup>

The United Kingdom has displayed similar attitudes. The British government (along with the Canadian government) strongly disagreed

---

ernance of Malaria in a Multi-Cultural World, 3 Chi. J. Int'l L. 87, 101-02 (2002); and a “major accomplishment,” see, e.g., Judith Hippler Bello, International Decisions, 15 Am. J. Int'l L. 772, 778 (1995). To the HIV/AIDS advocacy community, and to some commentators writing on behalf of developing countries, TRIPS is an unfair and hegemonic agreement. See, e.g., Sell, *supra* note 40, at 481 (“TRIPS was a product of tireless and effective agency and economic coercion.”).

<sup>217</sup> Alex Lo, A Patent Abuse of Power, S. China Morning Post, May 14, 2002, at 14.

<sup>218</sup> Emma Daly, Spain Court Refuses to Extradite Man G.M. Says Took Its Secrets, N.Y. Times, June 20, 2001, at W1.

<sup>219</sup> 18 U.S.C. § 1832(a) (2000).

<sup>220</sup> The Spanish court also refused to extradite Lopez because it rarely extradites its own citizens, and because he claimed he was unfit to stand trial due to injuries sustained in a car accident. Daly, *supra* note 218. However, the written decision specifically criticized the indictment. *Id.*

with the outcome of the *Hartford Fire* decision. They felt that extraterritorial application of the Sherman Act was unwarranted because "Parliament ha[d] established a comprehensive regulatory regime,"<sup>221</sup> and that regime considered the conduct of the defendants to be lawful. One Canadian commentator cautions, "it remains clear that unilateral action does not effectively resolve the extraterritoriality dilemma."<sup>222</sup> There is thus evidence that other developed nations, major trading partners of the United States, will be dissatisfied with an extraterritorial application of trade secret laws that conflict with their own regulatory regime when TRIPS has established the uniform minimum standards that govern that conduct.

### C. *A Model for Interpretation*

In deciding whether to restrict extraterritorial application of the EEA, a court can engage in the sort of analysis suggested by this Note. That is, a court can first begin with the presumption that the EEA properly applies extraterritorially. It can then determine whether the EEA proscribes conduct otherwise legal in the host country.<sup>223</sup> Then a court can further determine if enforcing the EEA standard would cause the United States to act contrary to the other provisions of the TRIPS Agreement by effectively preventing a country from determining its own standards and methods of intellectual property protection.<sup>224</sup> Recall, for instance, the sticky note glue factory.<sup>225</sup> Suppose that a few entrepreneurs have appropriated the glue formula by reverse engineering in a developing member country of the WTO in which it is undisputed that reverse engineering is lawful. Suppose also that they communicate via e-mail, using an American e-mail service so that their e-mails are sent and received on a server located in the United States, and that they download general information about glue-making processes from Internet sites, all of which have servers located in the United States. The United States indicts the employees under the EEA, using section 1837(2) for jurisdiction, claiming that the use of the company e-mail and American Internet sites counts as an "act in furtherance" of the trade secret theft that has occurred within the United States. The employees are prosecuted for the reverse engineering because they have taken the formula "without authorization" and this is a crime within the meaning of the statute.<sup>226</sup>

---

<sup>221</sup> *Hartford Fire Ins. Co. v. California*, 509 U.S. 764, 799 (1993).

<sup>222</sup> Fairley, *supra* note 170, at 148.

<sup>223</sup> See *supra* Part III.B.

<sup>224</sup> See *supra* Part II.

<sup>225</sup> See *supra* note 144 and accompanying text.

<sup>226</sup> See *supra* notes 89-95 and accompanying text.



The above example seems like the sort of case in which a court should refuse to recognize extraterritorial jurisdiction in accord with the framework established in this Note. The court first would determine that the EEA has proscribed reverse engineering whereas the host country considers this activity lawful. The court next would look at the effects of a conviction under the EEA. If the EEA applied, the defendants would be required to forfeit the property derived from the violation<sup>227</sup>—that is, the factory and any derivative proceeds. This could bring about the twofold effect of economic hardship to the country which loses the factory, its investment, and the more inexpensive product, coupled with the chilling effect the decision has upon other entrepreneurs. They will now know to conform to the American standard of trade secret protection rather than avail themselves of the more competition-oriented policy of their home country. The EEA thus significantly has hurt the ability of the host country to set its own innovation policy within the boundaries of TRIPS Article 39. A court may conclude, therefore, that this instance of extraterritorial application of the EEA conflicts with the totality of TRIPS, particularly those articles that state the right of each country to determine its own policies protecting intellectual property. The court then could bolster its conclusions by appealing to the principles of international comity.

This Note has argued that the interests of the foreign state in setting its own innovation policy are very high, and are embodied in both the negotiations and the result of the TRIPS Agreement.<sup>228</sup> The Restatement of Foreign Relations, section 403(2), lists factors that may support the conclusion that the interests of the foreign state are stronger than the interests of the United States.<sup>229</sup> For example, though the activity affects an American company, it is unclear that the activity affects the United States itself more than the host country, and the extent of activity that actually occurred within American borders is very small.<sup>230</sup> Moreover, an interpretation of the EEA proscribing reverse engineering is fairly inconsistent with the “extent to which other states regulate such activities.”<sup>231</sup> To the extent that this sort of prosecution would interfere with the ability of the host country

---

<sup>227</sup> 18 U.S.C. § 1834 (2000), amended by Pub. L. No. 107-204, 116 Stat. 805 (2002).

<sup>228</sup> Cf. Restatement (Third) of Foreign Relations § 403 (1987) (outlining balancing of interests of each state and suggesting deference “to the other state if that state’s interest is clearly greater”).

<sup>229</sup> *Id.* § 403(2)(a).

<sup>230</sup> See *id.* (listing as one factor to be considered “the link of the activity to the territory of the regulating state”).

<sup>231</sup> *Id.* § 403(2)(c).

to set its own innovation policy, extraterritorial application of the EEA seems “[i]nconsistent with the traditions of the international system.”<sup>232</sup> Furthermore, this Note has argued that the United States itself has an interest in respecting the totality of the TRIPS Agreement,<sup>233</sup> further weakening the interests of the United States when compared with the strong interests of the host country.

True, this process will require serious consideration and discretion of a court. However, the factors of Restatement section 403(2) are no longer free-floating ideas about international comity. Rather, a court may respect the principle embodied in Restatement section 114 and take seriously the charge to give effect to both the statute and the treaty.<sup>234</sup> The values of international comity that a court will consider are embodied in the text of the treaty—values implemented by other branches of government. In the case of TRIPS, this is Congress.

Moreover, the EEA is an example of a statute for which it is quite possible for the court to give effect to both the statute and the treaty. In many cases of extraterritorial application of the EEA, prosecutors will use the statute aggressively to pursue foreign conduct that has harmful effects on the United States but will apply the statute to information that is unquestionably covered by TRIPS Article 39 or to conduct that is illegal in the host country. To illustrate, revise the sticky note hypothetical so that the employees now have appropriated the formula for the glue from highly restricted files to which they had access. The host country classifies such information as secret and the taking as a misappropriation. Assume further that the employees sell the information to another American corporation operating as a competitor in the host country, a corporation that knows that the formula was unlawfully obtained. The United States indicts the receiving corporation under the EEA section 1832 for knowingly receiving the stolen formula, and uses section 1837(a) as a basis for jurisdiction. The host country protests the indictment, claiming that the criminal penalties afforded under the EEA are much harsher than the civil regulatory regime it has established to comply with TRIPS.

This example is the sort in which a court would probably be justified in extending extraterritorial jurisdiction of the EEA. The United States would not be foisting a different standard of trade secret protection on entities located in foreign countries because the indictment is consistent with conduct considered unlawful in the host country. And though enforcement using the EEA differs from that country's

---

<sup>232</sup> *Id.* § 403(2)(f).

<sup>233</sup> See *supra* notes 209-222 and accompanying text.

<sup>234</sup> Restatement (Third) of Foreign Relations § 114.

enforcement mechanisms, the argument that the United States is not giving force to TRIPS is much weaker. The EEA has not forced the country either de jure or de facto to change the class of materials protected by its innovation policy. Thus, it has not meaningfully infringed the host country's expectations to set its own innovation policies under TRIPS, nor has it in a larger sense upset the "bargain" between the developed and developing world. Finally, the American interests are stronger in this example, as both the injured party *and* the perpetrator are American corporations—the United States has an interest in protecting one corporation and punishing the other.<sup>235</sup> The court can respect the intent of Congress specifically to target activity that occurs largely outside of U.S. borders.

Thus, courts carefully can analyze the facts of a given EEA indictment and then conclude whether or not extraterritorial application is appropriate and lawful. In many cases, extraterritorial application will not conflict substantially with the purposes of TRIPS, and the court can give force to the extraterritorial provisions of the statute. In cases where a court finds that an extraterritorial application of the EEA would involve a conflict with the purposes of TRIPS, it is not clear that a limitation of extraterritorial application in *such circumstances* would be contrary to congressional intent. When drafting and debating the EEA, Congress was completely silent with regards to the TRIPS Agreement.<sup>236</sup> This suggests that, at the very least, Congress did not expressly intend for the EEA to preempt any or all provisions of TRIPS. More generally, it suggests that an occasional limitation on the extraterritorial reach of the EEA would not violate congressional intent with respect to the EEA. In other words, a court can interpret the extraterritorial language of the statute fairly, in a manner that gives effect to the extraterritoriality provisions in most cases, but restricts the scope in a limited number of cases in order to give force to the TRIPS Agreement.

### CONCLUSION

The TRIPS Agreement demonstrates that the EEA has problematic policy consequences for the United States in both the domestic and the international spheres. The comparison between TRIPS and the EEA highlights the manner in which the EEA is a very protectionist statute and underscores the recent criticism that the EEA is not a positive addition to U.S. innovation policy. This Note has demon-

---

<sup>235</sup> See *id.* § 403(2)(a).

<sup>236</sup> A thorough search of the legislative history of the EEA failed to reveal any mention of the TRIPS Agreement.

strated that, problematic as the EEA may be, it is possible for courts to use and interpret the Act in a manner that allows the United States to maintain its obligations under the TRIPS Agreement. This is consistent with suggestions that other U.S. laws should only be applied extraterritorially insofar as they are consistent with American international obligations.<sup>237</sup> The business and pharmaceutical lobbies that pressed for the TRIPS Agreement and continue to push for the United States to call for “TRIPS-plus” standards in other nations will continue to be a major force in U.S. trade policy.<sup>238</sup> However, the wide network of interests and nations that view TRIPS as oppressive may prove to be equally formidable.<sup>239</sup> Careful consideration of the issues presented in this Note should guide policymakers and courts toward a sensible policy for extraterritorial application of the EEA and other intellectual property laws.

---

<sup>237</sup> See, e.g., Schechter, *supra* note 165, at 620 (“[T]he Lanham Act should be amended to specifically reach only those extraterritorial acts involving the use of ‘well-known’ trademarks, as that term is used in international agreements such as . . . the TRIPS Agreement.”)

<sup>238</sup> See Press Release, International Intellectual Property Alliance, IIPA Lauds USTR’s Continuing Pressure on Countries to Improve Copyright Protection and Enforcement Through the Special 301 and TRIPS Processes (May 1, 2000), [http://www.iipa.com/pressreleases/2000\\_May01\\_USTR.PDF](http://www.iipa.com/pressreleases/2000_May01_USTR.PDF).

<sup>239</sup> These interests succeeded in promulgating the Doha Declaration, affirming the right of member nations to address public health issues affected by TRIPS individually: “Each Member has the right to determine what constitutes a national emergency . . . .” Doha Ministerial Conference, Declaration on the TRIPS Agreement and Public Health, WT/MIN(01)/DEC/2 (Nov. 20, 2001), [http://www.wto.org/english/thewto\\_e/minist\\_e/min01\\_e/mindecl\\_trips\\_e.pdf](http://www.wto.org/english/thewto_e/minist_e/min01_e/mindecl_trips_e.pdf).