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Section 337 Overview

The US International Trade Commission (“ITC” or “Commission”) administers a trade law that provides US industries with a means to prevent unfair competition from imported goods. This memorandum briefly outlines the statute and the normal procedures of an investigation.

Elements of a Section 337 Violation

Section 337 of the Tariff Act of 1930, as amended (19 U.S.C. 1337), provides that unfair methods of competition and unfair acts in the importation of articles into the United States, or in their sale for importation, or sale within the United States after importation, are unlawful. The Omnibus Trade and Competitiveness Act of 1988 (the “Act”), which became effective August 23, 1988, amended Section 337 to make it easier and less expensive for domestic industries to prove that imported articles have infringed their US patents, and federally registered trademarks, copyrights, or mask works. Additionally, the Act expanded the scope of Section 337 to specifically cover infringement of semiconductor mask works. (In 1999, boat hull designs registered under Chapter 13 of Title 17 of the US Code were also added to the list.)

The Commission uses two separate standards, depending on the nature of the unfair act under investigation, to determine whether a Section 337 violation exists. Under both standards, a complainant must prove the elements for the alleged unfair act. In addition:

(1) If the unfair acts pertain to articles that infringe a valid and enforceable US patent, registered copyright, registered trademark, registered mask work used in conjunction with a semiconductor chip product, or registered boat hull design, the complainant must establish that a domestic industry for the above articles exists or is in the process of being established (as demonstrated by significant investment in plant and equipment; significant employment of 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 acts or methods of competition pertain to articles that do not involve a US patent or a federally registered trademark, copyright, semiconductor mask work, or boat hull design, the complainant must prove that a domestic industry for the articles exists or is in the process of being established, and also that the unfair act has the effect or threat of destroying or substantially injuring the domestic industry, preventing the establishment of such industry, or restraining or monopolizing trade and commerce in the United States.

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Accordingly, as long as there exists a patent, registered trademark, copyright, mask work, or boat hull design, and there has been significant or substantial activity with respect to the exploitation of that right, Section 337 may be used to protect the intellectual property right from infringement. In addition to allowing US companies with foreign operations to benefit from Section 337, it is possible for foreign owners of US intellectual property rights to take advantage of Section 337. To do so, they only have to demonstrate the requisite amount of domestic activity 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 and trade secret misappropriation, and a variety of business torts. Accordingly, a complainant asserting common-law trademark rights, for example, must show some type of qualifying injury, as well as significant domestic investment in plant, equipment, labor, or capital to warrant protection under Section 337.

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 United States. This remedy only applies to goods imported after the date the exclusion order becomes final and does not apply to importations prior to the investigation or during the course of the investigation. Exclusion orders can be "limited" or "general." Limited exclusion orders apply only to named respondents; general exclusion orders apply to all goods that violate Section 337 in the manner found by the Commission, regardless of the source. 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 import the goods will lead to those penalties.

The second remedy is to exclude articles from entry except under bond on a temporary basis during an investigation. The temporary exclusion order ("TEO") would be operative only after a determination by the Commission that there is a reason to believe there is a violation of Section 337. TEOs are issued within 90 days after institution of the investigation. The Commission can grant a 60-day extension in more complicated cases, but it must publish in the Federal Register its reasons for designating the investigation as more complicated. TEOs have not been pursued frequently because the Commission requires a very 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

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temporary relief. The TEO process was amended by the 1988 Act to make the process more like federal district court preliminary injunction actions.

The third remedy is a cease and desist order, which can be issued in lieu of, or in addition to, an exclusion order or TEO. Cease and desist orders are designed to attack the specific unfair acts found in an investigation without excluding goods from the United States. These orders are directed to a respondent and require a change in some action or conduct found to be illegal. These orders, under certain circumstances, may apply to importations that occurred prior to the Commission's determination that a Section 337 violation exists. The Commission has ordered companies to cease infringing intellectual property rights and to cease specific marketing practices, as well as to cease certain types of anti-competitive conduct.

The Commission has the authority to bring a civil action seeking a civil penalty if a respondent fails to comply with a cease and desist order. The maximum amount of a 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 only rarely exercised its power under this provision. For example, in *Certain Erasable Programmable Read Only Memories* ("EPROMs"), the Commission imposed a civil penalty in the amount of \$2,600,000 for a violation of the cease and desist order. The Commission vacated the order imposing the civil penalty based on a settlement agreement between the parties. It has, however, issued cease and desist orders, which, if violated, would subject respondents to fines. The ability to impose monetary sanctions serves as a powerful tool for the Commission to ensure compliance with its orders.

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

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. In one investigation, *Certain Carrier Materials Bearing Ink Compositions to be Used in a Dry Adhesive 7-Free Thermal Transfer Process*, the Commission imposed a \$100,000 civil fine for violation of a consent order.

If the Commission finds a violation of Section 337, 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

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the effect of the remedy on the public health and welfare, competitive conditions in the United States, the production of competitive articles in the United States, and US consumers.

Presidential Review

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 a bond under which imports may enter the United States during the 60-day period for presidential review of Commission orders.

The president may veto the Commission's remedy order but cannot substitute another remedy. Furthermore, a presidential veto can issue only for public policy reasons and not substantive reasons.

Additional Features of Section 337

Another significant aspect of Section 337 is that the investigations must be carried out by the Commission under the terms of the Administrative Procedure Act. This ensures that in the conduct of an investigation, parties are entitled to certain rights relating to equal access to information. Section 337 investigations are presided over by an Administrative Law Judge ("ALJ"). In addition, parties are not permitted to communicate with decisionmakers at the Commission on an ex parte basis. This proscription does not extend to discussions with the Commission Staff Attorney assigned to the case.

The record of the investigation before the Commission includes conferences, which are attended by all of the parties, and written submissions, which are served upon all parties to the investigation. Each party also has a right to fully investigate the facts of the case. Such investigation is conducted by use of various discovery tools, including interrogatories, the taking of depositions, requests for production of documents, requests for admissions, and subpoenas. The Commission has the authority to prescribe sanctions for abuse of discovery and abuse of process.

The facts gathered by the parties are presented at evidentiary hearings before an ALJ. Hearings provide an opportunity for parties to cross-examine witnesses as in a typical district court trial. Decisions made by ALJs and the Commission must have a sound basis both in fact and law.

Section 337 investigations proceed very quickly. Although the statute was amended to eliminate the one-year time limits, the legislative history accompanying the amendment indicates that Congress intended that the Commission continue to complete most cases within one year. At the outset of its

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investigations, the Commission now is required to set target dates for completion of each case. In cases that are to be completed within one year, the amount of time which can be spent in discovery and trial is limited to approximately seven months.

Investigation Procedures

A Section 337 investigation may be instituted based either upon a complaint filed 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 also has instituted numerous investigations based upon allegations of copyright infringement, misappropriation of trade secrets, trademark infringement (both federal and common law), the passing off of goods, and improper designations of origin. There have also been a number of cases conducted by the Commission that involved anti-competitive activities and other methods of unfair competition. Importations and sales of articles made by means of a process covered by a US patent also are specifically prohibited under Section 337.

When a complaint is filed at the International Trade Commission, it is directed to staff attorneys (in the Office of Unfair Import Investigations (“OUII”)) who investigate the background of the complaint and determine whether it satisfies certain procedural rules. The staff may also contact the respondents named to determine whether information would be available from them during the investigation and whether certain allegations in the complaint have any basis in fact. During a 30-day period, the complaint is reviewed by the OUII as well as the office of the General Counsel, and recommendations are made to the Commission 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 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. The investigation is then assigned to an ALJ, who controls the conduct of the investigation through the time he or she issues an initial determination of whether a violation exists and a recommended determination on remedy and bonding. A staff attorney from the OUII will also be a formal party to the investigation, and participates in all phases of the proceeding.

The date of the publication of a 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. Respondents named in the investigation

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have 20 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 10 days for foreign. Parties may begin various discovery procedures once the notice of the investigation appears in the Federal Register. Parties may serve document requests, interrogatories, and notices of deposition.

Due to the expedited schedule involved in these investigations, however, the time for answering interrogatories, producing documents, and conducting depositions is very short. The entire process of discovery in a one-year investigation must take place within approximately five months. During this time, there may be one or more conferences with the ALJ who controls the discovery process, rules upon motions, and handles various requests of the parties to gain additional information or to withhold information requested by an opposing party. Protective orders with respect to confidential business information are issued as a matter of course and, accordingly, no confidential business information may be withheld from a party's outside counsel.

The complainant may have discovery problems if a great deal of the information needed 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 United States, to take place. Nonetheless, the Commission, with the approval of the Court of Appeals for the Federal Circuit, has given itself tremendous latitude in gaining access to information held by foreign companies. Although the complainant and the Commission cannot force foreign companies to divulge information or documents in the same way they can force companies or persons located in the United States to do so, 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 which the complainant should have obtained would be unfavorable to the respondent's position or even finding the case in favor of the complainant. 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 extremely burdensome because of the short time limits and the difficulties of transporting large numbers of documents or persons around the world, and the problem of coordinating with the US attorneys representing it to ensure that accurate information is compiled and presented to the Commission. The prospect of disclosing confidential business

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information, even under protective order, also has proven to be repugnant to foreign respondents in these cases.

Once the period of discovery is closed, preparation begins for the trial-type hearing before the ALJ. Normally, there is approximately one month between the close of discovery and the beginning of the hearing, during which time pre-trial briefs and exhibits are prepared. A hearing may last from a day or two to several weeks and is virtually identical to a federal district court trial, except for the application of more liberal evidentiary standards, especially with respect to hearsay.

Following the termination of a 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 ALJ. The ALJ has approximately 60 days in which to consider these documents and the evidence presented at the hearing and to prepare an initial determination for submission to the Commission.

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

Parties may appeal the ALJ'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 (in whole or in part), 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.

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 60 days to disapprove of the determination, for policy reasons, in which case the Commission's action will have no force or effect. If the president approves the determination or takes no action, the Commission's determination becomes final.

Appeal of a final determination of the Commission may be taken to the Court of Appeals for the Federal Circuit within 60 days from the date the Commission's determination becomes final.