# Section 337: Trade-Based Remedy

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*Most-used legal tool against import activities infringing U.S. intellectual property may not have expected effect*

The most widely used legal tool available against import activities infringing upon U.S. intellectual property rights is the Section 337 investigation, conducted under the Tariff Act of 1930 as amended by the Trade Act of 1974 (19 U.S.C. § 1337), undertaken before the United States International Trade Commission. More than 300 such investigations have been initiated since 1974, when the statute last underwent a major amendment.

Congress' passage of the Omnibus Trade and Competitiveness Act of 1988, which was signed into law by President Reagan on August 23, 1988, drew much public comment directed to its various provisions. But quietly, without much discussion outside the ITC bar, and with little fanfare, Congress amended in the Act certain provisions of Section 337 to markedly enhance its substantive application and ease certain of its procedural complexities and shortcomings.

While intended to increase the use of Section 337 by U.S. intellectual property owners, these amendments have arguably had the further, unlooked-for effect of exacerbating a resurgent international conflict under the General Agreement on Tariffs and Trade (GATT) surrounding these investigations, with the final result being a yet-to-occur, but potentially more severe restriction of the statute.

## ITC BASICS

Generally, subsection (a) of Section 337 prohibits unfair acts and unfair methods of competition in the importation or sale of articles. Under the pre-Act statute, the owner, importer or consignee, or their agents, would be prohibited from importing the articles if the unfair acts or methods had the effect or tendency to destroy, substantially injure, or prevent establishment of an efficiently and economically operated United States industry. Importation of articles was also prohibited under Section 337(a) if the unfair acts or methods have the effect or tendency to monopolize trade and commerce in the United States.

Unfair methods of competition and unfair acts encompassed by the statute include a broad range of unlawful activities, including:

— Patent infringement, including importation of the product of a process patented in the United States but only practiced abroad.

— Unauthorized use of a registered trademark.

— Copyright infringement.

— Common law trademark infringement, passing off, palming off, false designation of origin, and misappropriation of trade dress.

— Lanham Act § 43(a) violations.

— Misappropriation of trade secrets.

— Antitrust violations.

The ITC is empowered to initiate an investigation, either on its own volition or upon receipt of a properly filed complaint. The investigations, which are adversarial in nature, are conducted before an Administrative Law Judge after notice and an opportunity for a hearing, under the provisions of the Administrative Procedures Act, Title 5, United States Code. There are at least three parties involved in the proceedings: the complaintant (plaintiff), the respondent (defendant), and the Commission Investigative Attorney.

To effect the relief of any unfair acts or methods, the Commission may issue a temporary and/or permanent exclusion order (either general or limited in nature), and/or a cease and desist order, upon finding that a violation of Section 337 exists and that issuance of the order would not harm the public interest. These orders function to block — totally — all importation into the United States of the articles in issue.

The matter then is referred to the President of the United States, who, acting through the United States Trade Representative, has 60 days within which to approve or disapprove the ITC order.

If the President approves or declines to disapprove the order, the ITC decision becomes a "final determination." A last review of that final determination may then be secured through the United States Court of Appeals for the Federal Circuit, a federal appellate court, which also hears appeals on a nationwide basis from all patent infringement litigation in the United States.

## THE PRE-AMENDMENT BENEFITS AND THE PROBLEMS

Section 337 investigations were and remain preferred by many intellectual property owners seeking to stop importation of infringing articles over federal court proceedings for a number of reasons. Speed is one: Proceedings are very expeditiously handled in the ITC. Under the statute, a final decision is required within 12 months of the date the investigation is initiated, or, in the case of a "complicated" case, within 18 months of that date.

Discovery responses, such as to requests for the production of docu-

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ments and interrogatories, are due in 10 days. A decision on a temporary exclusion order must be made within four months. By contrast, there are no total case or preliminary relief time limits in federal district court, and discovery requests have a 30 day response time.

The scope of the Commission's jurisdiction is another advantage. An ITC investigation provides injunction-like remedies that act *in rem*, against the articles in issue, with further relief available in the form of a cease and desist order if *in personam* jurisdiction is present. It does not require *in personam* jurisdiction over any of the respondents. A federal district court requires *in personam* jurisdiction over defendant parties upon which to base its actions.

Other advantages also favor the Section 337 investigation over federal district court proceedings. An ITC investigation provides nationwide subpoena power, for example, while a federal district court subpoena will not reach outside of the state in which the court sits, requiring an ancillary proceeding where service must be secured out-of-state.

No counterclaims may be made by a respondent in the ITC, whereas a federal district court proceeding allows full counterclaiming on the defendant's part. Previously, due to 19 U.S.C. § 1337a, the ITC could address infringement of a process patent, where the process was practiced offshore and the resulting products were imported into the United States, whereas a federal district court had no jurisdiction over such acts. (Under the Act, the ITC may still address such conduct, but a federal district court may now do so as well.)

### ◄ Disadvantages ►

A number of disadvantages existed, however, that, the Commission felt, were blocking broader use of Section 337 investigations. The major problems resulted, in large measure, from the economic proofs that were required, due to the trade aspects of the pre-Act statute. The complainant needed to establish the existence of an efficiently and economically-run U.S. domestic industry, and that respondent's activities had substantially injured or tended to injure that industry (or had prevented establishment of an industry). This required substantial disclosure of a sensitive financial information by the complainant, and the narrow extant definition of a "domestic industry" made protection difficult to secure, for example, if the U.S. intellectual property owner had products manufactured offshore and supplied to his U.S. distribution network.

Another problem lay in the area of defaults. The prior rule in an ITC investigation, contrary to that in a federal district court, where a default judgment can be readily secured against the defaulting party, was that the complainant still had to make out a *prima facie* case of violation of Section 337. Commission practices had developed to attempt to bridge around this impediment, but it still resulted in substantial effort and expenditure upon the complainant's part, and allowed respondents to sometimes avoid entry of an order.

A "fine tuning" of the statute was needed, preferably by a deft and adept hand, and Congress, to its credit, supplied it in the Act.

## THE AMENDMENTS

The Act improved the effectiveness of intellectual property protection under Section 337 by, *inter alia*: (1) eliminating the injury requirement in cases involving patents, registered trademarks and copyrights, and semiconductor chip mask works, and accepting the threat of injury as sufficient in cases involving other unfair acts; (2) eliminating the requirement that a United States domestic industry be "efficiently and economically operated" in all cases; (3) defining a United States domestic industry to include investments in the exploitation of intellectual property; (4) clarifying that cease and desist orders may be issued "in addition to or in lieu" of exclusion orders and increasing the penalty for violations of such orders to "$100,000 or twice the domestic value of the articles"; (5) allowing, upon default, the direct providing of relief, in the form of a cease and desist order against the defaulting party, or a limited exclusion order against the goods, without the necessity of establishing a *prima facie* case; and (6) re-setting the decision period on a temporary exclusion order to three months.

A U.S. or foreign-based, U.S. intellectual property owner still is not automatically considered to have a "domestic industry" eligible for relief under the Act unless he also demonstrates, through significant investment or employment, that his industry either exists or is in the process of being established. The "domestic industry" requirement with respect to patents, registered trademarks and copyrights, and semiconductor chip mask works, thus is now satisfied if, in the United States, there is either a significant investment in plant and equipment, significant employment of labor or capital, or significant investment in the exploitation of the intellectual property right, including engineering, research and development, or licensing. A domestic industry that is in the process of being established is also protectable.

Plainly, there is a marked broadening in the scope of activities that will now be swept into a U.S. "domestic industry," particularly when these provisions are compared against prior case precedent construing the proofs necessary to establish the existence of a "domestic industry." The third alternative in particular effects a clear expansion of the ITC jurisdiction, and would enable a Section 337 investigation instigated by a Japanese owner of U.S. patents, based in Japan, involved in a broad-scale licensing program in the U.S., to proceed against infringing imported articles. It also clearly includes the U.S.-based distributor who has his goods manufactured overseas in his plants or who has offshore manufacturers construct his goods.

Marketing and sales expenditures alone, however, will continue to be insufficient to establish the existence of a protectable domestic industry.