

# International rescue

**Matthew N Bathon** looks at how the US ITC can assist with managing unfair foreign competition



**In an age of ever-expanding global trade, vast quantities of goods cross national borders every day.** Chinese exports to the US, for example, have exceeded \$400bn every year since 2011; in 2018, US imports from China were approximately \$540bn, an increase of almost 60% since 2008.

The volume and pace of trade are so furious that manufacturers may not know when others are shipping their products across borders, reselling them, or incorporating them into other products. Indeed, it's not uncommon for companies to learn of the presence of their product in a foreign country only when they find themselves subject to legal action there – or worse, when anxious customers begin asking why their shipments have not arrived.

And in recent years, the complaint notifying them of that action is increasingly likely to be served by the US International Trade Commission (ITC).

More and more US companies are turning to the ITC for relief – the commission typically has between 120 and 130 active section 337 investigations underway at any point in time. Yet the leaders of many companies, in China and elsewhere, who find themselves in the ITC's crosshairs have never heard of the agency, which has the power to order that US Customs and Border Patrol exclude products at the border. Similarly, many US businesses facing foreign competition should be aware of the powerful remedies available from the ITC for unfair methods of competition regarding imported goods.

## What is section 337?

Section 337 of the Tariff Act of 1930, 19 USC § 1337, declares unlawful “unfair methods of competition and unfair acts” in the importation of articles into the US. The statute is primarily triggered by two types of unfair acts or methods of competition:

- Those that infringe a valid and enforceable US patent or federally registered trademark, or copyright, and
- Those that otherwise injure a domestic industry.

Whether the infringing product is made in Asia, Dubai, or parts unknown, stored in Long Beach or Long Island, and even if the maker of the product has never set foot in the US, section 337 provides remedies that customs and the ITC will enforce to ensure that those intellectual property (IP) rights are not violated. No IP owner can afford to ignore this powerful forum and the remedies it provides.

## Why use section 337?

An IP owner seeking to enforce its rights may find a section 337 action preferable to district courts for a number of reasons, including the

commission's *in rem* power – meaning its jurisdiction is based on the imported articles themselves, rather than the presence of the parties or the performance of unfair acts within the US. This means parties avoid distracting and expensive disputes over jurisdiction or service, especially over foreign parties.

The ITC can provide unique remedies, including orders prohibiting entry of infringing or injurious products into the US. The commission may also issue cease-and-desist orders against products already imported and held in inventory in the US.

Additionally, once an investigation begins, no party may attempt to transfer the case out of the ITC to some district court that the party perceives may be better or more convenient.

Compared with district court cases that typically take years, the ITC is a “rocket docket”. Section 337 requires the commission to make its final determination as to a violation at the “earliest practical time,” usually around 16 months from institution.

## What you need to know about the ITC

The ITC is a quasi-judicial, independent agency that has broad powers related to international trade disputes including countervailing duty, dumping, and unfair trade investigations. There are six commissioners of the ITC who serve staggered nine-year terms, with rules to prevent politicisation of the commission.

The commission employs six experienced administrative law judges (ALJs) who dedicate their time exclusively to Section 337 investigations, who often have extensive experience in similar positions with government agencies.

The Office of General Counsel (OGC) at the commission includes attorneys with intellectual property and technical experience. The OGC advises the commissioners on the outcome of investigations and also represents the commission during appellate proceedings before the US Court of Appeals for the Federal Circuit.

The Office of Unfair Import Investigations (OUII) at the commission dedicates itself to section 337 proceedings. The OUII is composed of experienced patent attorneys with technical backgrounds who represent the public interest by evaluating complaints and recommending to the commission whether to institute an investigation. The OUII is also frequently named as a party to the investigation itself and takes an active part in discovery, motions practice, and briefing to the ALJ and the commission.

Because the OUII is separate from the other offices within the ITC, complainants and respondents are permitted to have *ex parte* communications with the assigned OUII attorney during an investigation. OUII attorneys often are able to assist the private parties

in resolving discovery disputes without the ALJ's intervention and can assist with navigating the intricacies of ITC law and procedure.

### How do you prove a violation?

Section 337 can be used to remedy a variety of unfair trade practices, including (1) importation into the US, sale for importation, or sale after importation of articles that infringe a patent or other federally registered right, provided there exists an industry in the US relating to the articles protected by the asserted IP right or (2) unfair methods of competition or unfair acts in the importation of articles, the threat or effect of which is to destroy or substantially injure an industry in the US or restrain or monopolise trade and commerce in the US.

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**Injury:** In the case of IP infringement, injury is presumed, and no proof of actual injury is required. For other injuries, the complainant must establish 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 monopolising trade and commerce in the US (ie, trade secret misappropriation, false advertising, or antitrust violations).

**Importation:** A complainant is also required to prove that the accused products have been imported. This can be satisfied by showing actual importation of a single item, importation of samples, or sales for importation – this can also apply to goods made in the US, exported for assembly, then imported as a final product for sale in the US. During the discovery phase the complainant should obtain detailed information regarding the entities that import the infringing goods, as well as the methods by which those goods are shipped into the US. This information helps customs more effectively enforce the exclusion order.

**Domestic industry:** Proof of the domestic industry may be demonstrated by significant investment in plant and equipment; significant investment in labour or capital; or substantial investment in the exploitation of the IP, including engineering, research and development, or licensing. For investigations that do not involve patents or federally registered rights, the complainant must show a substantial risk of injury to a domestic industry.

### What is the timing of an investigation?

When a complaint is filed with the commission, it is subject to a 30-day review period to determine whether it satisfies the statutory and regulatory requirements. The vast majority of complaints lead to an investigation.

When the commission institutes an investigation, a notice naming the complainant and accused infringers (respondents) is published in the Federal Register notifying the public, and the investigation is assigned to an ALJ.

Evidentiary hearings at the ITC are similar to a bench trial in district court. No jury is available. The ALJ considers the evidence presented at the trial and extensive post-hearing briefs submitted by the parties, then prepares the initial determination (ID) on violation and recommends a remedy if the commission finds a violation of section 337.

The parties can petition the commission to review some or all of

the ALJ's ID, and the commission can adopt the ALJ's findings or makes its own as to whether a violation of section 337 has occurred. The commission's decision may be appealed to the Federal Circuit.

Commission determinations that find a violation of section 337 are subject to a 60-day review period by the president, who may disapprove the determination and proposed remedy for policy reasons, in which case it will have no force or effect. (Such a disapproval has opened only once in the last two decades.)

### What are the available remedies?

The commission has “broad discretion in selecting the form, scope, and extent” of a remedy, but there are basically two forms of relief under section 337: exclusion and seizure. The ITC may also issue and enforce a consent order, essentially a settlement agreement.

Exclusion orders apply only to goods imported after the commission's determination. In patent cases an exclusion order usually lasts until the patent expires, but in non-patent cases the exclusion order remains in force for a period of time determined by the commission.

Exclusion orders can be directed to all imported products (general exclusion order), or only to those products of the specific respondents found in violation of section 337 (limited exclusion order). General exclusion orders are not often entered because too broad an order may stifle legitimate trade, particularly where a limited exclusion order will adequately protect the domestic industry.

The commission may also issue a cease-and-desist order, either alone or in conjunction with an exclusion order, to halt actions such as marketing infringing goods, selling infringing products in inventory, and other anti-competitive conduct. If a respondent does not comply with a cease-and-desist order, the commission can bring a civil action to recover a fine of up to \$100,000 per day, or twice the domestic value of the imported items.

Preliminary or temporary relief is also available in section 337 cases. Due to the tight timeframes and high standard of proof required, however, temporary relief is rarely sought.

### How do you ensure the orders are effective?

When the commission issues an exclusion order, it sends a copy directly to customs' Intellectual Property Rights Branch which analyses the order, decides how it will be enforced, and sends instructions to customs officials at each port.

Customs' enforcement of exclusion orders is generally considered effective, especially in those cases where the complainant works with customs to provide market intelligence about infringing activities.

After the ITC issues an exclusion order and after the presidential review period concludes, it is critical for the complainant to meet with customs officials and assist them in understanding the scope of the exclusion order, in part by providing information such as known ports of entry and sources of infringing goods.

IP owners who work closely with the commission and customs to enforce ITC orders can make an already forceful remedy even more effective.

#### Author



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