

**HOW TO START FROM BEHIND AND
FINISH AHEAD: SECTION 337
FROM A RESPONDENT'S PERSPECTIVE**

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I. PREFACE

This paper assumes a basic familiarity with Section 337 of the Tariff Act of 1930, as amended (19 U.S.C. § 1337), via companion papers submitted by other panelists. Nevertheless, a few introductory sentences will aid in reading this paper.

Section 337 prohibits unfair acts and unfair trade practices related to the importation of goods into the United States. To invoke Section 337, a plaintiff (known as a complainant) must file a complaint before the U.S. International Trade Commission (“ITC” or “Commission”). The complaint will name one or more defendants (known as respondents), and will assert the alleged unfair acts, most often patent infringement.² The ITC then institutes and conducts an investigation under the Administrative Procedure Act, to determine whether there exists a violation of Section 337, and if so, what remedy should be issued. The most powerful remedy is an exclusion order against the offending goods, prohibiting them from entering the United States.

II. INTRODUCTION

A respondent starts with a disadvantage in a Section 337 case. The complainant has spent months preparing to file its very detailed complaint. Unlike in federal district court, where notice pleading is sufficient, to file a Section 337 complaint, a complainant must do a lot of work up-front. For example, it must include a claim chart with the complaint.³ Indeed, the

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² Since 1975, more than 500 Section 337 investigations have been instituted, with over 90 percent of those investigations alleging patent infringement as the unfair act.

³ See 19 C.F.R. § 210.12(a)(9)(vii).

complainant must essentially provide enough information so that, if a respondent is found to be in default, the facts pled in the complaint would be sufficient to support a motion for summary determination in the complainant's favor.⁴ Thus, in preparing the pleading, the complainant's counsel necessarily has learned the patent well, has become knowledgeable about the client's operations, has reviewed and analyzed the allegedly infringing devices, and has studied the respondents' businesses. In addition, the complainant normally has met with an ITC Staff attorney ("OUII") and has asked OUII to review a draft of the complaint, which OUII does very thoroughly for sufficiency and conformity with ITC Rules.

The savvy complainant also has prepared its initial discovery requests, either before the complaint has been filed or in the 30-day period between filing and formal institution of the investigation.⁵ The complainant's first discovery requests are thus normally ready to be served on the day after the Notice of Investigation is published. With a ten-day response time,⁶ a respondent is understandably overwhelmed. And while extensions of discovery response times are typical, there is obviously no time to waste. Moreover, in essentially that same period (20

⁴ See 19 C.F.R. § 210.16(c) ("After a respondent has been found in default by the Commission, . . . [t]he facts alleged in the complaint will be presumed to be true with respect to the defaulting respondent."); see also Certain Electrical Connectors and Products Containing Same, Inv. No. 337-TA-374, USITC Pub. No. 2981, 1996 ITC LEXIS 547 at * 23-24 (July 1996).

⁵ See 19 C.F.R. §§ 210.10(a)(1) and (2) ("The Commission shall determine whether the complaint is properly filed and whether an investigation should be instituted on the basis of the complaint. That determination shall be made within 30 days after the complaint is filed." Where exceptional circumstances exist which preclude the Commission from adhering to the 30-day deadline, the Commission's determination must be forthcoming as soon as practicable thereafter.)

⁶ Under the Commission Rules of Practice and Procedure, the Administrative Law Judge ("ALJ") assigned to an investigation has the authority to establish the timing for discovery requests, responses, etc. See, e.g., 19 C.F.R. §§ 210.29(b)(2), 210.30(b)(2), and 210.31(b). An ALJ will normally set such deadlines in his Ground Rules, which are issued by order during the early stages of an investigation. A ten-day response time is typical.

days from service), the respondent must prepare its response to the complaint.⁷ Failure to respond can eventually lead to a finding of default.⁸

III. SOME IMMEDIATE FIRST STEPS

Fortunately for most respondents, they learn of the existence of a complaint prior to institution of the investigation. Therefore, during the 30-day pre-institution window, they can begin to plan. Seven immediate considerations come to mind.

First, of course, respondents must hire counsel. Hiring seasoned ITC counsel can give a respondent an advantage that it otherwise does not have. Moreover, it is important to keep in mind that, normally, only outside counsel can have access to the complainant's confidential information, which is handled via a protective order issued by the ALJ. Most Section 337 complaints contain at least some confidential information -- therefore, until a respondent hires outside counsel who is able to sign on to the protective order, it is not even aware of all of the details of the allegations made against it.

Second, respondents need to determine whether early settlement is an option. It is not unusual for a Section 337 case to settle during the pre-institution 30-day window. Settlements in the early phase of a case, before a lot of money is spent on discovery, are also not unusual.

Third, a respondent should evaluate whether a joint defense agreement or cost-sharing arrangement with other respondents is possible or beneficial. And even if not, as discussed below, a respondent still needs to consider how it will coordinate with other respondents, since

⁷ See 19 C.F.R. § 210.13(a).

⁸ See 19 C.F.R. § 210.16(a)(1) ("A party shall be found in default if it fails to respond to the complaint and Notice of Investigation in the manner prescribed in § 210.13 or § 210.59(c), or otherwise fails to answer the complaint and Notice, and fails to show cause why it should not be found in default."). In addition, failure to respond to a specific fact alleged in the complaint and Notice of Investigation may result in the allegation being deemed admitted. See 19 C.F.R. § 210.13(b).

some degree of coordination will normally be required by the ALJ. This may not be an easy task, since the other respondents may be competitors.

Fourth, a respondent needs to evaluate the strengths and weaknesses of its case and the complainant's case. This seems like an obvious step. However, in a Section 337 case, such an early evaluation will allow the respondent to focus its efforts, since the time limits of a typical Section 337 case do not normally permit every possible defense to be pursued.⁹

Fifth, a respondent needs to begin to prepare its own discovery requests to serve on the complainant.¹⁰ A respondent being aggressive at the outset can come as a surprise to a complainant. Despite research, it is often difficult for a complainant to accurately evaluate its opponents in advance. Therefore, a complainant may be expecting a shell-shocked respondent to act reactively rather than pro-actively. Showing a complainant early on that a respondent means business can change the tone of an investigation.

Sixth, as mentioned above, during the pre-institution phase, a respondent should also begin preparing its response to the complaint, since the time to do so post-institution is rather short. In this regard, careful consideration should be given to counterclaims and affirmative defenses. While a respondent can raise counterclaims in response to a Section 337 complaint,¹¹ they must be filed in a separate document and a respondent must immediately remove the counterclaims to a federal district court.¹² Under such circumstances, the strategic decisions as

⁹ Most Section 337 cases are completed within 12-15 months.

¹⁰ Discovery "may be served upon any party after the date of publication in the Federal Register of the Notice of Investigation." See 19 C.F.R. § 210.29(b) (interrogatories); 19 C.F.R. § 210.30(b) (requests for production of documents and things and entry upon land).

¹¹ The most recent comprehensive amendments to Section 337, contained in the Uruguay Round Agreements Act enacted in 1994, permit respondents to raise counterclaims in response to a Section 337 action. See 19 U.S.C. § 1337(c). Counterclaims may be raised at any time after institution of the investigation, but not later than ten business days before the commencement of the hearing. See 19 C.F.R. § 210.14(e). Any such counterclaims, however, will not be adjudicated by the Commission.

¹² See 19 C.F.R. § 210.14(e).

to the merits of raising a counterclaim cannot be made overnight. Affirmative defenses should normally be pled in the response to the complaint, although the ITC is usually fairly liberal in allowing respondents to amend their pleadings as to affirmative defenses.¹³ However, a word of caution -- a respondent should not plead every possible defense if it does not intend to make a showing as to each and every defense. If there is an ultimate finding that a respondent did not succeed in proving an affirmative defense, that finding might be used against the respondent in a district court proceeding.¹⁴ As a general proposition, most of the defenses available in federal district court are available in a Section 337 case, with two major exceptions. First, laches has historically usually not been available as a defense in a Section 337 case.¹⁵ Second, the safe harbor defenses of 35 U.S.C. § 271(g) are not available in a Section 337 case.¹⁶ However, a respondent does have additional avenues of defense in a Section 337 case which are not available in a district court case; specifically, since the complainant must show importation and the existence of a domestic industry, a respondent might be able to use these requirements defensively. Furthermore, 19 C.F.R. §§ 210.4(c), 210.12(h) and 210.16(b)(2) can be used as defenses for abuse of process and breach of the duty of candor owed to the Commission.

¹³ See Certain Bearings and Packaging Thereof, Order No. 20: Order Granting Motion to Amend Response to Include Two Affirmative Defenses, Inv. No. 337-TA-469, 2002 ITC LEXIS 388 at *2 (July 22, 2002) (“[T]he Commission favors allowing respondents to amend their responses to the complaint in Section 337 investigations.”).

¹⁴ See Baltimore Luggage Co. v. Samsonite Corp., 24 U.S.P.Q.2d 1851; 1992 U.S. App. LEXIS 27493 at * 11-12 (4th Cir. 1992) (Fourth Circuit finding no error with district court’s determination that the “ITC’s findings adverse to Baltimore on its affirmative defenses” were res judicata in district court proceeding).

¹⁵ See Certain Personal Watercraft and Components Thereof, Order No. 54: Initial Determination Granting Complainants’ Motion For Preclusion of Respondents’ Affirmative Defense of Laches To A Determination of Violation Under Section 337, Inv. No. 337-TA-452, 2001 ITC LEXIS 635 at * 2-3 (Sept. 19, 2001). This refers to laches in the traditional sense, in terms of delay in bringing suit. However, to assert prosecution laches vis-à-vis a patent owner is a viable defense at the ITC. (See further discussion of laches at § V.D.2.c. *infra*.)

¹⁶ See Certain Abrasive Products Made Using a Process for Powder Preforms, and Products Containing Same, Commission Opinion Affirming Order No. 40, Inv. No. 337-TA-449, USITC Pub. No. 3530, 2002 ITC LEXIS 480 at * 17-18 (Aug. 1, 2002) (“We agree with the ALJ’s conclusion that the defenses to infringement contained in 35 U.S.C. § 271(g) do not apply to investigations conducted pursuant to Section 337 of the Tariff Act of 1930.”), *aff’d Kinik Co. v. U.S. Int’l Trade Comm’n*, 362 F.3d 1359, 1363 (Fed. Cir. 2004).

Pursuant thereto, the Commission has on at least on occasion found the complaint filed by a complainant to be meritless. (A more detailed discussion of defenses is set forth at section V, infra.)

Seventh, and perhaps most importantly, a respondent needs to appoint a litigation coordinator within the company who will interact with outside counsel. The company's management must give "authority" to that coordinator, and that authority needs to be made clear to anyone in the company who might become involved in the case. Outside counsel must be able to have a contact point through whom they know they can get requests handled quickly. This is especially important if there is a large time difference between the respondent's location and the United States. Identifying who that person is is key, and then putting in place a mechanism for that person to act is a necessary corollary.

IV. OTHER CRITICAL CONSIDERATIONS

A respondent is well advised to evaluate the following questions -- what will an exclusion order mean for its business, and how can it operate in the United States in the face of an exclusion order. The answers to these questions can dictate how many resources to devote to defense of the Section 337 case, and what type of settlement might be workable. For example, if the U.S. market is not that critical, a respondent might choose not to participate in the case, or simply to enter into an agreement not to import, without admitting any liability. Perhaps it can source the goods from another supplier that is either licensed or makes a non-infringing product. If a design-around (i.e., a product which is clearly non-infringing) is feasible, then perhaps resources are best spent on bringing the design-around product to market (another possibility is to make the design-around product part of the case to try to achieve a finding of non-infringement on at least one product acceptable to the market). These are just some of the types

of issues that should be explored in the analysis. A respondent should never lose sight of the fact that a Section 337 case is not about damages -- it is usually about having one's product excluded from the U.S. market.

One of the best ways that respondents can turn the tables on a complainant is by working cooperatively in an effective manner. Even with multiple counsel and absent a joint defense agreement, respondents can coordinate. For example, strategically timed and non-repetitive discovery requests can work to respondents' advantage. Such requests can keep the complainant scrambling rather than preparing its case. Remember, there is usually one complainant and numerous respondents. While ALJs may require respondents to coordinate, they will do so within due process bounds -- the ALJs understand that each respondent likely has different non-infringement defenses, etc. Cloned or repetitive discovery requests, on the other hand, do little to give respondents an advantage. However, a respondent should beware in any cooperative arrangements that it not be left out in the cold by a settling respondent which was responsible for preparing a key part of the case to be relied upon by others.

Respondents are also well advised to contact the OUII Staff attorney early on to explain deficiencies in the complainant's case. The Staff, while neutral, can be an ally in its quest to represent the public interest. For example, if a complainant has overstated its domestic industry claim, or has omitted key details, drawing that to the Staff's attention can be helpful. It might cause OUII to issue some targeted discovery requests, or even to file an early motion for summary determination.

Another consideration for a respondent is what type of target date is in its best interests. The conventional thinking is that respondents usually prefer longer target dates, and complainants, shorter ones. However, that is not always the case, whether it be for business or

other strategic reasons. It may be that a respondent who is reasonably comfortable with the merits of its case may want to bring some pressure to bear on a complainant by suggesting an early target date.

A respondent should also decide whether it is worth it to fight the economic prong of the domestic industry requirement.¹⁷ While some discovery is usually appropriate to test the complainant's domestic industry claim, often, the issue is not worth pursuing. True, a respondent's pursuing the issue can cost the complainant money, but it also costs the respondent money and time. Moreover, the domestic industry requirement to a certain extent allows the complainant to wrap itself in the American flag during the hearing and present evidence that provides a nice gloss. Since the end result is likely a finding that the requirement is satisfied, a respondent may not want to give a complainant that opening.

The technical prong of the domestic industry requirement is a totally different story, however.¹⁸ A respondent is well advised to probe deeply and expend substantial effort testing whether a complainant actually exploits the intellectual property right at issue. Merely because a company owns a patent does not mean that it actually practices the claims of the patent.

Motions for summary determination are another tool available to respondents to help streamline the case.¹⁹ If the circumstances warrant it, a respondent can benefit from a summary

¹⁷ Under Section 337, in order for an owner of intellectual property rights to have standing to bring an action, an industry in the United States relating to the rights at issue must exist or be in the process of being established. See 19 U.S.C. § 1337(a)(3). The economic prong of the domestic industry requirement is generally established if there is in the United States with respect to the articles protected by the 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 engineering, research and development, or licensing. See 19 U.S.C. §§ 1337(a)(3)(A)-(C).

¹⁸ Whereas the economic prong analyzes the level of domestic activity, the technical prong analyzes whether the activities of the complainant truly relate to the intellectual property rights at issue.

¹⁹ See 19 C.F.R. § 210.18(a) ("Any party may move with any necessary supporting affidavits for a summary determination in his favor upon all or any part of the issues to be determined in the investigation. Counsel or other representatives in support of the complaint may so move at any time after 20 days following the date of

(...continued)

determination that eliminates some of the complainant's claims. Plus, responding to the motion will occupy the complainant's resources.

A respondent can also improve its position by thinking early and quickly about retaining appropriate expert witnesses. In many industries, there are just not that many "good" experts. It is never too early to start the interview, selection and retention process. Moreover, a true expert in the field can be a tremendous asset in helping to prepare the case. Since outside experts generally are permitted access to confidential information under protective order, retaining a knowledgeable outside expert can be one way to help outside lawyers less familiar with the relevant technology to prepare the case.

A respondent also should early on address practical questions, some of which can have an effect on the substance of its case. For example, will foreign witnesses be brought to the United States for depositions or will the depositions need to occur abroad. A respondent may wish to insist on the latter for the convenience of its witnesses, but keeping in mind the rules of its country on discovery issues, which may be quite burdensome. Another question to explore is whether interpreters will be necessary -- it is usually much better to use witnesses who do not need interpreters, assuming that there is a choice. However, it should be kept in mind that there is no jury in a Section 337 case. Plus, the ALJs are accustomed to hearing foreign witnesses, through interpreters and not. Furthermore, some judges require direct testimony via witness statements. Carefully reviewing the hearing requirements of the ALJ assigned to the case can assist the respondent in thinking ahead as to witness selection and responses to Rule 30(b)(6)-type deposition notices. Also, as to documents, how much translation will be necessary should

service of the complaint and notice of instituting the investigation. Any other party or a respondent may so move at any time after the date of publication of the Notice of Investigation in the Federal Register.")

be factored into strategic decisions. Another issue to consider is how will documents be transported to the United States. Here, the question of production in electronic format comes into play -- a respondent may very well want to push for an arrangement with such a requirement. Also, as to production of electronic documents -- a respondent should think about the respective burden on it and the complainant in trying to decide what type of agreement should be reached on this issue. A respondent is also well advised to research the issue of privilege as it applies to various classes of attorneys and legal personnel in the foreign country to ensure that its litigation strategies are not inadvertently rendered discoverable because a person to whom privilege does not attach is involved.²⁰ Likewise, the privilege issue should be researched for production purposes.

Also, if there is a parallel district court case, a respondent has another decision to make, namely, whether to stay the district court litigation pending completion of the ITC investigation.²¹ Again, the conventional wisdom is that a respondent should seek a stay, however, that is not always the case. Perhaps a respondent has its own set of patents that it wants to assert against the complainant. Keeping the pressure on the complainant may be a way to achieve a favorable settlement of the ITC case.

²⁰ See Certain Wet Motor Circulating Pumps and Components Thereof, Inv. No. 337-TA-94, 1981 ITC LEXIS 12 at * 4 (May 18, 1981) (“Confidential correspondence between [a party’s] counsel and foreign patent agents will not be considered to fall under the attorney-client privilege unless privileged under the foreign law.”); see also Certain Diltiazem Hydrochloride and Diltiazem Preparations, Inv. No. 337-TA-349, 1993 ITC LEXIS 768 at * 7 (Oct. 9, 1993) (same, citing In re Ampicillin Antitrust Litigation, 81 F.R.D. 377, 391 (D.D.C. 1978); Duplan Corp. v. Deering Millikin, Inc., 397 F. Supp. 1146, 1170-71 (D.S.C. 1974)); Certain Home Vacuum Packaging Products, Inv. No. 337-TA-496, USITC Pub. No. 3681, 2004 ITC LEXIS 332 (Mar. 2004) (“[T]he privilege law of the United States applie[s] to communications with foreign attorneys if those communications ‘touch[] base with the United States.’ VLT Corp. v. Unitrode Corp., 194 F.R.D. 8, 15 (D. Mass. 2000).” Id. “A document ‘touches base with the United States’ if it has more than an incidental connection to the United States and the United States has ‘the most direct and compelling interest in the communication.’ VLT Corp., 194 F.R.D. at 16.” Id.)

²¹ See 28 U.S.C. § 1659. To stay the district court proceeding, a respondent must request such a stay within 30 days after the district court action is filed, or within 30 days after the Notice of Investigation is published in the Federal Register, whichever is longer.

Finally, a respondent should not forget that Section 337 is a U.S. international trade statute and not simply a private remedy. Accordingly, public interest considerations do come into play, both before the ITC and during presidential review of any remedy ordered by the ITC.²² Hence, if there are public health or safety concerns that militate in favor of a respondent, it should press those arguments. For example, will an exclusion order cause a short supply of a product that has an impact on the public well-being. If so, a respondent should call upon consumer/customer witnesses to testify about the shortage.

V. **DEFENSES**

Respondents raise many of the same defenses at the ITC as in federal district court. In intellectual property (“IP”) cases, respondents either try to show that they do not infringe or that the patent, trademark, or copyright is invalid. In contract, antitrust, and other cases involving unfair competition, respondents essentially try to establish that some element of the cause of action is not met. But Section 337 cases do have some defenses that are unique. Respondents may “prove” that they are not importing the goods in question, that there is no domestic industry in the relevant goods or IP right, or that they are not injuring a domestic industry. However, not all of these defenses can be asserted in every case.

A. **“No Importation” Defense**

If a respondent can prove that there is no importation of the goods in question, the ITC will not have jurisdiction over that respondent. But the ITC has been liberal in its interpretation of what “importation” means. For example, if an overseas manufacturer does not import goods, but knows its goods will be imported into the United States, it can satisfy the importation

²² See Negar Katirai, Public Interest Considerations and Presidential Review in Section 337 Cases: The Wrong Place at the Wrong Time, ITC TRIAL LAWYERS ASSOCIATION 337 REPORTER, Summer 2004, at 103.

requirement.²³ Or if a company manufactures goods in the United States, ships them out of the country, and then ships them back, it is importing.²⁴ If a company downloads software via a corporate intranet into the United States, it is importing.²⁵ In Hardware Logic Emulation Systems, a French company downloaded infringing software into the United States over the French company's own intranet system. The ITC issued a cease and desist order against the French company. Hardware Logic, Inv. No. 337-TA-383, 1998 ITC LEXIS 64, Comm. Op. at 20 (Apr. 1, 1998). In short, if parties are bringing anything into the United States, they are importing.

B. “No Domestic Industry” Defense

Another defense in any Section 337 case is that there is no domestic industry. This test has two prongs -- an economic prong and a technical prong. To defeat the economic prong, respondents must show that a complainant: (1) has no significant investment in U.S. plants and equipment, (2) has no significant employment of U.S. labor and capital, and (3) has no substantial investment in the exploitation of the article or IP right in the United States. Respondents rarely succeed with this defense because the bar is very low for complainants. For example, in one case, the complainant did not have a license to sell the goods, but another entity did. The ALJ determined that since there was a licensee in the United States, there was a

²³ Erasable Programmable Read-Only Memories, Inv. No. 337-TA-276, USITC Pub. No. 2196 (May 1989) (EPROMs). In EPROMs, respondent Hyundai Electronics Industries Co. argued that it did not import any goods into the United States, rather, it made the goods and sold them to General Instruments, which imported them into the United States. The ALJ found that a foreign manufacturer of infringing products can be found in violation of Section 337, even though it did not own the goods when they entered the United States (Initial Determination at 37 (Nov. 16, 1988)); upheld by the Commission in Erasable Programmable Read-Only Memories, Inv. No. 337-TA-276, USITC Pub. No. 2196, Comm. Op. at 3 (May 1989).

²⁴ In Sputtered Carbon Coated Computer Disks, respondents performed the infringing process in the United States to make disks. The disks were shipped overseas to make disk drives, which were then shipped back into the United States (Inv. No. 337-TA-350, USITC Pub. No. 2701, Comm. Op. at 2 (Nov. 3, 1993)). The ITC held that the statute provides jurisdiction over any imported goods, regardless of the location where the goods were manufactured. Sputtered Carbon Coated Disks, Comm. Op. at 4-5.

²⁵ Hardware Logic Emulation Systems, Inv. No. 337-TA-383, 1997 WL 665006, Initial Determinations at 189 (July 31, 1997).

domestic industry. Static Random Access Memories, Inv. No. 337-TA-341, Order No. 5 at 4, 1992 WL 811807 (Dec. 30, 1992). In a case involving in-line roller skates, or roller blades, the complainant only had five quality assurance personnel in the United States, yet the ALJ found that there was a domestic industry. In-Line Roller Skates, Inv. No. 337-TA-348, Order No. 21 at 3, 1993 WL 852393 (July 30, 1993). But the decision was reversed and remanded by the Commission, and the case was terminated before the ALJ issued another opinion. In-Line Roller Skates, Comm. Notice (Aug. 31, 1993); 1993 WL 852488, Initial Determination (Oct. 4, 1993).

To defeat the technical prong, respondents must show that the domestic industry does not utilize the IP right in question. See Microlithographic Machines, Inv. No. 337-TA-468, Initial Determination at 63-64 (Apr. 1, 2003). For example, respondents may show that no U.S. industry uses the claimed copyright or trademark²⁶ or that no U.S. industry uses any claim of the patent in question.²⁷

C. “No Economic Injury” Defense

Another defense available in a limited number of cases is that the imports do not cause economic injury to a domestic industry. However, this defense is unavailable in statutory IP cases, such as patent cases or cases involving registered copyrights, trademarks, mask works, or boat hulls. See 19 U.S.C. § 1337(a)(1)(A)-(E); see also Universal Transmitters for Garage Door Openers, Inv. No. 337-TA-497, Initial Determination at 16, 2003 WL 2281119 (Nov. 4, 2003) (reciting a brief history of Congress’ decision to add a reference in Section 337 to boat hull

²⁶ See Agricultural Tractors, Inv. No. 337-TA-380, Order 39 at 5, 1996 WL 965732 (Aug. 8, 1996) (holding that a domestic industry must be proven for each trademark in question).

²⁷ See Microlithographic Machines Inv. No. 337-TA-468, Initial Determination at 63-64 (Apr. 1, 2003) (holding that where a domestic industry uses the claims in question, the technical prong of the “domestic industry” requirement is satisfied); see also Video Graphic Display Controllers, Inv. No. 337-TA-412, Initial Determination at 9 (May 19, 1999) (complainant had announced its intention to discontinue use of the technology in question and the ALJ found that it had failed to satisfy the technical prong of the “domestic industry” requirement).

designs). In these cases, the registered IP right creates a non-rebuttable presumption that the imports injure the domestic industry.²⁸

In cases where the defense is available, the economic injury must be substantial, or there must be a threat of substantial injury. See 19 U.S.C. § 1337(a)(1)(A)(i)-(iii) (stating that the importation must “destroy or substantially injure an industry,” “prevent the establishment of such an industry” or “restrain or monopolize trade and commerce in the United States” or threaten to do so). Conversely, respondents can prevail by showing that the domestic industry has suffered little or no injury, and that it is not threatened with such injury.

For example, when Textron, a U.S. company that manufactures milling machines, brought an action against a number of Asian companies, the ITC found that Textron had not proven that the imports caused its injury. Milling Machines, Inv. No. 337-TA-133, Comm. Op. at 45-46 (Feb. 6, 1984). The ITC looked at changes in the industry, changes in Textron’s operations, and increased costs to Textron as factors that could explain Textron’s loss of revenue. Id. But more often than not, the ITC finds substantial injury.²⁹

D. Defenses In Patent Cases

1. Nearly all defenses that are available in a federal district court are also available at the ITC

Generally, Section 337 patent cases raise the same defenses as in federal court. Section 1337(c) states that “[a]ll legal and equitable defenses may be presented in all cases.” 19 U.S.C.

²⁸ The economic injury requirement used to extend to all cases; however, the statutory amendments of 1988 eliminated the injury requirement for statutory IP cases.

²⁹ For examples of substantial injury, see Sneakers, Inv. No. 337-TA-118, Comm. Op. at 23, 24, USITC Pub. No. 1366 (Mar. 1983) (Commission looked at declining sales and profits, deteriorating cash flow, employee layoffs, and production cutbacks, as well as respondents’ lower prices and high production capacity to establish injury to domestic industry); see also Video Matrix Display System, Inv. No. 337-TA-75, Comm. Op. at 22-23, USITC Pub. No. 1158 (June 1981) (Commission found that the purchase of one system was a significant capital expenditure, so the loss of one sale was enough to establish injury to a domestic industry); see also Electric Power Tools, Battery Cartridges & Battery Chargers, Inv. No. 337-TA-284, USITC Pub. No. 2389, at 245-46 (June 1991).

§ 1337(c). In patent cases, respondents generally assert, “The patent is invalid. And even if it is valid, my product does not infringe.”

Two examples of typical defenses raised in patent-related Section 337 cases involve ultra-strong tire tread and scuba safety gear.

a. Honeywell

Honeywell owned a process patent for making a reinforcing polyester yarn for car tires. Certain Polyethylene Terephthalate Yarn and Products Containing Same, Inv. No. 337-TA-457, USITC Pub. No. 3550, Comm. Op. at 3 (Oct. 2002). A Korean company, Hyosung, imported a similar product, and Honeywell brought an action against Hyosung at the ITC. Id. at 1. Hyosung argued that the patent was invalid, and even if it was valid, Hyosung’s product did not infringe. Id. at 1, 3. The Commission found that Honeywell’s patent was invalid. Id. at 16. It stated that because Honeywell had not disclosed the particular method used to obtain certain measurements, the patent was indefinite. Id. at 18-19. The Federal Circuit upheld the ITC’s ruling. Honeywell Int’l, Inc. v. Int’l Trade Comm’n, 341 F.3d 1332, 1334 (Fed. Cir. 2003).

b. Scuba horn

Another example involves an air horn that attaches to scuba gear. Certain Audible Devices for Divers, Inv. No. 337-TA-365, USITC Pub. No. 2903, Initial Determination (Aug. 1995). Ideations Designs, a Seattle company, owned a patent for an air horn that attaches to a scuba diver’s tank. Id. at 3. When a diver is in trouble, he surfaces, presses a button, and the air from his tanks toots his horn. Id. at 6-7. Ideations had two patents on the horn and wanted to stop IHK, a California company, from importing the device. IHK raised every defense it could: invalidity by anticipation, statutory bars, obviousness, lack of best mode, and lack of enablement. Id. at 7-33. It also argued that the patent was unenforceable due to patent abuse, and that even if

the patent was valid and enforceable, IHK's device did not infringe the air horn patent. Id. at 35-50. IHK lost as to each defense. Id. at 7-50.³⁰

2. But there are some differences between ITC and federal district court proceedings

Although ITC patent actions are similar to federal court actions, they are not identical. Some differences include the treatment of counterclaims, a safe harbor defense and the laches defense.

a. Counterclaims

If respondents want to raise counterclaims at the ITC, they can do so, but immediately when they introduce the counterclaims, they must have them removed to federal court.

19 U.S.C. § 1337(c). The action before the ITC only deals with the initial claim.

b. There is no safe harbor defense for overseas processes

If a foreign drug company uses a process to make a drug, and that process is patented by a U.S. company, the foreign company is liable for infringement. But if it takes three steps to make the drug, and the U.S. company only owns patents on the first two steps, the foreign company may fit into an exception. In 1998, Congress added 35 U.S.C. §§ 271(g)(1) and (2) to the U.S. Code. Paragraphs one and two grant a safe harbor defense to companies accused of infringement if they use a patented process to make an intermediate item if it is "materially changed" by subsequent steps or it becomes a trivial and non-essential component of another product.

³⁰ For examples where patent defenses were successful at the ITC, see Ammonium Octamolybdate Isomers, Inv. No. 337-TA-477, Notice, 2003 ITC LEXIS 453 (Aug. 20, 2003) (patent invalid because it was sold in the United States over one year prior to filing the patent application); see also Automobile Taillight Lenses and Products Incorporating the Same, Inv. No. 337-TA-502, Initial Determination, Order No. 8 at 30-35 (July 23, 2004) (respondent did not infringe complainant's patent); see also Microlithographic Machines and Components Thereof, Inv. No. 337-TA-468, Initial Determination at 450-55, 2003 WL 1831891 (Jan. 29, 2003) (patent invalid as anticipated by previously published patents and prosecution laches).

For example, generic drug companies successfully used the safe harbor defense in federal court when Eli Lilly tried to enforce a patent on a process for making an antibiotic. See Eli Lilly & Co. v. Am. Cyanamid Co., 82 F.3d 1568 (Fed. Cir. 1996). Eli Lilly produces an antibiotic called Cefaclor. Id. at 1570. Cefaclor is a member of a class of antibiotics, all of which have a cepham nucleus. Id. Eli Lilly obtained a patent on one method of obtaining the cepham nucleus. Id. A number of companies, including American Cyanamid, began selling generic versions of Cefaclor that had been manufactured in Italy using Eli Lilly's patented process to make the cepham nucleus. Id. at 1570. Eli Lilly sued, but the Federal Circuit held that the final product was likely a material change from the cepham nucleus, which had been produced using a patented process. Id. at 1578. Since subsequent steps changed the items' physical and chemical properties in a way that changed the usefulness of the product, American Cyanamid likely did not infringe according to the safe harbor provision. Id.³¹

But this safe harbor defense is not available at the ITC. In Kinik Co. v. Int'l Trade Comm'n, 362 F.3d 1359 (Fed. Cir. 2004), the Federal Circuit upheld the Commission's ruling that the safe harbor defense does not apply to Section 337 cases. In Kinik, 3M tried to prevent Kinik Co. from importing articles with abrasive surfaces made with a patented process. Id. at 1363-64. Kinik argued that the articles were materially changed after the patented process, and subject to the safe harbor. Id. at 1366. The ITC decided in favor of 3M, reasoning that the safe harbor provision in 35 U.S.C. § 271(g)(1) expressly states that it would not deprive a patent

³¹ The opinion involved a preliminary injunction against American Cyanamid, so the test was whether Eli Lilly was likely to succeed on the merits of its infringement claim. Eli Lilly, 82 F.3d at 1569-70. The court held that American Cyanamid likely fit within the safe harbor, so Eli Lilly was not likely to succeed on the merits. Id. at 1578.

owner of any remedies available under Section 337.³² Since the safe harbor provision would deprive 3M of protection in a Section 337 action, the Commission held, and the Federal Circuit agreed, that the safe harbor does not apply in Section 337 cases. Kinik, 362 F.3d at 1362.

c. Laches

The defense of laches historically was usually not available at the ITC in Section 337 cases involving patents. This was because in patent cases before federal courts, laches was only available as a defense when computing damages as to retrospective relief. See Methods of Making Carbonated Candy Prods., Inv. No. 337-TA-292, USITC Pub. No. 2390, Initial Determination at 116-77 (June 1991). Since the ITC only offers prospective, injunctive relief, not damages, laches was generally unavailable.³³ However, recent Federal Circuit Court precedent has expanded the concept of laches. See Odetics, Inc. v. Storage Tech. Corp., 185 F.3d 1259, 1273 (Fed. Cir. 1999). As such, for example, the defense of laches could perhaps be used successfully in a Section 337 case in the context of pre-filing inventory. Hence, the viability of laches as a defense at the ITC is limited.

E. Trademark and Copyright Cases

Trademark and copyright cases under Section 337 also raise the same defenses as in federal court litigation, albeit with the same caveat as to laches discussed above. If the copyright or trademark is registered, the owner does not have to show injury to a domestic industry.

³² Notably, Section 337 (via a provision formerly codified at 19 U.S.C. § 1337a) afforded protection against goods made abroad via an infringing process long before the U.S. patent laws did. A remedy for infringement was not available under the patent laws until 1988. See Eli Lilly, 82 F.3d 1571-72 (before the Process Patent Amendments Act of 1988 “a patentee holding a process patent could sue for infringement if others used the process in this country, but had no cause of action if such persons used the patented process abroad to manufacture products, and then imported, used, or sold the products in this country”).

³³ But the defense of prosecution laches is still available. The difference is that laches is when the complainant knows of the infringement and waits too long to seek relief. But prosecution laches is when the complainant waits too long to file a patent application, creating a material prejudice. Prosecution laches renders the patent unenforceable. See Data Storage Systems, Inv. No. 337-TA-471, Order No. 42 at 3 (Jan. 4, 2003).

Otherwise, a respondent can use lack of injury as a defense. Also, the defenses that there is no importation or no domestic industry apply to copyright and trademark cases, as with other Section 337 cases.

F. Other Types of Unfair Competition

Any other type of unfair competition case at the ITC, such as misappropriation of trade secrets, breach of contract, or an antitrust violation, has available the same defenses as in federal court (again, though, with a caveat as to laches). But complainants must also show importation, domestic industry, and injury to the domestic industry. The absence of any of these can be raised as a defense.

VI. CONCLUSION

In sum, while a respondent begins with a distinct disadvantage in a Section 337 case, by taking appropriate steps quickly, a respondent can significantly improve its position. Particularly by coordinating their collective efforts, the respondents in a case can develop a comprehensive counter-attack -- one which the complainant may not have anticipated and which may tax the complainant's resources. What a respondent cannot afford to do, however, is to "watch and wait" -- most Section 337 cases proceed much too quickly for such a strategy to be effective.