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The Defend Trade Secrets Act and Foreign Theft: The Application of the Act to Extraterritorial Misappropriation

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THE DEFEND TRADE SECRETS ACT AND FOREIGN THEFT: THE APPLICATION OF THE ACT TO EXTRATERRITORIAL MISAPPROPRIATION

*John Dustin Hawkins**

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I. INTRODUCTION

The protection of confidential business information dates back to Roman law, which provided an action against those who induced another's employee to reveal secrets relating to the employer's commercial affairs.[1] The United States has recognized "trade secrets" as a form of intellectual property since 1837.[2] The Restatement of Unfair Competition defines trade secret as "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."[3] Similarly, the Uniform Trade Secrets Act ("UTSA") defines trade secret as

> information, including a formula, pattern, compilation, program, device, method, technique, or process, that: (i) 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, and (ii) is the subject of efforts that are reasonable under the circumstances to maintain its secrecy.[4]

The cause of action for trade secret theft is termed "misappropriation."[5] Generally, "[a] trade secret is misappropriated when it is acquired through improper means, such as theft, bribery, misrepresentation, breach of fiduciary duty or a duty to maintain secrecy, or espionage through electronic or other means."[6] Additionally, "misappropriation . . . occurs when a party discloses or uses a trade secret without consent if the party 'knew or had reason to know' that the trade secret was originally acquired by improper means or in violation of a duty of secrecy."[7]

As one could imagine, trade secrets have become more important in today's business environment as the global economy has become significantly reliant on technology.[8] Consistent with these developments, trade secret misappropriation

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[1] RESTATEMENT (THIRD) OF UNFAIR COMPETITION § 39 (AM. LAW INST. 1995).

[2] Russell Beck, *Trade Secret Law*, *in* INTELLECTUAL PROPERTY LICENSING AGREEMENTS § 4.1 (Massachusetts Continuing Legal Education, Inc., 3d ed. 2016).

[3] UNFAIR COMPETITION § 39.

[4] AM. JUR. 3D § 95 *Proof of Facts* (2006).

[5] UNFAIR COMPETITION § 39.

[6] David S. Levine, *The DTSA at One: An Empirical Study of the First Year of Litigation Under the Defend Trade Secrets Act*, 53 WAKE FOREST L. REV. 105, 114 (2018).

[7] *Id.* at 114. (citing 18 U.S.C. § 1836 (2018)).

[8] Beck, *supra* note 2.

has grown year after year.[9] In its October 2011 report to Congress, the Office of the National Counterintelligence Executive ("ONCIX") warned that "because the United States is a leader in the development of new technologies and a central player in global finance and trade networks, foreign attempts to collect US technological and economic information will continue at a high level and will represent a growing and persistent threat to US economic security."[10] According to the International Trade Commission, United States businesses lost approximately $1.1 billion due to Chinese trade secret misappropriation in the year 2009 alone.[11]

This Note explores the evolution of federal trade secret law in the United States, particularly the enactment of the Defend Trade Secrets Act of 2016. Part II discusses the legislative history of the Act, as well as key provisions and definitions of the Act, which are critical when considering the DTSA's extraterritorial application. Additionally, this Note considers the tests used by courts to determine extraterritorial application in other areas of U.S. law. Part III explains why a uniformly-applied balancing test would best serve the courts in determining the extraterritorial application of the DTSA to reach foreign conduct.

II. BACKGROUND

A. EVOLUTION OF FEDERAL TRADE SECRET LAW

Trade secret law, at its core, is a creature of state law.[12] The Uniform Trade Secrets Act ("UTSA"), a codified version of common law principles from the Restatement of Torts and Restatement of Unfair Competition, has been adopted by forty-seven states and the District of Columbia.[13] Over the years, trade secret law has evolved with the changing economic landscape.[14] In response to increased risk of misappropriation activity in the United States, Congress passed the Economic Espionage Act of 1996 ("EEA").[15] The EEA, which provided for prosecution of trade secret theft as a federal crime, was the first federal act

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[9] *Id.*

[10] BRIAN T. YEH, CONG. RESEARCH SERV., R43714, PROTECTION OF TRADE SECRETS: OVERVIEW OF CURRENT LAW AND LEGISLATION 1 (2016).

[11] China: Effects of Intellectual Property Infringement and Indigenous Innovation Policies on the U.S. Economy, Inv. No. 332-519, USITC Pub. 4226 (May 2011) (Final).

[12] Beck, *supra* note 2.

[13] Levine, *supra* note 6 at 114.

[14] U.S. Dep't of Justice, U.S. Attorneys' Manual: Criminal Resource Manual § 1122 (2015), https://www.justice.gov/jm/criminal-resource-manual-1122-introduction-economic-espionage-act.

[15] Melvin F. Jager, *Criminal Sanctions—Economic Espionage Act as Amended in 2012-2013*, TRADE SECRETS L. (2018).

specifically addressing trade secret misappropriation.[16] Since 1996, Congress has amended and expanded the EEA in scope, a federal law development which this Note will discuss in greater detail.[17]

B. INTERNATIONAL TRADE COMMISSION

Considering the United States' economic prowess, it is unsurprising that foreign countries have engaged in the misappropriation of United States businesses' trade secrets.[18] With the rise in multinational companies and U.S. companies conducting business abroad, the economic threat posed by international trade secret theft proved too daunting to be left unaddressed.[19] Providing a remedy for such instances of theft has been problematic to some extent, in large part because of the presumption that, absent explicit Congressional intent, United States law is only to be applied domestically.[20]

In 2011, the United States Court of Appeals for the Federal Circuit held that the International Trade Commission ("ITC") had jurisdiction to adjudicate cases involving foreign trade secret misappropriation.[21] In *TianRui Group Co.*, the court faced the issue of whether the ITC's authority over "unfair methods of competition and unfair acts 'in the importation of articles' ... into the United States," as provided by section 337(a)(1)(A) of the Tariff Act of 1930, 19 U.S.C. § 1337, allows the ITC to consider conduct occurring in China in the course of a trade secret misappropriation investigation.[22] The ITC provides parties injured by foreign trade misappropriation the opportunity to be heard, but there are limitations which must be considered.[23]

C. DEFEND TRADE SECRETS ACT

1. Introduction. The United States enacted the Defend Trade Secrets Act of 2016 ("DTSA") on May 11, 2016.[24] The federal cause of action created by the DTSA largely mirrors the Uniform Trade Secrets Act with respect to definitions,

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16 *Id.*

17 Beck, *supra* note 2

18 Adam W. Poff, *Changes on the Horizon for Trade Secret Misappropriation,* 33 DEL. LAW., 24, 26 (2015-2016).

19 *Id.*

20 Beck, *supra* note 2.

21 *Id.* (citing TianRui Group Co. v. ITC, 661 F.3d 1322, 1324 (Fed. Cir. 2011)).

22 TianRui Group Co., 661 F.3d at 1329.

23 Viki Economides, *Tianrui Group Co. v. International Trade Commission: The Dubious Status of Extraterritoriality and the Domestic Industry Requirement of Section 337*, 61 AM. U. L. REV. 1235–52 (2012).

24 ROBERT L. HAIG, THE DEFEND TRADE SECRETS ACT OF 2016, NEW YORK PRACTICE SERIES—COMMERCIAL LITIGATION IN NEW YORK STATE COURTS (Sept. 2018).

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elements, and remedies.[25] The DTSA amended the EEA to provide a private right of action and civil remedies in federal courts for trade secret misappropriation, which were previously only available in state courts.[26]

2. Definitions and Key Provisions. The DTSA provides uniform definitions for "trade secret" and "misappropriation."[27] The DTSA's definition of trade secret is broad, which allows for a wide range of proprietary information to qualify for trade secret protection under the statute.[28] More specifically, the DTSA defines trade secret as:

> All forms and types of financial, business, scientific, technical, economic, or engineering information, including patterns, plans, compilations, program devices, formulas, designs, prototypes, methods, techniques, processes, procedures, programs, or codes, whether tangible or intangible, and whether or how stored, compiled, or memorialized physically, electronically, graphically, photographically, or in writing if (A) the owner thereof has taken reasonable measures to keep such information secret; and (B) if the information derives independent economic value, actual or potential, from not being generally known to, and not being readily ascertainable through proper means by, another person who can obtain economic value from the disclosure or use of the information.[29]

The DTSA defines misappropriation as:

> Acquisition of a trade secret by another person who knows or has reason to know that the trade secret was acquired by improper means; or Disclosure or use of a trade secret of another without express or implied consent by a person who used improper means to acquire knowledge of the trade secret; at the time of disclosure or use, knew or had reason to know that the knowledge of the trade secret was derived from or through a person who had used improper means to acquire the trade secret; acquired under circumstances giving rise to a duty to maintain the secrecy of the trade secret or limit the use of the trade secret; or derived from or through a person who owed a duty to the person seeking relief to maintain the secrecy of the trade secret

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[25] *Id.*

[26] Peter J. Toren, *The Defend Trade Secrets Act*, 28 INTELL. PROP. & TECH. L.J. 3 (2016).

[27] *Explaining the Defend Trade Secrets Act*, A.B.A. (June 29, 2017), https://www.americanbar.org/groups/business_law/publications/blt/2016/09/03_cohen.html.

[28] *Id.*

[29] *Id.*

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> or limit the use of the trade secret; or before a material change of the position of the person, knew or had reason to know that the trade secret was a trade secret; and knowledge of the trade secret had been acquired by accident or mistake.[30]

D. EXTRATERRITORIALITY OF DTSA

As mentioned above, there is a well-known presumption that domestic laws are only to be applied domestically, absent clear congressional intent to the contrary.[31] Determining the extraterritorial reach of United States law has proven to be painstakingly difficult at times, and the approach of United States federal courts to the application of U.S. laws in international cases has had a relatively inconsistent history—which is reflected in court opinions across several areas of law.[32]

1. DTSA Legislative History. Because the drafters of the DTSA amended three pieces of existing legislation to form the DTSA, the language of the DTSA may be analyzed against the legislation from which it resulted.[33] A substantial part of the DTSA is understood to be an amendment to the EEA, which criminalizes trade secret misappropriation.[34] The EEA's language clearly extends its reach to conduct outside the United States.[35] It is not uncommon for EEA prosecutions to involve foreign entities.[36] Although there are barely any cases in which the DTSA amendment has been fully decided, courts could certainly interpret this provision as approving an similarly broad reach in the civil arena.[37]

2. Extraterritoriality: U.S. Trademark Law. United States trademark law utilizes an effects test to determine the extraterritorial reach of the Lanham Act—the leading statute in United States federal trademark law.[38] In trademark actions, United States federal courts require a showing that the defendant's conduct had

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[30] Jada M. Colon, *The Court Must Play Its Interpretative Role: Defending the Defend Trade Secrets Act's Extraterritorial Reach*, 3 U. CIN. INTELL. PROP. & COMP. L.J. 4 (2018) (citing 18 U.S.C. § 1839 (2018)).

[31] Toren, *supra* note 26, at 7.

[32] Rochelle C. Dreyfuss & Linda Silberman, *Misappropriation on a Global Scale: Extraterritoriality and Applicable Law in Transborder Trade Secrecy Cases,* 8 CYBARIS, AN INTELL. PROP. L. REV. 265 (2017).

[33] John Cannan, *A [Mostly] Legislative History of the Defend Trade Secrets Act of 2016,* 109 L. LIBR. J. 363 (2017).

[34] *Id.* at 365.

[35] Dreyfuss & Silberman, *supra* note 32, at 268.

[36] *Id.* at 269.

[37] *Id.*

[38] Julia A. Matheson & Anna B. Naydonov, *Standing Ground: An Analysis of Territoriality in U.S. Trademark Law,* WORLD TRADEMARK REVIEW (Oct./Nov. 2013), https://www.finnegan.com/en/insights/standing-ground-an-analysis-of-territoriality-in-u-s-trademark.html.

"substantial," "significant," "more than insignificant," or "some" effect—which variation of the standard is utilized depends on the particular court.[39]

In 1952, the Supreme Court decided a case involving the Lanham Act's extraterritorial application.[40] *Steele* involved a United States citizen who sold fake Bulova watches in Mexico without Bulova's permission.[41] With respect to the extraterritorial application of the Lanham Act, the Court ultimately found the Lanham Act to apply to the foreign conduct, reasoning that the defendant's operations and effects reached the United States.[42]

Steele stands for the proposition that Congress has the authority to regulate U.S. citizens' activities that take place in a foreign country.[43] However, analysis for trademark infringements involving foreign citizens on foreign ground differs from that in *Steele*. In these cases, U.S. courts focus on how the foreign acts affect U.S. commerce.[44] To do this, courts consider the effect on a trademark owner's reputation or sales inside the United States.[45] Circuits have differed with respect to this analysis.

Following *Steele*, the Second Circuit developed a three-factor test, which requires that "the defendant's conduct must have a substantial effect on U.S. commerce; the defendant must be a U.S. citizen; and there must be no conflict with trademark rights under the foreign law."[46] The Ninth Circuit established a multi-factor test, which requires

> [s]ome effect on American foreign commerce; that this effect is sufficiently great to present a cognizable injury to a trademark owner under the Lanham Act; and that the interests of and links to American foreign commerce [are] sufficiently strong in relation to those of other nations to justify an assertion of extraterritorial authority.[47]

Under yet another test, established by the First Circuit in *McBee v. Delica Co.*, courts determine first whether the defendant is a United States citizen.[48] For

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[39] Andrew Cogdell, *Extraterritorial Application of the Lanham Act: American Rice, Inc. v. Arkansas Rice Growers Cooperative Ass'n*, 9 N.C. J. INT'L L. & COM. REG. 133 (1983).

[40] Steele v. Bulova Watch Co., 344 U.S. 280, 281 (1952).

[41] *Id.* at 281.

[42] *Id.* at 280.

[43] *Id.* at 286.

[44] Matheson & Naydonov, *supra* note 38.

[45] Colon, *supra* note 30, at 14.

[46] *Id.* (citing Vanity Fair Mills, Inc. v. T. Eaton Co., 234 F.2d 633, 643 (2d Cir. 1956)).

[47] *Id.* (citing Reebok In't, Ltd. v. Marnatech Enters., 970 F.2d 552, 554 (9th Cir. 1992)).

[48] *Id.* at 11.

foreign defendants, "the courts will analyze whether the foreign defendant's conduct has a 'substantial effect on United States commerce.' "[49]

Over time, courts have moved towards broadening the scope of extraterritorial reach in trademark cases. Courts have most commonly preferred the *Steele* analysis, focusing primarily on whether the conduct has a substantial effect on U.S. commerce.[50]

3. Extraterritoriality: US Antitrust Law. U.S. antitrust laws are applied to foreign conduct by way of the Sherman Act's extraterritoriality provision.[51] Courts traditionally applied American antitrust law only to domestic conduct.[52] However, as monopolistic conduct became more popular and the ramifications of such conduct began to manifest, the domestic-only application was no longer suitable.[53]

In *United States v. Aluminum Co. of America*, the first case in which the Sherman Act was applied extraterritorially, the Court stated, "[i]t is settled [case] law ... 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."[54] The conduct at issue in this historic case occurred exclusively on foreign soil; a Canadian corporation worked with European aluminum producers to effectively set a quota on the quantity of aluminum sold to the United States.[55] Despite the fact that no act took place in the United States, the Court held that because the conduct at issue had affected United States commerce, the Sherman Act was applicable.[56]

Judge Hand's effects test, demonstrated in *Aluminum Co. of America*, was eventually refined and redefined in ways which resulted in unpredictability among circuit courts.[57] Circuit courts introduced a direct and substantial effects test, a disparate effects test, a substantial and material effects test, and a some effects test.[58] The fact that the Supreme Court refused to hear cases which may have required it to implement a uniform test to be applied by all circuits certainly did not make extraterritorial reach analysis any easier.[59]

While essentially all courts had relied on effects tests to determine extraterritorial scope of the Sherman Act, the Ninth Circuit rolled out a balancing-of-interests test, which considers three questions:

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[49] *Id.* at 11–12.

[50] *Id.* at 12.

[51] McBee v. Delica Co., 417 F.3d 107, 119 (1st Cir. 2005).

[52] Colon, *supra* note 30, at 12.

[53] *Id.*

[54] 148 F.2d 416, 443 (2d Cir. 1945).

[55] Colon, *supra* note 30, at 12.

[56] *Aluminum Co. of America*, 148 F.2d at 443.

[57] Colon, *supra* note 30, at 13.

[58] *Id.* at 13.

[59] *Id.*

> (1) Does the alleged restraint effect, or was it intended to effect, the foreign commerce of the United States?; (2) Is it of such a type and magnitude so as to be cognizable as a violation of the Sherman Act?; and [(3)] As a matter of international comity and fairness, should the extraterritorial jurisdiction of the United States be asserted to cover it?[60]

In the midst of confusion among the courts, Congress attempted to provide guidance by enacting the Foreign Trade Antitrust Improvements Act ("FTAIA"). The FTAIA essentially stipulates that the Sherman Act will have extraterritorial reach to the extent the trade-related activities with foreign countries have a "direct, substantial, and reasonably foreseeable effect" on trade or commerce in the United States.[61] Unfortunately for Congress, the enactment of the FTAIA did not exactly provide the clarity that it was meant to ensure.[62] While the direct, substantial, and reasonably foreseeable effect test may be applied in all cases, determining what is a direct, substantial, and reasonably foreseeable effect is challenging—as the determination is highly fact-intensive.[63] As a result, courts have struggled to create an effective uniform test to apply when determining the extraterritorial scope of United States antitrust laws.

4. *Extraterritoriality: US Securities Law.* The United States federal courts' interpretation of the extraterritorial reach of United States federal securities law is indicative of complexities that come with extraterritorial application of U.S. law. Until fairly recently, courts hearing securities law cases used the conducts and effects tests when deciding the extraterritorial reach of the Securities Act and Securities Exchange Act.[64] Using the conducts and effects tests, courts analyze whether the conduct of the foreign entity has a substantial effect in the United States.[65] Courts have held that the United States courts have jurisdiction over securities law violations taking place in a foreign country to the extent transactions substantially affected the United States and its citizens.[66] More specifically, the effects must be significant enough to generate "foreseeable and substantial harm to interests in the United States."[67] In limiting the effects

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[60] Timberlane Lumber Co.v. Bank of America, 549 F.2d 597, 615 (9th Cir. 1976).

[61] Colon, *supra* note 30, at 13.

[62] *Id.*

[63] *Id.* at 14.

[64] Jonathan Richman, Ralp Ferrara, Ann Ashton & Tanya Dmitronow, *So Much for Bright Line Tests on Extraterritorial Reach of U.S. Securities Laws?*, PROSKAUER ROSE LLP (Aug. 18, 2014), https://www.proskauer.com/alert/so-much-for-bright-line-tests-on-extraterritorial-reach-of-us-securities-laws#.

[65] Colon, *supra* note 30, at 8.

[66] *Id.*

[67] *Id.*

standard, courts eventually specified that mere adverse effects do not satisfy the conduct-and-effects test.[68]

The conduct test analyzes whether the wrongful conduct actually occurred in the United States.[69] U.S. court can establish jurisdiction over foreign entities under this test by a showing domestic wrongdoing.[70] More specifically, under *Alfadda*, jurisdiction can be established "when (1) the defendant's activities in the United States were more than 'merely preparatory' to a securities fraud conducted elsewhere, and (2) these activities or culpable failures to act within the United States 'directly caused' the claimed losses."[71] It must be noted that even though the conduct test and effects test are separate standards, they are used together in interpreting extraterritorial reach.[72]

Interestingly, the Supreme Court spurned the conduct-and-effects test in *Morrison v. National Australia Bank*.[73] In its landmark decision, the Court opted to implement a bright-line test to replace the conducts-and-effects test in determining the extraterritoriality of federal securities laws.[74]

To add to the confusion, Congress passed the Dodd-Frank Wall Street Reform and Consumer Protection Act ("Dodd-Frank Act"), which provided guidance with respect to the extraterritorial application of United States federal securities laws to foreign countries.[75] With respect to extraterritoriality, the Dodd-Frank Act provides that U.S. district courts will enjoy "jurisdiction of an action or proceeding brought or instituted by the [SEC] or the United States" alleging a securities law violation involving "(1) conduct within the United States that constitutes significant steps in furtherance of the violation, even if the securities transaction occurs outside the United States and involves only foreign investors; or (2) conduct occurring outside the United States that has a foreseeable substantial effect within the United States."[76] The Dodd-Frank Act's language raised the question of whether the conducts-and-effects test was

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[68] Junsun Park, *Global Expansion of National Securities Laws: Extraterritoriality and Jurisdictional Conflicts,* 12 U.N.H.L. REV. 69 (2014); (citing Bersch v. Drexel Firestone, Inc., 514 F.2d 974, 989 (2d Cir. 1975), abrogated by Morrison v. Nat'l Austl. Bank. Ltd., 561 U.S 247 (2010)).

[69] *Id.* at 71.

[70] Alfadda v. Fenn, 935 F.2d 475, 478 (2d Cir. 1991).

[71] *Id.* at 478.

[72] Colon, *supra* note 30.

[73] 130 S. Ct. 2869 (2010).

[74] *Id.* at 2876-2889.

[75] Jonathan Richman, *We Know What You Really Meant: Utah Court Holds that SEC Can Bring Extraterritorial Enforcement Action Based on Conduct or Effects in United States*, PROSKAUER ROSE LLP (Apr. 6, 2017), https://www.corporatedefensedisputes.com/2017/04/we-know-what-you-really-meant-utah-court-holds-that-sec-can-bring-extraterritorial-enforcement-action-based-on-conduct-or-effects-in-united-states/.

[76] Dodd-Frank Wall Street Reform and Consumer Protection Act, Pub. L. No. 111-203, § 929-Z, 124 Stat. 1376, 1865 (2010) (codified at 15 U.S.C. § 780).

brought back to life.[77] While the Dodd-Frank Act did not explicitly overturn *Morrison*, the Act was interpreted to revive the conducts-and-effects test in *SEC v. Traffic Monsoon*.[78] The tension between the *Morrison* holding and the Dodd-Frank Act's provisions has left the courts and Congress trying to find common ground for applying a uniform test to determine the extraterritorial reach of the United States federal securities law.[79] Without further guidance, it is unclear whether the conducts-and-effects test or the transaction test should control the extraterritorial reach analysis.

III. ANALYSIS

A. EXTRATERRITORIALITY

The DTSA's language and legislative history support the statute's extraterritorial application. It is well understood that the DTSA amends the EEA, which provides that "the chapter of the act applies to conduct occurring outside the United States."[80] In amending the EEA, Section 1837 (2) of the DTSA retains the EEA language, "an act in furtherance of the offense was committed in the United States."[81] At first glance, it appears that by limiting the extraterritorial reach of the DTSA to situations in which an act in furtherance of an offense took place in the United States, Congress may have mistakenly narrowed the DTSA's application.[82] While the wrongful conduct in many trade secret misappropriation cases is considered to have occurred outside the United States, that does not mean U.S. companies did not experience harm inside the United States.[83] The effects resulting from such theft, felt inside the United States, should satisfy the an act in furtherance of the offense requirement in some cases. While extraterritorial application of the DTSA appears to be in line with Congress' intent, the method used by courts to interpret the phrase "in furtherance of the offense" in DTSA trade secret misappropriation cases will largely affect the extent of the statute's extraterritorial reach.[84]

B. IMPORTANCE OF A UNIFORM TEST

For the DTSA to achieve the consistency that Congress intended, the test for determining the DTSA's extraterritorial reach must be consistent among

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[77] Colon, *supra* note 30, at 9.

[78] *Id.* (citing SEC v. Traffic Monsoon, LLC, 245 F. Supp. 3d 1275 (D. Utah 2017).

[79] *Id.*

[80] 18 U.S.C. § 1831 (2018).

[81] 18. U.S.C. § 1837 (2018).

[82] Colon, *supra* note 30, at 2.

[83] *Id.*

[84] *Id.*

courts.[85] As the previous discussion exemplifies, American courts have struggled in implementing uniform tests to apply when determining the extraterritorial reach of United States trademark, antitrust, and securities laws. With respect to trade secret law, Congress created a single federal private right of action under the DTSA largely to combat the inconsistencies of state law.[86] The consistency which Congress sought to achieve will be largely negated if United States courts do not implement a single, uniform test to determine the DTSA's extraterritorial application.[87]

C. EFFECTS TEST

An effects test may be used by the courts to determine the extraterritorial application of the DTSA. An effects test would enable courts to apply the DTSA to reach foreign misconduct, provided that such conduct had an effect on the United States. An effects test would predominately consider the impact of the foreign activity, not simply the nation in which the activity occurred. As demonstrated by Judge Hand's effects test in *Aluminum Co. of America*, an effects test applied in DTSA cases would satisfy extraterritoriality by treating the impact of the activity with as much weight as the activity itself.[88] The key for the success of such a test, however, is to make sure that the test is sufficiently narrow, in order to avoid the potential frenzy of suits against foreign countries who are not actually connected to the United States in any way. In light of the struggles that U.S. courts have had with effects tests in the context of extraterritorial application of U.S. securities and antitrust law, the courts should be wary before turning to an effects test in trade secret actions.

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85 Colon, *supra* note 30.

86 *Id.* at 15.

87 *Id.*

88 United States v. Aluminum Co. of America, 148 F.2d 416, 443 (2d Cir. 1945).

D. BALANCING TEST

A balancing test would be better-suited to determine extraterritorial reach in DTSA cases. Some argue that an effects test would be the best way to address Congressional concern and set a precedent in DTSA trade secret cases. However, as is evident in the areas of U.S. securities law, antitrust law, and trademark law, effects tests tend to falter due to overly broad language. Such issues seem to indicate that an effects test would not be able to sustain the increasingly diverse range of situations that will inevitably be brought in trade secret suits.

To account for the evolution and growth of trade secrets and the growing number of situations where foreign application of the DTSA is needed, the courts should implement a balancing test that is flexible enough to account for a wide variety of trade secret scenarios. First-year law students come across variations of balancing tests while studying several core areas of United States law, including constitutional law, personal injury law, and federal civil procedure. Critics of balancing tests often contend that balancing tests foster arbitrary decisions and ambiguity. Opponents of balancing tests argue that it is unclear at times which factors are weighed and how much weight each factor is given by the court. On the other hand, advocates of balancing tests generally contend that balancing tests afford courts the opportunity to consider issues at a deeper level and give courts more flexibility than bright-line tests. Both sides may have a point. However, it's dangerous to label balancing tests in their entirety as effective or ineffective, as all balancing tests are not created equal. No balancing test will be flawless, but a simplified test that does not overwhelm the courts in terms of the number of factors the court must consider is the most effective option for courts going forward as they face a diverse and complex realm of trade secret issues which only continues to expand as technology and foreign misappropriation continue to develop.

While courts have options as to which factors to consider, a balancing test modeled similarly to the test in *Timberlane Lumber Co.* (determining extraterritorial reach of the Sherman Act) would be most ideal for determining the extraterritorial reach of the DTSA. Though technically a balancing test, the first inquiry under the balancing test should be analyzed using the effects test. Like the *Timberlane Lumber Co.* test, the court's first inquiry in a DTSA test should be whether the alleged activity had an effect or was intended to have an effect on the United States. After this determination, the court should consider whether (a) the activity is of such a "type and magnitude" so as to constitute a violation of the DTSA and (b) as a matter of international comity and fairness, whether extraterritorial jurisdiction of the United States should be asserted to cover such an act. The feature of such a test is that it allows for a typical effects analysis in the first prong, while the second and third prongs of the balancing test necessarily narrow the scenarios in which U.S. law should be applied to foreign conduct.

IV. CONCLUSION

The underlying policy objectives tied to trade secret law in the United States must be considered by the courts when deciding on an appropriate test. Congress has articulated its concerns associated with United States trade secret protection, and those concerns should be reflected in whichever test or analysis courts decide to apply. It is equally important that the courts come up with a uniform standard and set a strong precedent for DTSA cases going forward. Despite the potential for a lack of bright line standards, a balancing test would be most effective in dealing with the ever-growing array of scenarios that courts will face in deciding trade secret cases. As indicated by the court's struggles and inconsistency in extraterritorial application of trademark, securities, and antitrust laws, the importance of the circuits to be on the same page as to which factors and how heavily weighted each factor is under a balancing test should not be underestimated.