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The International Trade Commission's Section 337 Authority¹

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Without much fanfare, the U.S. International Trade Commission has emerged as one of the most salient patent enforcement venues in the United States. Its fast-track procedures – typically producing determinations within 12 to 16 months of initiation of an investigation – and potent exclusion remedy have brought the ITC to center stage in patent enforcement over the past several years. The ITC now conducts more full patent adjudications on an annual basis than any district court in the nation. The ITC's six Section 337 administrative law judges (ALJs) focus almost exclusively upon patent investigations, making the ITC the only specialized trial-level patent adjudication forum in the nation. Given the importance of international trade to high technology markets, the ability to exclude goods at the border provides a valuable strategic option for patent owners.

Consequently, all patent litigators and in-house patent counsel should be familiar with the ITC's Section 337 authority. This article summarizes its key elements and calls attention to an upcoming conference – The ITC Comes to Silicon Valley (May 18, 2010) in San Jose – and the development of a comprehensive, up-to-date treatise: Section 337 Patent Investigation Management Guide.

Historical Development

The ITC's authority to prohibit importation of infringing goods traces back to the creation of the United States Tariff Commission in 1916 and the Tariff Act of 1922. This was a time before tariff treaties existed and nations actively used tariffs to protect domestic markets. The bulk of the 1922 law set tariffs on imported goods. Section 316 of the Act established the foundation on which modern unfair import proceedings rest by prohibiting "unfair methods of competition and unfair acts in the importation of articles into the United States, or their sale by the owner, importer, or consignee. . . ."³ As a threshold requirement, the statute applied only to

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³ Tariff Act of 1922 § 316(a).

actions that threatened to injure a domestic industry that existed or was being established. The law authorized the President to levy duties on or exclude imports from the market. Early cases recognized patent infringement as an "unfair act."

Section 337 of the Smoot-Hawley Tariff Act of 1930 superseded § 316 of the Tariff Act of 1922 and empowered the Tariff Commission to conduct investigations of unfair trade. Few complainants sought to initiate investigations under this provision due to the lack of formal procedures for obtaining relief.

The Trade Act of 1974 established the International Trade Commission as an independent agency and gave it authority to protect domestic industries against unfair practices. Unlike the predecessor Tariff Commission's advisory role, the ITC was granted authority to issue exclusion orders, subject to reversal by the President on policy grounds. Congress also gave the ITC the power to enforce exclusion orders through cease-and-desist orders and civil penalties. Moreover, the 1974 Act required the ITC to conclude its investigations "at the earliest practicable time, but not later than one year (18 months in more complicated cases)" after commencement of the investigation. The 1974 Act also brought ITC investigations within the formal adjudication provisions of the Administrative Procedure Act (APA). These changes ushered in the modern era of ITC unfair import investigations.

Congress amended Section 337 in 1988 to further facilitate the use of ITC investigations in combating unfair trade practices. See Omnibus Trade and Competitiveness Act of 1988. Among other changes, the 1988 Act eliminated the injury requirement for statutory intellectual property investigations. The 1988 Act also removed the requirement of prior law that the domestic industry be "efficiently and economically operated." The Act also expanded the scope of what constitutes a domestic industry. The 1988 Act also expedited enforcement remedies by requiring the ITC to issue temporary exclusion orders within 90 days (or 150 days in more complex cases) of the publication of the ITC's notice of investigation in the Federal Register.

In the late 1980s, a GATT panel ruled that aspects of Section 337 violated the national treatment provision of the General Agreement on Tariffs and Trade.⁴ Congress passed legislation in 1994 to bring Section 337 into compliance with the GATT, including the Agreement on Trade Related Aspects of Intellectual Property (TRIPs) added during the Uruguay Round.⁵ The principal changes were: (1) to substitute a directive to complete investigations "at the earliest practicable time" for the fixed 12 to 18 month limit for completing ITC investigations; (2) to permit respondents to lodge counterclaims, subject to the requirement that such counterclaims be removed immediately to a U.S. district court with proper venue;

⁴ See Report of the Panel, United States-Section 337 of the Tariff Act of 1930, L/6439 (Nov. 7, 1989), GATT B.I.S.D. at 365/345 (1990).

⁵ See Section 321, Uruguay Round Amendments Act of 1994, Pub. L. 103-465, 103rd Cong., 2d. Sess., 108 Stat. 4809 (1994).

(3) to require district courts to stay their proceedings at the request of a party who is also a respondent in a Section 337 proceeding with respect to any claim that involves the same issues; and (4) limitations on the scope of general exclusion orders.

Section 337 Requirements

Section 337 prohibits two categories of unlawful activities: (1) general unfair acts, § 337(a)(1)(A); and (2) importation of infringing articles, § 337 (a)(1)(B)-(E). The general provision covers:

(A) Unfair methods of competition and unfair acts in the importation of articles (other than articles provided for in subparagraphs (B), (C), (D), and (E)) into the United States, or in the sale of such articles by the owner, importer, or consignee, the threat or effect of which is—

- (i) to destroy or substantially injure an industry in the United States;
- (ii) to prevent the establishment of such an industry; or
- (iii) to restrain or monopolize trade and commerce in the United States.⁶

A complaint pursuant to this provision must prove three elements: (1) importation; (2) unfair methods of competition or unfair acts relating to imported merchandise; and (3) injury a domestic industry in the United States, prevention of the establishment of a domestic industry, or restraint or monopolization of trade and commerce in the United States. Importantly, this means that a complainant may succeed under the general provision even when no domestic industry exists if the alleged unfair acts prevent the establishment of a domestic industry, or restrain or monopolize trade and commerce in the United States. Section 337(a)(1)(A) covers numerous actions including antitrust claims, misappropriation of trade dress, common law trademark infringement, trademark dilution, trade secret misappropriation, passing off, false designation, unfair competition, and false advertising.

In addition to the ITC's general power to reach unfair acts and methods of competition, Section 337 also reaches infringing articles.⁷ Part (B) prohibits importation, sale for importation, or sale within the United States after importation of articles that infringe U.S. patents and registered U.S. copyrights. Part (C) bars importation, sale for importation, or sale within the United States after importation of articles that infringe federally registered, valid, and enforceable U.S. trademark. Part (D) prohibits importation, sale for importation, or sale within the United States after importation of semiconductor chip products that infringe registered mask

⁶ § 337(a)(1)(A).

⁷ See § 337(a)(1)(B)-(E).

works registered under Chapter 9 of Title 17 of the U.S. Code. Part (E) proscribes importation, sale for importation, or sale within the United States after importation of boat hull designs that infringe a registered design protected under Chapter 13 of Title 17 of the U.S. Code.

The predominant form of Section 337 investigations have involved allegations of patent infringement. More than 90 percent of Section 337 cases in recent years involve at least one patent infringement claim.

Section 337(a)(1)(B) prohibits:

The importation into the United States, the sale for importation, or the sale within the United States after importation by the owner, importer, or consignee, of articles that—

- (i) infringe a valid and enforceable United States patent or a valid and enforceable United States copyright registered under Title 17; or
- (ii) are made, produced, processed, or mined under, or by means of, a process covered by the claims of a valid and enforceable United States patent.

A complainant pursuant to this provision must establish three elements: (1) importation; (2) domestic industry; and (3) infringement of a valid U.S. patent.

As a threshold requirement, all ITC actions must implicate trade into the United States. The general unfair acts provision requires “importation of articles . . . into the United States” or “the sale of such articles by the owner, importer, or consignee.”⁸ The infringing articles provisions encompass “importation,” “sale within the United States after importation by the owner, importer, or consignee,” as well as “sale for importation,” which can occur outside of the United States.⁹

Complainants alleging violation of the infringing articles provisions must prove that a domestic industry “exists or is in the process of being established.”¹⁰ For purposes of this requirement, a domestic industry exists or in the process of being established if

there in the United States, with respect to the articles protected by the patent [or other covered intellectual property right]

- (A) significant investment in plant and equipment;
- (B) significant employment of labor or capital; or
- (C) substantial investment in its exploitation, including

⁸ See § 337(a)(1)(A).

⁹ See e.g., § 337(a)(1)(B).

¹⁰ § 337(a)(2).

engineering, research and development, or licensing.¹¹

A valid complaint before the ITC must describe the complainant's domestic industry, the complainant's business and interests in the relevant domestic industry, and ownership of the intellectual property rights at issue.

In practice, the domestic industry requirement is relatively easy to clear. It does arise, however, where the complainant is not engaged in significant domestic production based on the patents at issue. The 1988 amendments to § 337 clarified that substantial investment in the exploitation of the intellectual property right in the United States, including engineering, research and development or licensing, satisfies the domestic industry requirement. The legislative history states that the statutory definition (set forth in § 337(a)(2)-(3))

does not require actual production of the article in the United States if can be demonstrated that significant investment and activities of the type enumerated are taking place in the United States. Marketing and sales in the United States alone would not, however, be sufficient to meet the test. The definition could, however, encompass universities and other intellectual property owners who engage in extensive licensing of their rights to manufacturers.¹²

Even foreign-based enterprises can meet the domestic industry test if they have significant U.S. operations.

The domestic industry requirement has two elements: the economic prong and the technical prong. "The complainant in a patent-based 337 investigation must show that an industry exists or is being established (economic prong) and that the industry practices at least one claim of the patent at issue (technical prong)."¹³

Subject to two liability defense exceptions, the ITC applies substantive federal patent law¹⁴ as interpreted by the federal courts, to determine whether a patent is valid and has been infringed. The first exception concerns the § 271(g) prohibition on importation of a product which is made by a patented process. The statute excuses products made by a patented process that are "materially changed by subsequent processes" or "become[] a trivial and nonessential component of

¹¹ § 337(a)(3).

¹² H.R. Rep. No. 100-40, 100th Cong., 1st Sess. 156 (Apr. 6, 1987).

¹³ *In re Certain Display Controllers and Prods. Containing Same and Certain Display Controllers With Upscaling Functionality and Products Containing Same*, Comm'n Op. 52, Inv. Nos. 337-TA-491/481 (consolidated) (Feb. 4, 2005), 2005 WL 996252 (citing *Certain Variable Speed Wind Turbines and Components Thereof*, Inv. No. 337-TA-376, Commission Opinion at 14 (Sept. 23, 1996)).

¹⁴ 35 U.S.C. §1 et. seq.

another product.”¹⁵ The Federal Circuit held in *Kinik v. Int’l Trade Comm’n*,¹⁶ that although § 337(c) states that “[a]ll legal and equitable defenses may be presented in all cases,” the safe harbors set forth in 35 U.S.C. § 271(g) could not be asserted under Section 337 because Congress limited these defenses to “purposes under this title,” i.e., Title 35.

The second exception relates to the equitable defense of laches. The laches defense applies in federal court proceedings when a defendant proves both that the patentee delayed filing its lawsuit for an unreasonably long time and that the defendant suffered either economic or evidentiary harm as a result of that delay. If the defendant succeeds with its laches defense, the patentee cannot recover retrospective monetary damages for harms that occurred prior to the filing day of the lawsuit. Because money damages are not available to complainants under § 337, the laches defense “does not, as matter of law, work to curtail the type of prospective relief sought in 337 cases.”¹⁷ Note that this exception only applies to the laches defense that provides retrospective monetary damages. Prosecution laches, which renders a patent unenforceable, is still available to respondents at the ITC.

As a result of these two exceptions, the scope of patent liability can be somewhat broader in ITC investigations than federal court proceedings. On the other hand, there are some defenses that are effective at the ITC but not in district court. For example, innocent misnaming of one or more inventors is a defense because the ITC, unlike district courts, cannot correct such mistakes.

With regard to remedies, Section 337 diverges substantially from the provisions of the Patent Act. The ITC does not award monetary compensation for patent infringement. The Commission has authority to issue four types of remedial orders for violations of Section 337: (1) temporary relief orders; (2) exclusion orders (general and limited); (3) cease and desist orders; and (4) consent orders. The ITC’s emphasis on exclusion orders in Section 337 proceedings may be attracting greater interest in the aftermath of the Supreme Court’s decision in *Ebay Inc. v. Mercexchange, L.L.C* rejecting routine grants of injunctive relief where patent liability has been established in federal court proceedings.¹⁸

Comparison with District Court Adjudication

The following chart summarizes principal characteristics of district court patent adjudications and ITC patent investigations.

¹⁵ 35 U.S.C. § 271(g)(1)-(2).

¹⁶ 362 F.3d 1359 (Fed. Cir. 2004).

¹⁷ *Certain Personal Watercraft and Components Thereof*, Inv. No. 337-TA-452, Order No. 54 at 2, Init. Determination (Sept. 19, 2007) (citing *Certain EPROM, EEPROM, Flash Memory and Flash Microcontroller Semiconductor Devices and Products Containing Same*, Inv. No. 337-TA-395, Comm’n Op., Suppl. Views of Chairman Bragg at 11, n.65 (July 9, 1998)).

¹⁸ 47 U.S. 388 (2006).

Comparison of District Court Patent Adjudication and ITC Patent Investigations		
Characteristic	District Court Adjudication	ITC Patent Investigation
Speed of Adjudication	Variable – but generally 3 or more years	Expedited proceedings – usually resolved within 12-16 months
Decisionmaker	many district judges have relatively modest experience with patent cases, although judges in several districts have become quite experienced Juries add substantial uncertainty and require more complex evaluation and trial strategy	specialized decisionmaker – ALJs preside over intellectual property investigations exclusively, and the vast majority are based alleged patent infringements
Initiation of Action	Filing of complaint	After complaint is filed, the Commission determines whether to institute an investigation within 30 days
Parties	Plaintiff (patent owner) Defendant (alleged infringer)	Complainant(s) seeking to protect domestic industry from unfair competition Respondent(s) importing allegedly infringing product Office of Unfair Import Investigations participates in all aspects of the investigation representing the public interest
Intervention Rules	consolidated in same proceeding as complaint	
Pleading Standard	notice pleading	fact pleading – must present infringement contentions
Counterclaims	consolidated in same proceeding as complaint	permitted, but must request their immediate removal to district court (and stayed pending ITC investigation)
Subject Matter Jurisdiction	infringement of a U.S. intellectual property right	importation of products in violation of a U.S. intellectual property right where there is a domestic industry practicing the infringed intellectual property right
Personal Jurisdiction	subpoena power generally limited to state of district court	nationwide subpoena power

Comparison of District Court Patent Adjudication and ITC Patent Investigations		
In Rem Jurisdiction	not available	yes
Venue	“where the defendant resides, or where the defendant has committed acts of infringement and has a regular and established place of business.” 28 U.S.C. § 1400(b)	Washington, D.C.
Procedural Rules	Federal Rules of Civil Procedure augmented in many of the most patent-intensive district by “Patent Local Rules”	Administrative Procedures Act - formal adjudication ITC Rules of Practice and Procedure ALJ-specific “Ground Rules”
Discovery	All relevant, unprivileged information discoverable – relatively long period	All relevant, unprivileged information discoverable within allowable time period (usually limited to six months) Responses to interrogatories and document requests typically limited to 10 days after service nationwide subpoena power available against foreign defendants sanctions available against foreign respondents who fail to comply with discovery
Preliminary Relief	Preliminary Injunction: (1) a reasonable likelihood of success on the merits; (2) irreparable harm if temporary relief is not granted; (3) a balance of hardships tipping in its favor; and (4) the temporary relief’s favorable impact on the public interest	Temporary Exclusion Order: same standard
Claim Construction	typically handled during the pre-trial phase interpretation done by the trial judge	practices vary across cases and ALJs
Summary Adjudication	FRCP - Summary Judgment	Summary Determination rules
Elements of Proof	Infringement of intellectual property rights subject to all legal and equitable defenses	importation requirement domestic industry requirement (economic and technical prongs) Infringement of intellectual property rights subject to most legal and equitable defenses

Comparison of District Court Patent Adjudication and ITC Patent Investigations		
Trial/Hearing	Judicial trial, subject to 7th Amendment right to jury. Governed by Federal Rules of Civil Procedure and Federal Rules of Evidence Trial times vary, although judges are increasingly going to time limits per side (e.g., 20 hours)	Administrative Procedures Act - formal adjudication Similar to Federal Rules of Evidence, but less strictly applied (e.g., the hearsay rule might not be used) ITC Rules of Practice and Procedure ALJ-specific "Ground Rules" Hearings usually 1-2 weeks
Record	Pleadings, rulings on motions, trial transcript and exhibits, and post-trial briefs	Pleadings, rulings on motions, hearing transcript and exhibits, and post-hearing briefs
Decision	Final decision by judge res judicata effect	Initial Determination by ALJ; becomes final if not reviewed by Commission within 45 days
Remedies	monetary relief available attorney fees and costs potentially available injunctive relief subject to equitable balancing	no monetary relief, attorney fees, or costs available exclusion orders if infringement of valid patent found
Enforcement		exclusion orders enforced by U.S. Customs & Border Protection
Review	Federal Circuit Appeal - de novo review of claim construction determinations; substantial evidence for factual determinations by jury; clearly erroneous standard for factual determinations by judge	Commission Review of ALJ Initial Determination Presidential Review - The President has authority to disapprove ITC remedies on policy grounds (rarely invoked) Federal Circuit Appeal - de novo review of claim construction determinations; substantial evidence for actual determinations

ITC Comes to Silicon Valley

On May 18, 2010, the Berkeley Center for Law & Technology will be hosting a conference in San Jose (at the Computer History Museum) that will bring the ITC's Chairman, most of its ALJs, Assistant General Counsel (responsible for Section 337 investigations), and the Director of the Office of Unfair Import Investigations to Silicon Valley to share their perspectives on the ITC's growing role in patent adjudication and its distinctive case investigation practices. This event is open to the

public. It will provide an ideal opportunity for patent litigators and in-house counsel hear from many of the ITC's key personnel and learn first-hand how this important patent enforcement institution functions. The conference will also feature Judge Ronald M. Whyte of the Northern District of California and the architect of Patent Local Rules, leading patent litigators (from both the ITC and District Court fora), and senior in-house patent counsel from several leading high technology firms.¹⁹

Section 337 Patent Investigation Management Guide

Drawing upon the Patent Case Management Judicial Guide (PCMJG) – which has come into wide usage in District Court patent litigation.²⁰ I have worked with several leading ITC patent practitioners – G. Brian Busey, Ruffin Cordell, Mark G. Davis, Matthew D. Powers, and Sturgis M. Sobin and their colleagues – to produce a comprehensive, user-friendly, and practical guide for experienced practitioners as well as new entrants to this important branch of patent enforcement. Like the PCMJG, it is organized around the contours of ITC investigations. It provides a handbook for companies seeking to evaluate their enforcement options and defense tools. A draft of the manuscript is available online.²¹

¹⁹ Information about the conference and registration can be found at <http://www.law.berkeley.edu/institutes/bclt/itc/about.html>.

²⁰ Available in digital form at http://papers.ssrn.com/sol3/papers.cfm?abstract_id=1328659 and in printed format from LexisNexis.

²¹ http://papers.ssrn.com/sol3/papers.cfm?abstract_id=1603330. My co-authors and I welcome comments on the manuscript (please send them to pmenell@law.berkeley.edu). We plan to incorporate suggestions and produce a final manuscript by August 31, 2010. LexisNexis plans to publish a final version by year-end.