

PUBLIC VERSION

**UNITED STATES INTERNATIONAL TRADE COMMISSION
Washington, D.C.**

In the Matter of

**CERTAIN CAST STEEL RAILWAY
WHEELS, CERTAIN PROCESSES FOR
MANUFACTURING OR RELATING TO
SAME AND CERTAIN PRODUCTS
CONTAINING SAME**

Inv. No. 337-TA-655

**RECOMMENDED DETERMINATION
ON REMEDY AND BONDING
Administrative Law Judge Carl C. Charneski**

Pursuant to the notice of investigation, 73 Fed. Reg. 53441 (2008), this is the Recommended Determination in the matter of *Certain Cast Steel Railway Wheels, Certain Processes for Manufacturing or Relating to Same and Certain Products Containing Same*, United States International Trade Commission Investigation No. 337-TA-655. See 19 C.F.R. § 210.42(a)(1)(ii).

For the reasons stated herein, it is recommended that a limited exclusion order issue with respect to any respondent found to be in violation of section 337. It is further recommended that cease and desist orders issue as to respondents found to be in violation of section 337. Additionally, it is recommended that if the Commission issues an exclusion order as a result of this investigation, a [] bond should be required for respondents' importations during the Presidential review period.

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I. Procedural Background

The Commission's Rules provide that subsequent to an initial determination on the question of violation of section 337 of the Tariff Act of 1930, as amended, 19 U.S.C. § 1337, the administrative law judge shall issue a recommended determination ("RD") containing findings of fact and recommendations concerning: (1) the appropriate remedy in the event that the Commission finds a violation of section 337; and (2) the amount of bond to be posted by respondents during Presidential review of Commission action under section 337(j). *See* 19 C.F.R. § 210.42(a)(1)(ii).

On October 16, 2009, the undersigned issued the initial determination ("ID") in this investigation, finding that a violation of section 337 has occurred in the importation into the United States, the sale for importation, or the sale within the United States after importation, of certain cast steel railway wheels or products containing same by reason of trade secret misappropriation.

The complainant is Amsted Industries Incorporated ("Amsted" or "complainant") of Chicago, Illinois. 73 Fed. Reg. 53441 (2008). The respondents are: Tianrui Group Company Limited ("TianRui") of Ruzhou, Henan, China; Tianrui Group Foundry Company Limited ("TianRui Foundry") of Ruzhou, Henan, China; Standard Car Truck Company, Inc. ("SCT") of Park Ridge, Illinois; and Barber Tianrui Railway Supply ("Barber") of Park Ridge, Illinois (collectively, "respondents"). *Id.* The Commission Investigative Staff ("Staff") of the Office of Unfair Import Investigations is also a party in this investigation. *Id.*

II. Remedy

A. Summary Of The Parties' Arguments

Complainant argues that the Commission should issue a general exclusion order that would “prevent the importation into the United States of all Tianrui wheels and all products to or of which any such Tianrui wheel is attached, mounted or a part (*e.g.*, axles, trucks, undercarriages and railcars).” In the alternative, it is argued that a limited exclusion order should issue. Amsted Br. at 187-90. Further, complainant argues that any exclusion order which does issue should not be limited in its duration, or alternately, should remain in effect for at least 10 years. *See Id.* at 191-94.¹

Complainant also requests that the Commission issue a cease and desist order, apparently against all respondents, to prevent them from engaging in activities such as importing and selling the accused wheels, as well as from disclosing ABC Trade Secrets, *e.g.*, to the AAR for certifications to sell wheels, or in the course of other unfair methods of competition. *See Id.* at 196-98. Finally, complainant argues that bond during the Presidential review period should be set at no less than [] of entered value. *See Id.* at 198.

Respondents argue that complainant’s request for a general exclusion order is untimely and unwarranted. *See Resps. Reply* at 87-89. Further, they argue that any limited exclusion order should be tailored to the specific trade secrets as to which misappropriation has been found, and only to a period of three years or less. They also assert that a certification provision should allow them to indicate which railway wheels do not use any misappropriated trade secrets.

¹ Complainant also argues that the period of exclusion should be extended by five years because [] *See Amsted Br.* at 194-96. This argument was rejected in the initial determination. *See ID* at 39-40 & n.28.

Finally, respondents argue that any Presidential review period bond should not exceed [.] *See Resp. Br. at 144-46.*²

The Staff concurs with respondents that complainant has waived its right to seek a general exclusion order because it neither asserted, nor set forth in detail, relevant contentions in advance of the hearing. *See Staff Br. at 112; Staff Reply at 48-49 (citing Ground Rule 4(d) (concerning prehearing statements)).* The Staff also argues that the evidence supports the entry of a limited exclusion order, rather than a general exclusion order, and that following the Federal Circuit's decision in *Kyocera Wireless Corp. v. Int'l Trade Comm'n*, 545 F.3d 1340 (Fed. Cir. 2008), a limited exclusion order may cover respondents' downstream products, but not those of third parties. It is argued that the duration of any limited exclusion order should be at least eight years, but not more than 10 years. *See Staff Br. at 112-16.*

Initially, the Staff opposed the entry of cease and desist orders. *See Id. at 116-17.* However, upon the showing made in complainant's brief of the existence of respondents' domestic inventories, [] the Staff now supports the entry of cease and desist orders prohibiting the selling, advertising, promoting, shipping, distributing or otherwise transferring any TianRui wheels manufactured abroad using the ABC Process. It appears that the Staff would have such orders cover the domestic respondents (*i.e.*, SCT and Barber). *See Staff Reply at 51-52.*

Finally, the Staff proposes that the bond during the Presidential review period should be in the amount of [.] *See Staff Br. at 117-18.*

² [

]

B. Limited Exclusion Order

1. Legal Framework Of Exclusion Orders

The Commission has broad discretion in selecting the form, scope, and extent of the remedy in a section 337 proceeding. *Viscofan, S.A. v. United States Int'l Trade Comm'n*, 787 F.2d 544, 548 (Fed. Cir. 1986). A limited exclusion order directed to respondents' infringing products is among the remedies that the Commission may impose. *See* 19 U.S.C. § 1337(d). The Commission's authority to order the exclusion of articles from the United States is restricted to a limited exclusion order "unless '(A) a general exclusion from entry of articles is necessary to prevent circumvention of an exclusion order limited to products of named persons; or (B) there is a pattern of violation of this section and it is difficult to identify the source of infringing goods.'" *Certain Ground Fault Circuit Interrupters and Products Containing Same*, Inv. No. 337-TA-615, Comm'n Op. at 24 (Mar. 26, 2009) ("*GFCIs*") (quoting 19 U.S.C. § 1337(d)(2)).³

2. Discussion And Recommendation

a. Complainant Is Not Entitled To The Issuance Of A General Exclusion Order

The respondents and Staff are correct in their assertions that complainant has waived the opportunity to request the issuance of a general exclusion order. Complainant's reply does not contest their arguments on this point. In fact, an examination of complainant's prehearing statement shows that, at best, it was written in ambiguous terms, without specifically stating that complainant seeks a general exclusion order. *See* Compl. Prehearing Statement at 114. Thus, the respondents and the Staff were not given adequate prior notice that they would need to

³ In determining whether to issue an exclusion order or a cease and desist order, the Commission must consider statutory public interest factors. *GFCIs*, Comm'n Op. at 24.

address the issues relating to a general exclusion order. *See* Ground Rule 4(d) (Order No. 2) (“Any contentions not set forth in detail as required herein shall be deemed abandoned or withdrawn, except for contentions of which a party is not aware and could not be aware in the exercise of reasonable diligence at the time of filing the prehearing statement.”).

In any event, even if this argument were timely raised, the evidence does not support the issuance of a general exclusion order.⁴

Complainant argues that a limited exclusion order could be circumvented if TianRui wheels were shipped to third-party customers in foreign countries, and the third-parties were to mount the wheels onto undercarriages or railcars that were then imported into the United States. The examples provided by complainant, however, involve only TianRui customers, specifically [*See* Amsted Br. at 187-90; ID, section VI (injury).

Complainant has not provided any evidence that TianRui or any other respondents would circumvent a limited exclusion order by shipping wheels to a third party to disguise their origin upon entry into the United States. Rather, complainant seeks to prevent respondents’ customers from importing their own downstream products. Thus, complainant essentially requests a general exclusion order to prevent the importation of third-party downstream products in much the same way struck down by the Federal Circuit in the *Kyocera* opinion. *See Kyocera*, 545 F.3d

⁴ Again, while complainant has made ambiguous arguments concerning the question of an exclusion order, it appears that complainant attempts to justify its request for a general exclusion order solely in view of section 337(d)(2)(A) (“necessary to prevent circumvention” of a limited exclusion order) and not upon the criteria of section 337(d)(2)(B) (“a pattern of violation” and difficulty in identifying the source of infringing products). *See* Amsted Br. at 187-90. Complainant’s brief makes no attempt to show that the criteria of section 337(d)(2)(B) are met. *See Id.* Indeed, one would not expect it to be difficult to identify the source of a finished product such as a railway wheel in view of the relatively small number of manufacturers that complainant has referred to in the record.

at 1358; *see also* n.5, below.

Consequently, even if complainant had not waived the opportunity to seek a general exclusion order, it would have failed to show that the statutory requirements for a general exclusion order are met.

b. A Limited Exclusion Order Should Issue

There is no dispute that if respondents are found to have misappropriated the asserted trade secrets, *i.e.*, the “ABC Trade Secrets,” complainant would be entitled to the issuance of a limited exclusion order that covers all of respondents’ cast steel railways wheels and products containing the same that are the result of respondents’ misappropriation.⁵ As indicated above, respondents have argued that such an order should be tailored to the specific trade secrets as to which misappropriation has been found. In this investigation, all asserted trade secrets have been misappropriated. *See* ID, sections IV (the trade secrets and their misappropriation) & VII (conclusions of law).⁶

⁵ The Federal Circuit has affirmed a limited exclusion order that covered the downstream products of a respondent (*i.e.*, the “adjudged violator of section 337”), rather than those of a third party. *See Kyocera*, 545 F.3d at 1357-58.

⁶ As indicated, *supra*, respondents have also requested that a limited exclusion order contain a certification provision. An exclusion order may contain a provision that permits entities, whose products are potentially subject to exclusion, to certify, pursuant to procedures to be specified by U.S. Customs and Border Protection, that they are familiar with the terms of the order, that they have made appropriate inquiry, and thereupon state that, to the best of their knowledge and belief, the products being imported are not excluded from entry under the order. *See Certain Semiconductor Chips with Minimized Chip Package Size or Products Containing Same*, Inv. No. 337-TA-605, Comm’n Op., § II.D.2. (July 29, 2009).

While the Commission may deem it appropriate to include such a provision in any limited exclusion order that issues as a result of this investigation, based upon the evidence of record, including the widespread misappropriation of complainant’s trade secrets, there is no current circumstance under which such a provision could be used by respondents.

A question remains as to the duration of a limited exclusion order. Complainant argues that trade secrets may be protected in perpetuity. *See* Amsted Br. at 191. However, prior limited exclusion orders issued by the Commission in trade secrets investigations have been based on a “reasonable research and development period,” or an “independent development time.” *See Certain Apparatus for the Continuous Production of Copper Rod*, Inv. No. 337-TA-52, Comm’n Op. at 67 (Nov. 1979); *Certain Processes for the Manufacture of Skinless Sausage Casings and Resulting Product*, Inv. No. 337-TA-148/169, Commission Decision Not to Review Initial Determination Finding Violation at 19 (Dec. 1984). In this instance, the record supports a duration of 10 years for any limited exclusion order.

In that regard, David Kleeschulte began work for one of the prior owners of the ABC Process (which incorporates the asserted trade secrets) in 1968, worked for each successive owner, and is now complainant Amsted’s Managing Director of International Business.⁷ He also helped to transfer the ABC Process to DACC, a company in which complainant is a joint venturer. *See* Kleeschulte Tr. 439-446, 470. Kleeschulte testified that it would take a party who had not previously manufactured railway wheels ten to fifteen years independently to develop a cast steel railway wheel manufacturing process. *See* Kleeschulte Tr. 563-564. Kleeschulte also testified that American Brake Shoe (later known as Abex), a company which had over 50 years of experience making cast items, and ten years of experience making railway wheels, needed at least ten years to develop the process. Kleeschulte Tr. 564, 589.⁸

⁷ A description of the parties and key non-parties is contained in the ID, section I.C.2.

⁸ Kleeschulte and John Coughlin (a 22-year employee of Abex who now consults with complainant) both testified that it took American Brake Shoe at least five years to develop the
(continued...)

Respondents argue that any limited exclusion order should remain in effect for three years or less. Such a short period of time is unsupported by the evidence relating to the development of the trade secrets at issue, as well as the value of the trade secrets (discussed in the ID), including respondents' [] misappropriation of them. The testimony of respondents' expert witness on this question did not relate to the production of cast steel railway wheels such as those at issue in this investigation. *See* Packer Tr. 2940-2941 ("I explained this last time we talked about the castings here for the mortar shells. It took us three weeks to make the molds, make the cores, make castings and submit them for approval by the ordinance department.")⁹

Accordingly, it is recommended that any limited exclusion order that issues in this investigation remain in effect for 10 years.

C. Cease And Desist Orders

Section 337 provides that in addition to, or in lieu of, the issuance of an exclusion order, the Commission may issue a cease and desist order as a remedy for violation of section 337. *See* 19 U.S.C. § 1337(f)(1). The Commission "generally issues a cease and desist order only when a respondent maintains a commercially significant inventory of infringing products in the United States." *GFCLs*, Comm'n Op. at 24. Complainant and the Staff argue in favor of the

⁸ (...continued)
initial ABC process. *See* Kleeschulte Tr. 439, 564, 589; Coughlin Tr. 201-204. After the process had been developed, it took at least five years of additional work to take the process from the research phase to the commercial phase. *See* Kleeschulte Tr. 564, 589; Worries Tr. 73-74.

⁹ [

]

issuance of cease and desist orders in this investigation. Respondents offer no argument in opposition.

The record evidence supports the issuance of cease and desist orders. In that regard, [

.]

Indeed, the parties have stipulated that TianRui has imported wheels into the United States through SCT and Barber. [

] The record evidence, detailed in the initial determination, shows that respondents have already embarked upon extensive sales and marketing campaigns in the United States. It is inconceivable that respondents could engage in such importations, sales, and other commercial activities without maintaining significant domestic inventories. *See* JX-1C, ¶¶ 81-84; *see also* ID, section VI (injury).

In view of the evidence showing the need for such orders, [

] it is recommended that the Commission issue cease and desist orders directed toward each respondent that will prohibit them from selling, advertising, promoting, shipping, distributing, or otherwise transferring within the United States, any TianRui wheels manufactured abroad using the ABC Process. The issuance of cease and desist orders against foreign respondents is particularly important in this investigation, where one of the domestic respondents, Barber,¹⁰ in a joint venture set up by a foreign respondent, TianRui, and a domestic respondent, SCT, for the purpose of selling the accused cast steel railway wheels.¹¹

D. Bond

The administrative law judge and the Commission must determine the amount of bond to be required of a respondent, pursuant to section 337(j)(3), during the 60-day Presidential review period following the issuance of permanent relief, in the event that the Commission determines to issue a remedy. The purpose of the bond is to protect the complainant from any injury.

19 U.S.C. § 1337(j)(3); 19 C.F.R. §§ 210.42(a)(1)(ii) & 210.50(a)(3).

When reliable price information is available, the Commission has often set the bond by

¹⁰ Barber is a Delaware limited liability company with its principal place of business in Park Ridge, Illinois. It is a joint venture that was formed by TianRui and SCT in 2007. JX-1C, ¶ 75; CX-2618.

¹¹ The fact that a respondent is a foreign entity does not necessarily prevent a cease and desist order from issuing against it. The Commission has personal jurisdiction over all respondents in this investigation. *See* ID at 11-12; *see also Certain Abrasive Products Made Using a Process for Powder Preforms, and Products Containing Same*, Inv. No. 337-TA-449, 67 Fed. Reg. 34728, Comm'n Notice (May 15, 2002) (issuance of limited exclusion order, and cease and desist order against a Taiwan respondent) (vacated on other grounds 69 Fed. Reg. 35675 (2004)).

eliminating the differential between the domestic product and the imported, infringing product. *See Certain Microsphere Adhesives, Processes for Making Same, and Products Containing Same, Including Self-Stick Repositionable Notes*, Inv. No. 337-TA-366, Comm'n Op. at 24, USITC Pub. 2949 (1995). In other cases, the Commission has turned to alternative approaches, especially when the level of a reasonable royalty rate could be ascertained. *See Certain Integrated Circuit Telecommunication Chips and Products Containing Same, Including Dialing Apparatus*, Inv. No. 337-TA-337, Comm'n Op. at 41-43, USITC Pub. 2670 (1993). A 100% bond has been required when no effective alternative existed. *See Certain Flash Memory Circuits and Products Containing Same*, Inv. No. 337-TA-382, USITC Pub. No. 3046, Comm'n Op. at 26-27 (July 1997) (a 100% bond imposed when price comparison was not practical because the parties sold products at different levels of commerce, and the proposed royalty rate appeared to be *de minimis* and without adequate support in the record).

In this investigation, there is evidence of both a [] as well as a current royalty rate (*i.e.*, []). An importation bond based on either percentage would be relatively [].

The evidence concerning the []

¹² As discussed in detail in the initial determination, Griffin Wheels are sold by complainant, and are the subject of direct competition by respondents' wheels (which are made through misappropriation of the trade secrets at issue). *See ID*, section V (domestic industry).

¹³ []

[

] Thus, the imposition of a [] bond on importations of accused wheels during the Presidential review period would prevent injury to complainant.

The royalty rate of [], proposed by respondents and the Staff, was used in some conservative calculations made by complainant's expert on injury, and is ultimately derived from the license that complainant has with a South African manufacturer, Scaw. *See* Resps. Br. at 146; Putnam Tr. 2165-2166. It is not, however, clear that such a rate is reasonable vis-a-vis respondents, or importations into the United States, because Scaw does not compete against complainant in the United States, and thus is not taking sales away from complainant in its home market. It is, therefore, difficult to discern what sort of royalty complainant could reasonably ask of respondents if it decided to license TianRui wheels for sale in the United States. *See* Putnam Tr. 2167.

In any event, an importation bond based on a reasonable royalty rate is traditionally an alternate approach taken by the Commission when price differential evidence is not available. As discussed above, [

] and thus reliance on a royalty rate is not necessary.

Accordingly, it is recommended that respondents be required to post a bond equal to [] of the entered value of any accused wheels that they seek to import during the Presidential review period.


III. Conclusions And Recommended Determination

In accordance with the discussion of the issues contained herein, it is the RECOMMENDED DETERMINATION ("RD") of the undersigned that in the event the Commission determines that one or more respondents have committed a violation of section 337, the Commission should issue a limited exclusion order. It is further recommended that the Commission issue cease and desist orders directed toward all respondents to the extent that each is found to be in violation. In addition, if the Commission imposes a remedy that prohibits importation, respondents' importations during the Presidential review period should be subject to a bond in the amount of [] of their entered value.

The Secretary shall serve a confidential version of this RD upon counsel who are signatories to the Protective Order issued in this investigation (Order No. 1), and upon the Commission investigative attorney.

To expedite service of the public version, counsel for each party shall file by no later than November 4, 2009, a copy of this RD with those sections considered by the party to be confidential bracketed in red, or if confidential treatment is not requested for any portion of this RD, a statement to that effect.

SO ORDERED.



Carl C. Charneski
Administrative Law Judge

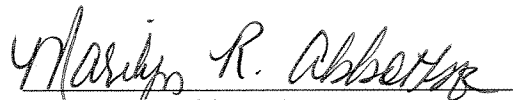
Issued: October 29, 2009

**CERTAIN CAST STEEL RAILWAY WHEELS, CERTAIN PROCESSES FOR
MANUFACTURING OR RELATING TO SAME AND CERTAIN PRODUCTS
CONTAINING SAME**

INV. NO. 337-TA-655

PUBLIC CERTIFICATE OF SERVICE

I, Marilyn R. Abbott, hereby certify that the attached **RECOMMENDED DETERMINATION** has been served by hand upon the Commission Investigative Attorney, Jeffrey T. Hsu, Esq. and Aarti Shah, Esq., and the following parties as indicated, on MAR 09 2010.


Marilyn R. Abbott, Secretary
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**CERTAIN CAST STEEL RAILWAY WHEELS, CERTAIN PROCESSES FOR
MANUFACTURING OR RELATING TO SAME AND CERTAIN PRODUCTS
CONTAINING SAME**

INV. NO. 337-TA-655

| | |
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| <p>FOR RESPONDENTS BARBER TIANRUI RAILWAY SUPPLY, LLC., TIANRUI GROUP CO., LIMITED AND TIANRUI GROUP FOUNDRY CO. LIMITED:</p> <p>Tom M. Schaumberg, Esq. ADDUCI, MASTRIANI & SCHAUMBERG, LLP 1200 Seventeenth St., N.W. Fifth Floor Washington, D.C. 20036</p> | <p><input type="checkbox"/> Via Hand Delivery <input checked="" type="checkbox"/> Via Overnight Mail <input type="checkbox"/> Via First Class Mail <input type="checkbox"/> Other: _____</p> |
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