AN OVERVIEW OF PRACTICE UNDER SECTION 337

The protection of intellectual property rights concerns companies in virtually every industry. Moreover, internationalization of the marketplace has caused the issues of intellectual property protection and international trade to become entwined. This has perhaps become most evident with the substantial increase in the number of investigations filed under Section 337 of the Tariff Act of 1930, as amended (19 U.S.C. § 1337), at the U.S. International Trade Commission ("Commission"). Designed to address unfair acts and unfair methods of competition in the importation of articles into the United States, Section 337 offers several advantages to those seeking to enforce their intellectual property rights against infringing, imported products. Advantages such as worldwide discovery, expedited hearings, judges with expertise in intellectual property law and effective remedies enforced by U.S. Customs and Border Protection ("Customs"), part of the U.S. Department of Homeland Security, make a Section 337 investigation at the Commission a highly effective vehicle for the enforcement of U.S. intellectual property rights.

I. ELEMENTS OF A SECTION 337 VIOLATION

Historically, Section 337 declared unlawful "unfair methods of competition and unfair acts" in the importation of articles into the United States. The most commonly asserted types of unfair act and, indeed, ones now specifically identified in the statute are importations of articles that infringe a valid and enforceable U.S. patent or federally registered trademark, copyright or semiconductor mask work. In fact, one of the primary objectives of the amendments made to Section 337 by the Omnibus Trade and Competitiveness Act of 1988 was to make Section 337 a more effective mechanism for the enforcement of U.S. intellectual property rights against infringing imports.

As a result, the Commission uses two separate tests, depending on the nature of the unfair act under investigation, to determine whether a Section 337 violation exists. These tests are:

(1) If the unfair act pertains to articles that infringe a valid and enforceable U.S. patent or federally registered copyright, trademark, mask work used in conjunction with a semiconductor chip product or registered boat hull design, the complainant must establish importation, infringement and that an industry relating to the intellectual property right exists in the U.S. or is in the process of being established (as demonstrated by significant investment in plant and equipment; significant investment in labor or capital; or substantial investment in the exploitation of the intellectual property, including engineering, research and development, or licensing); or
(2) If the unfair act or method of competition does not pertain to one of the violations specified above, the complainant must prove all of the foregoing factors and, in addition, that the unfair act has the threat or effect of destroying or substantially injuring the domestic industry, preventing the establishment of such an industry or restraining or monopolizing trade and commerce in the United States.

Accordingly, under the first test, as long as there is a U.S. patent or a federally registered trademark, copyright, mask work or boat hull design and there has been significant or substantial activity in the U.S. with respect to the exploitation of that right, Section 337 may be used to protect the intellectual property right from infringing imports without demonstrating injury. It is even possible for foreign owners of U.S. intellectual property rights to take advantage of Section 337 as long as they can demonstrate they are engaged in the requisite amount of activity in the U.S. related to the intellectual property right.

The second test applies to situations that encompass a broad spectrum of unfair acts and methods of competition, including common law trademark infringement, passing off, trade secret misappropriation, violation of the Digital Millennium Copyright Act, a variety of business torts and what would otherwise be a violation of the antitrust laws. It has even been suggested that Section 337 can be used to attack imports resulting from foreign unfair labor practices, such as the use of prison labor or under-age workers. The more liberal domestic industry standard for intellectual property based investigations, which includes investment in engineering, research and development or licensing, does not, however, apply to investigations involving these kinds of unfair acts. Accordingly, a complainant asserting common law trademark rights, for example, must show significant domestic investment in plant, equipment, labor or capital and must meet the injury test to obtain protection under Section 337.

Because Section 337 is an international trade statute intended to remedy unfair acts in the importation of articles into the U.S., a key requirement of all Section 337 investigations is proof that there have been imports of the products in question. The importation requirement may be satisfied by showing actual importation or by demonstrating that a sale has been made for importation of the accused products into the U.S. Even the importation of samples or a contract for future sale for importation into the U.S. can be sufficient to meet this test. Furthermore, it should be noted that goods made in the U.S. may satisfy the importation requirement if they are exported for assembly into a final product that is then imported into the U.S. Thus, even companies active in the U.S. can be found to violate Section 337.

In short, the elements of a Section 337 violation are (1) an unfair act or unfair method of competition, e.g., patent infringement; (2) an importation, sale for importation or sale after importation of the accused product; (3) a domestic industry; and (4) in the case of investigations not involving a federally registered intellectual property right, injury resulting from the unfair act. The elements of importation, domestic industry and, in some instances, injury are necessary because Section 337 is a trade statute. Even with these additional elements, however, a Section 337 investigation can be a more efficient and effective method of enforcing intellectual property rights against infringing imports than an action in district court.
II. PROCEDURES IN A SECTION 337 INVESTIGATION

A Section 337 investigation is normally instituted based upon a complaint filed by a private party with the Commission or, in rare instances, by the Commission on its own motion. The majority of past investigations have concerned allegations of patent infringement. The Commission has also instituted investigations based upon allegations of copyright infringement, misappropriation of trade secrets, trademark infringement (both federal and common law), the passing off of goods, violation of the Digital Millennium Copyright Act and improper designations of origin. There have also been a number of cases which involved anticompetitive activities and other types of unfair competition. Importations and sales of articles made without license by means of a process covered by a U.S. patent are also specifically prohibited under Section 337.

A. Institution of the Investigation

When a complaint is filed it is a public document, with the exception of business confidential information, and it is directed to staff attorneys in the Office of Unfair Import Investigations ("OUII") who, during a 30-day period, investigate the background of the complaint and determine whether it meets certain procedural rules. A recommendation is then made to the Commission by OUII as to whether the complaint meets the rules and presents a cause of action that should be considered by the Commission for investigation.

If the Commission determines, as it normally does, that an investigation should be instituted, a notice is published in the Federal Register and copies of the complaint are served upon those named as respondents in the investigation and, in the case of foreign respondents, their respective embassies. A staff attorney from OUII is also designated as a formal party to the investigation and participates in all phases of the proceeding. The investigation is assigned to an Administrative Law Judge who controls the conduct of the investigation until an initial determination on violation and a recommended determination on remedy and bonding are issued. Importantly, all phases of the investigation are conducted under the provisions of the Administrative Procedure Act. This ensures that an investigation is conducted in accordance with the principles of due process. While parties are not permitted to communicate with decision-makers at the Commission on an ex parte basis, this proscription does not extend to discussions with the OUII attorney assigned to the case.

B. Pre-Hearing Procedures

The date of publication of the Notice of Investigation in the Federal Register begins the schedule for the Commission's investigation, including setting a target date for completion of the investigation. Significantly, it is through the use of such target dates – normally in the range of twelve to fifteen months – that the Commission has maintained its record of completing Section 337 investigations in an expeditious manner. Respondents named in the investigation have twenty days after service of the complaint by the Commission in which to file a response. Additional time is provided when service of the complaint is made by mail, i.e., three days for domestic companies and ten days for foreign. Parties may begin discovery once notice of the investigation appears in the Federal Register.
Due to the expedited schedule involved in these investigations, the time for answering interrogatories, producing documents and conducting depositions is very short. The entire process of discovery in an one-year investigation normally takes place within approximately five months. During this time, there may be one or more conferences with the Administrative Law Judge, who controls the discovery process, rules upon motions and handles various requests of the parties to gain additional information or to be permitted to withhold information requested by an opposing party. Protective orders with respect to confidential business information are issued as a matter of course. Accordingly, confidential business information is routinely exchanged among outside counsel and independent experts but protected from public disclosure or disclosure to the opposing party.

Often, a great deal of the information needed by the complainant to prove its case is located in foreign countries. This information may be difficult to obtain, not only because of volume and distance, but also because some foreign governments do not make it easy for discovery, as practiced in the U.S., to take place. Nonetheless, the Commission, with the approval of the U.S. Court of Appeals for the Federal Circuit ("CAFC"), has given itself tremendous latitude in gaining access to information held by foreign companies. Although the Commission cannot issue subpoenas to compel foreign companies to divulge information or documents in the same way it can force companies or persons located in the U.S. to do, the Commission can impose sanctions for failure to provide information. Sanctions are similar to those set forth in Rule 37 of the Federal Rules of Civil Procedure ("FRCP") and may include a finding that the information that the complainant should have been able to obtain would be unfavorable to the respondent's position or, in extreme cases, even a final ruling in the case in favor of the complainant. Sanctions may also be imposed against a complainant who fails to cooperate in discovery. As a practical matter, many of the Commission's Rules of Practice and Procedure closely track the FRCP.

For a foreign respondent, the discovery period can be quite burdensome because of the short time limits and the difficulties of transporting large numbers of documents or persons around the world and of coordinating with the U.S. attorneys representing it to ensure that accurate and complete information is compiled and presented to the Commission. The prospect of disclosing confidential business information, even under a protective order, also has proven to be difficult for foreign respondents in these cases. Nonetheless, cooperation in discovery is more the rule than the exception.

C. Hearing and Post-Hearing

Once the period of discovery is closed, preparation begins for the trial-type hearing before the Administrative Law Judge. Normally, there is approximately one month between the close of discovery, including expert discovery, and the beginning of the hearing, during which pre-trial briefs and exhibits are prepared. A hearing may last from a few days to several weeks and is similar to a federal district court bench trial, except for the more liberal evidentiary standards, especially with respect to hearsay. The parties, including the OUII attorney, are provided an opportunity to cross-examine witnesses as in a typical district court trial. Decisions made by the judges and the Commission must have a sound basis both in fact and law.
Following completion of the hearing, the parties are allowed a short period of time, up to one month, to prepare final briefs and detailed findings of fact and conclusions of law for consideration by the Administrative Law Judge. Some of the Judges also schedule closing arguments after the briefs have been submitted. The Judge has approximately sixty days within which to consider these documents and the evidence presented at the hearing and to prepare an initial determination consisting of findings of fact, conclusions of law and an opinion for submission to the Commission.

The Judge's determination addresses whether there is a violation of Section 337, including the establishment of an unfair act, importation and the existence of a domestic industry. In investigations that do not involve patents, registered trademarks, copyrights and mask works, the Judge also determines whether the domestic industry has been injured. In each investigation, the Judge will also issue a recommended determination on the issues of remedy and bonding.

D. Commission and Appellate Review

Parties may appeal the Administrative Law Judge's determination by filing a petition for review with the Commission. Failure to file a petition waives any future right of appeal. The Commission may grant or deny petitions and also may review the initial determination on its own motion. If the Commission decides to review the determination, it will specify the scope of review and the issues that will be considered and will make provisions for the filing of briefs and for oral arguments, if deemed appropriate. Oral arguments before the Commission are, in fact, uncommon.

If the Commission finds a violation of Section 337, its determination is forwarded to the President with the record upon which it is based. The President has sixty days to disapprove, but not alter, the determination, for policy reasons, in which case the Commission's action will have no force or effect. This has rarely happened in the history of the statute. If the President approves the determination or takes no action, the Commission's determination becomes final. In addition, if the Commission determines that goods are to be excluded from entry, or if a cease and desist order is to be imposed, it must determine the amount of the bond under which imports may enter the U.S. during the 60-day period for Presidential consideration of Commission orders.

Appeal of a final determination of the Commission may be taken to the CAFC within sixty days from the date the Commission's determination becomes final. Historically, the Commission has had a high rate of success on appeal. It should be noted that, only with respect to patents, Commission decisions are not entitled to collateral estoppel because Congress invested the federal courts with final authority over patents. The Commission's record, however, may be used in a subsequent district court proceeding, and district court judges have shown deference to Section 337 determinations in the patent arena.

III. REMEDIES

If the Commission finds a violation of the statute, it can impose several remedies. The first and most common remedy is the exclusion of articles from entry into the U.S. This remedy applies only to goods imported after the date the Commission's order becomes final and does not
Exclusion orders can either be limited to persons specifically found to be in violation of Section 337 (limited exclusion order) or, under certain circumstances, against all importers of the accused product even though they were not party to the investigation (general exclusion order). This reflects the \textit{in rem} nature of Section 337. The Commission has the authority to order seizure and forfeiture of goods subject to an exclusion order if an owner or importer attempts to import the goods following a written warning that any further attempt to enter the goods will lead to those penalties. Such orders are enforced by Customs. Monetary damages are unavailable in a Section 337 investigation; these must be sought in federal district court in a separate action. Moreover, while a federal district court action, \textit{e.g.}, for patent infringement, can be filed concurrently with a Section 337 complaint, that action can be stayed at the request of the respondent/defendant pending the outcome of the Section 337 investigation.

The second remedy available from the Commission is a cease and desist order that can be issued in lieu of, or in addition to, an exclusion order. Cease and desist orders only apply within the United States, are directed to a specific respondent and require a change in some action or conduct found to be unlawful. These orders, under certain circumstances, may apply to goods in inventory that were imported prior to the Commission's determination that a Section 337 violation exists. The Commission has ordered companies to cease selling products in inventory which infringe the intellectual property rights in issue, to cease specific marketing practices, as well as to cease certain types of anti-competitive conduct.

The Commission also has authority to issue an exclusion order and/or a cease and desist order against any respondent who defaults under a procedure similar to that employed by federal district courts.

\section{Commission Enforcement of its Remedies}

The Commission has the authority to bring a civil action seeking a monetary penalty if a respondent fails to comply with a cease and desist order. The maximum amount of the fine may be the greater of either $100,000 for each day the proscribed activities or imports occur or twice the domestic value of the imported items. Since obtaining this authority in 1979, the Commission has not hesitated to exercise its power under this provision to impose substantial civil penalties for failure to comply with a cease and desist order. For example, in one case the Commission imposed a civil penalty in the amount of $2,600,000 for a violation of its cease and desist order. Ultimately, the Commission vacated the order imposing the civil penalty based on a settlement agreement between the parties. In another case the Commission imposed a civil penalty of $2,320,000 after taking into consideration certain aggravating factors, including bad faith in attempting to circumvent the cease and desist order and destruction of documents. The ability to impose monetary sanctions serves as a powerful tool for the Commission to ensure compliance with its orders.

The Commission also may issue consent orders in investigations in which the parties settle. In such orders the respondent agrees to refrain from certain conduct, and the Commission maintains authority to enforce the agreement. The Commission’s authority to impose civil fines for violation of a consent order was upheld by the CAFC in a case in which the Commission imposed a civil fine of $1,550,000.
B. Preliminary Relief and Public Interest Considerations

The Commission has authority to exclude articles from entry on a preliminary basis during the pendency of an investigation. The temporary exclusion order ("TEO") is imposed only after a determination by the Commission that there is reason to believe there is a violation of Section 337. The requirements for obtaining a TEO are identical to the four factors for obtaining a preliminary injunction in federal district court. One notable feature, however, is that the decision on entry of a TEO must, in accordance with the statute, be issued within ninety days after initiation of the investigation. The Commission can grant a sixty-day extension in more complicated cases, but it must publish in the Federal Register its reasons for designating the investigation as more complicated. As is the case with preliminary injunctions, TEOs have not been pursued frequently because the Commission imposes a high standard of proof before it will temporarily halt the importation of goods, except under bond, during an investigation. Moreover, to discourage frivolous requests, the Commission can require complainants to post a bond as a prerequisite to receiving temporary relief. The Commission may also issue temporary cease and desist orders under these provisions.

If the Commission finds a violation of Section 337 or is prepared to enter preliminary relief, it must consider the impact of relief upon the public interest before it imposes a remedy. In making this determination, the Commission is required to consider various factors, including the effect of the remedy on the public health and welfare, competitive conditions in the U.S., the production of competitive articles in the U.S. and U.S. consumers. These are vestiges of Section 337's origins as a trade statute, which have not played an important role in recent investigations. In fact, since the injury requirement was eliminated in 1988 from patent and other statutory-based intellectual property investigations, Section 337 has become part of the mainstream for addressing intellectual property violations involving imported goods.
### ITC Timetable for Representative Section 337 Investigations

#### Temporary Relief

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<th>Filing</th>
<th>Federal Register Institution Notice</th>
<th>Response</th>
<th>Public Interest Submission</th>
<th>ALJ's Initial Determination</th>
<th>Petition Comments</th>
<th>Reply</th>
<th>Commission Final Determination</th>
<th>Presidential Action</th>
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<th>ALJ's Initial Determination</th>
<th>Petition for Review</th>
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1. 19 C.F.R. § 210.58.
2. 19 C.F.R. § 210.10(b).
3. 19 C.F.R. § 210.59(a); add 3 days for domestic service by mail and 10 days for foreign service by mail.
4. 19 C.F.R. § 210.67(b).
5. 19 C.F.R. § 210.66(a).
6. 19 C.F.R. § 210.66(c); to be served by fastest means available.
7. 19 C.F.R. § 210.66(e)(1); no time added for service.
8. 19 C.F.R. § 210.66(b); at the conclusion of the temporary relief phase, the investigation shifts onto the permanent relief track.
11. 19 C.F.R. § 210.13(a); add 3 days for domestic service by mail and 10 days for foreign service by mail.
13. 19 C.F.R. § 210.42(a)(1). The number provided is based on a one-year target date. If the target date is 15 months or less from the date of institution, the Initial Determination must be completed at least 3 months before the target date. If the target date is more than 15 months from the date of institution, the Initial Determination is due no later than 4 months before the target date.
14. 19 C.F.R. § 210.43(a). As set forth in the Timetable, a Petition for Review of an Initial Determination on Violation must be filed within 10 days after issuance of the Initial Determination. Petition for Review of Initial Determinations on other matters (See 19 C.F.R. § 210.42(c)) must be filed within 5 days.
15. 19 C.F.R. § 210.43(c).
16. 19 C.F.R. § 210.43(d). The decision whether to review an Initial Determination on Violation must be made within 45 days unless extended by the Commission. The decision whether to review an Initial Determination on other matters must be made within 30 days unless extended. Further briefs and/or oral argument are at the Commission's discretion as are briefs and/or oral argument on the issues of remedy, public interest and bonding.
17. Although the one-year time limit was eliminated by the Uruguay Round Agreement Act, the ITC generally continues to set target dates for completion of Section 337 investigations 12 to 15 months from the date of institution. See S. Rep. No. 412, 103d Cong. 2d Sess. 119 (1994).