

### III. Tariff Act of 1930, Section 337\*

#### RECOMMENDATION

**BE IT RESOLVED**, that in recognition of the importance of Section 337 of the Tariff Act of 1930, as amended, (19 U.S.C. § 1337 *et. seq.*), in providing owners of U.S. intellectual property rights with a forum and procedure for promptly and effectively asserting their rights against imported products allegedly infringing such rights, and in light of a determination of the Council of the General Agreement on Tariffs & Trade (GATT) that this procedure requires modification to conform U.S. law to the “national treatment” provisions of GATT Article III:4, the American Bar Association supports the prompt amendment of Section 337, to the extent that Section relates to investigations based on U.S. intellectual property rights:

1. to allow a party that could be named a respondent in such an investigation to initiate a declaratory action based on a justiciable controversy before the U. S. International Trade Commission seeking an order determining that Section 337 is not violated by that party’s activities;
2. to allow any respondent in an investigation under Section 337 to assert any directly related counterclaim, solely to avoid affirmative relief against such respondent;
3. to eliminate the present fixed time limits within which the U.S. ITC must determine whether to grant or deny “permanent” relief, while adopting legislative directions for expeditious adjudication, and maintaining the existing time limits and substantive requirement for “temporary” relief;
4. to direct the U.S. District Court or the U.S. ITC, when proceedings are simultaneously pending in both based on the complaints of the same party, on timely motion of an opposing party common to both procedures, to stay proceedings in that forum that relate to overlapping issues, pending completion of the trial level proceedings on such issues in the other forum;
5. to direct the U.S. ITC to preserve the record made before the agency and make it available under protective orders to those parties also before a U.S. District Court in any suit commenced before the second anniversary of final action under Section 337; and
6. to provide for general, rather than limited, exclusion orders only where necessary to secure compliance with Section 337.

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\*This Recommendation and Report was developed primarily by Peter D. Ehrenhaft.

## REPORT

*1. Background*

Section 337 of the Tariff Act of 1930 is a unique provision of U.S. law. It permits an administrative agency, the U.S. International Trade Commission ("ITC"), to issue orders barring from import into the United States, products found by the agency to infringe U.S. intellectual property ("IP") rights. § 337 also reaches other "unfair practices" in the U.S. import trade. And the ITC's remedial powers also enable it to issue cease and desist orders directed to named parties. The President has the discretion to disapprove ITC orders on "policy" grounds.

The Resolution addressed by this Report deals primarily with the first aspect of § 337 mentioned: "exclusion orders" directed at imported merchandise. This relief makes § 337 procedures attractive to owners of U.S. intellectual property rights (whether such owners are U.S. or foreign parties) since, under current law, such orders are not generally granted by courts in infringement or similar litigation contexts. Moreover, § 337 imposes relatively short time limits within which proceedings must be completed: one year for most cases and up to 18 months for "complicated" cases. Litigation usually takes more time.

A Panel Report of the GATT, accepted by the Council of the GATT in 1989 with the acquiescence of the United States, found various details of § 337 procedures incompatible with obligations of the United States to accord "national treatment" to merchandise imported from GATT members. The United States should now amend its law to remove the offending features of § 337. The GATT decision does not require the U.S. to repeal § 337, and the United States should not abandon the basic remedy it provides. A prompt and adequately effective procedure to bar the importation of infringing articles seems essential for the adequate protection of domestic intellectual property rights. Interestingly, such a procedure may even be mandated by the GATT in the future, if certain proposals under consideration in the Uruguay Round are adopted.

The Resolution would express the support of the ABA to some changes in § 337. These would minimize, if not eliminate entirely, the features criticized by the GATT Panel Report. The Resolution is timely, notwithstanding the possible adoption of a GATT special agreement incorporating the proposals in the "Trade Related Intellectual Property Issues" ("TRIPS") paper circulating in the pending Uruguay Round. The TRIPS proposal would obligate GATT members to adopt procedures requiring the seizure of imported merchandise infringing trademarks and copyrights, and permit such relief with regard to goods infringing other IP rights, including patents. Current change in § 337 is proposed, however, because:

- (a) the obligation to conform this existing law to the existing GATT has been accepted by the United States and should be discharged in any event, even if on an interim basis; and

- (b) multilateral acceptance of the TRIPS proposal is uncertain, with U.S. implementation even less assured. Legislation to amend § 337 in a way consistent with this Report was introduced (but, not considered) in the 102d Congress. It has now been reintroduced in the 103d Congress.

## 2. *The Resolution*

The Resolution which this Report accompanies is based on an extensive review of the issues and on proposals made by the ITC Trial Lawyers Association ("ITCTLA"). The ITCTLA has a membership of more than 250 attorneys, many with extensive experience in § 337 proceedings. It prepared a persuasive analysis of the implications of the GATT Report and made constructive and responsive suggestions for change. That Report was also the basis of the bill mentioned above. The Resolution differs from the proposals circulated for comment by the Office of the U.S. Trade Representative (USTR). This Report provides the reasons why the relevant Sections of the ABA support the ITCTLA approach in lieu of the alternatives mentioned. No views are expressed on the TRIPS proposals at this time.

### a. *The Resolution responds to the finding of the GATT Report*

The GATT Report identified the following aspects of § 337 as denials of "national treatment" of imported merchandise in proceedings based on the alleged infringement of U.S. patents, each of which are addressed in the Resolution:

i. *Patentees may initiate complaints in two forums against infringing imports while domestic merchandise is subject only to court action.* The owner of a U.S. patent may initiate an infringement action in a U.S. District Court of appropriate jurisdiction and venue against a domestic producer, seller or user of products or processes alleged to infringe the plaintiff's U.S. patent right. That party may also initiate such a suit against a U.S. importer or foreign exporter of merchandise alleged to infringe the patent.<sup>1</sup> A potential defendant in such a case has the right, if it has a reasonable apprehension of such a suit, to "strike first," by filing a declaratory judgment action in a proper U.S. District Court. This opportunity for "pre-emptive" action tends to overcome advantages the patentee may otherwise have to select the forum for adjudication of the issues and the timing of the litigation.

The owner of a U.S. patent may initiate a § 337 proceeding—with respect to imported merchandise only—before, after or at the same time as an infringement action in court. However, a potential respondent in such a proceeding does not now have a right to initiate a declaratory judgment action. And the U.S. patentee can invoke no procedure comparable to § 337 with regard to domestically produced goods.

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1. The court must be satisfied that it has properly acquired personal jurisdiction over any named defendant, including a foreign exporter so named, based on the defendant's minimum contacts to the United States for "due process" purposes. In addition, venue in the court must be proper, based on infringing activities within the court's geographic district.

The mere existence of a separate proceeding under § 337 with regard to imported merchandise should not be—and was not by the GATT Panel—regarded as a *per se* violation of the “national treatment” obligations of the United States. The GATT, itself, recognizes numerous differences in the treatment of imported merchandise that are nevertheless consistent with the parties’ “national treatment” obligations. The very imposition of customs duties only on imports—the most pervasive fact of international commodity trade—is the most obvious example of a GATT-sanctioned differential in treatment between imports and domestically produced products. But others exist, ranging from obligations of importers to mark imports with countries of origin to the unique national remedies of Article VI regarding antidumping and countervailing duties that apply only to imports. The essence of the GATT Panel ruling on § 337 was *not* that the remedy, *qua* remedy or procedure, violated the Agreement. It was that certain aspects of the procedure used to apply to § 337 were particularly burdensome on, or discriminatory in their application to, imports. Such discriminations included the unique ability of the patentee to initiate proceedings against imports in two forums at one time, and to subject foreign respondents in § 337 cases to the accelerated procedures applied by the ITC to such cases; such rights did not exist with regard to domestic cases.<sup>2</sup>

With the creation of the single U.S. Court of Appeals for the Federal Circuit in 1982 as the sole appellate tribunal to review District Court decisions in patent cases, “forum shopping” in U.S. infringement litigation has been reduced substantially. Nevertheless, issues of convenience, docket crowding and judicial expertise may influence a patentee’s selection of a forum. Timing considerations may be more significant. A patentee may have reasons to delay a suit: internal reasons, such as the availability of its personnel and counsel, completion of all comparative testing and retention of appropriate experts, and external reasons, such as the completion of a worldwide review of prior art or success with third-party licensing. On the other hand, filing a case quickly and without warning may give tactical litigation advantages to a filing party able to prepare its case without time constraints imposed by law.

One major “discrimination” against the treatment of imports could be overcome if foreign parties were given the right to file declaratory judgment actions before the ITC seeking a decision that their actions do *not* violate § 337. Presumably the same standards of “reasonable apprehension” applicable to suits for declaratory relief in District Court actions would be imposed.<sup>3</sup>

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2. In fact, a patentee may initiate patent infringement suits in multiple *courts* at one time, particularly if necessary parties are joined at different locations (*e.g.*, multiple customers using the products of an infringing producer). Moreover, some courts now use so-called “rocket dockets” to bring selected cases—including patent infringement cases—to trial on a very accelerated basis, at times within a span even shorter than the one year provided by § 337.

3. The requirement has a constitutional basis in court cases in light of the Article III limitation on the jurisdiction of federal courts to “cases and controversies.” No such limit applies to the ITC.

The extent to which foreign “infringers” would actively use such rights may be questioned. However, they may wish to take advantage of the accelerated time frame of § 337 cases; they may wish to avoid jury trials in locations thought to be hostile to foreign companies; or they may wish to use the tactical advantages of selecting the timing of an action. Therefore, the proposed amendment is not academic. It significantly provides equality of access to multiple forums to both domestic and foreign parties in the forums where their rights may be adjudicated. Thus, the first operative provision of the Resolution suggests that § 337 be amended to allow potential respondents to initiate declaratory judgment proceedings in the ITC. This provision does not eliminate the “two fora” objection of the GATT Panel, but attempts to meet it by offering similar rights to foreign and domestic parties to select between the two fora when imports are at issue.

ii. *Inability of respondents to assert counterclaims.* In a District Court action, a defendant is required by Rule 13(a), Fed. R. Civ. P., to present any “compulsory” counterclaim arising out of the same facts as the plaintiff’s cause of action. Permissive counterclaims, under Rule 13(b), are permitted—and even encouraged—to permit conservation of judicial resources. Permissive counterclaims by patent infringement defendants may include claims that the separate U.S. patents of the foreign defendant are infringed by the domestic plaintiff. (They may deal with many other issues arising out of the parties’ relationships.) The right to assert the defendant’s patents against the plaintiff was cited in the GATT Panel Report as an important right of foreign exporters in infringement actions to enable the defendants to negotiate settlements with U.S. companies.

In ITC proceedings under § 337, a respondent now *has* the ability to present as a defense against the imposition of any remedy the ITC may grant, claims that the complainant’s practices in licensing the patent at issue to third-parties constitute a “misuse” of the patent or an antitrust law violation.

On the other hand, the right to assert their own, independent U.S. patents vis-à-vis a complainant’s products, has *not* been recognized as a defense by the ITC. The ability of a defendant in District Court to raise permissive counterclaims, such as claims that the plaintiff’s products sold in the United States infringe patents of the defendant—particularly to achieve “leverage” for a settlement of the claim of the plaintiff—was the principal “discrimination” against foreign exporters in § 337 practice that led to the GATT proceeding. It is true that U.S. law and courts are available to virtually any foreign respondent to initiate an independent legal action in a proper forum for the pursuit of such claims. A requirement for separate adjudication may also be imposed on domestic defendants in a court suit, and parties seem fully able to “settle” differences arising out of one, two or multiple actions. It is not unusual for litigation based on a single patent to be before more than one court due to jurisdiction and venue limitations. Nevertheless, a response to this key element of the GATT Report seems necessary and proper.

The Resolution, therefore, expands present law significantly to articulate

clearly that respondents *are* to be permitted to raise as defenses to the enforcement of a § 337 remedy any “directly related” counterclaim, that could be raised in a court proceeding for the same purpose, although the effect of the counterclaim, if accepted, will solely be to deny the affirmative relief the Commission could otherwise grant. Thus, a respondent’s claim that the complainant’s products, the production of which constitutes the “industry” being protected under § 337, infringes the respondent’s patent, could be considered solely to deny the exclusion order sought by the petitioner.

iii. *Short time limits for action unfairly disadvantage respondents.* Section 337 imposes strict and relatively short time periods for action on complaints. “Permanent” relief must be granted (or denied) within 12 months after publication of the institution of an investigation, unless, on good cause shown, a party seeks to have the proceedings designated as “complicated,” in which case the final decision of the ITC is due in no more than 18 months. Applications for “temporary exclusion orders” must be processed within 90 days of institution (150 days if found to be “complicated”), and can be based only on the complainant’s showing of a prima facie case of infringement and irreparable harm if the TEO is denied. A prevailing applicant may be required to post bond to keep out imports pending the final determination of the Commission.

A major complaint of foreign respondents about § 337 cases focuses on the short period for ITC action. They claim a complainant is able to take unlimited time to prepare its complaint and discovery requests, even obtaining the assistance of ITC staff in that effort. Respondents are required, often without warning, to prepare a defense in a foreign tribunal under a legal system unfamiliar to them. That system contemplates “discovery” proceedings that are novel, often require unprecedented efforts to locate and translate large numbers of documents, necessitate hiring counsel and experts to be “educated” in very short periods, and require efforts to conduct discovery regarding the complainant and third parties without prior consideration of the substantive issues, or even the procedure itself.

Moreover, court actions can in some cases be pursued on a timetable even shorter than before the ITC. Motions for preliminarily injunctions or temporary restraining orders may be considered within days of filing. And court actions may be as much of a surprise as an ITC case to a defendant, also following extensive “silent” preparation by the plaintiff.

To respond to the GATT Panel, the Resolution proposes elimination of the 12/18 month absolute time limitations in the statute. At the same time, the legislative history of the law (or even a provision of the statute) should state that expeditious decisions are necessary, and that, absent good cause shown, cases will presumably be decided within the present 12/18 month time frame.

The Resolution suggests maintenance of *both* the substantive and procedural provisions of § 337 in IP cases. The first point addresses efforts of some U.S. interests to eliminate existing requirements of § 337 obligating an applicant for temporary relief to show irreparable harm without the remedy. This point was

not addressed by the GATT Panel and should not be adopted now. To eliminate the requirement for showing such harm would change traditional U.S. standards for obtaining temporary relief before all facts are shown. It would introduce into § 337 practice a new discrimination about which GATT trading partners could—and probably would—complain. A complainant in a § 337 proceeding should bear a similar burden to that borne by a plaintiff in a District Court patent action.

iv. *Simultaneous ITC and court proceedings unfairly discriminate against imports.* A patentee may bring simultaneous actions against alleged infringers before a court and the ITC. The statutes do not require either forum to stay a pending case because the other proceeding is progressing. As a rule, judges, without a statutory time limit on deciding patent cases and often with a crowded criminal case docket, are willing to stay court proceedings pending an ITC determination that, by law, will be required fairly promptly—in no more than 18 months. But often courts will at least require some motion practice and discovery to be conducted while the ITC case is in progress, particularly during periods when the parties are only awaiting rulings from the Administrative Law Judge (ALJ) or the Commission.

Domestic infringers do not in most cases face the problem of simultaneously defending in two fora. However, it is not impossible for a patentee to bring two or more actions in different courts in different jurisdictions that may involve the same defendant (among others). Nevertheless, such cases may be consolidated or sequenced for trial.

The Resolution suggests that the law direct U.S. District Courts, on timely motion of any interested party, to stay overlapping proceedings pending the completion of ITC proceedings (including Presidential review). To the extent the two cases deal with *different* issues (e.g., a respondent's claim that the complainant in the ITC case is infringing one of respondent's U.S. patents in *unrelated* domestic activities), no such stay would be directed—any more than a stay would be required in one court due to a co-pending case between the same parties on other issues.

v. *Duplicative proceedings unfairly burden foreign respondents.* Section 337 proceedings are conducted before ALJs acting pursuant to ITC Rules of Practice. These Rules contemplate the issuance of Administrative Protective Orders (APOs), pursuant to which counsel for the parties may obtain access to confidential business information submitted by opposing parties and Commission staff. The APOs assure full access to the lawyers of the entire record on which the ITC must decide. The APOs also prohibit the use of any information obtained through an APO in any other proceeding or in any other forum. As a result, depositions taken of key company personnel, inventors or experts or documents obtained from an adversary's files—often at considerable effort and cost—cannot be used in other ITC cases involving the same parties but other patents, nor in court cases between the same parties even involving the same patents.

The Resolution suggests modification of the APO rules of the ITC to permit

parties to use data obtained under an APO in another forum. However, the APO would continue in effect with regard to the safekeeping and access to that data. The ITC would need to determine if additional parties (*e.g.*, the District Court judge and clerks) should be added to its APO, or whether it would permit the Court to impose a judicial order of equivalent effect for the purpose of “taking over” the data. As a practical matter, the latter procedure seems desirable in most cases. In any event, the “other proceeding” would need to be co-pending or commenced within two years of the ITC’s final determination to require availability of the record in the § 337 case for the other case. Delays beyond a year might unduly burden the Commission for the gain achieved.

vi. *General exclusion orders are too broad a remedy in most cases.* While acknowledging that limited *in rem* exclusion orders do not constitute less favorable treatment of imported products, the GATT panel determined that *in rem* exclusion orders which are *general* in nature have no counterpart in actions against domestic infringers and are, therefore, discriminatory. However, Article XX(d) of the GATT provides exceptions to the Article III:4 nondiscrimination requirement where it can be shown that the provision in question is “necessary” to secure compliance with domestic law. The panel suggested, by implication, that the test adopted by the Commission in the *Airless Paint Spray Pumps* investigation was inadequate to differentiate those situations in which a general exclusion order is “necessary” from those where it might be discriminatory. That Commission decision established a two-part test for a general, rather than limited exclusion order: To obtain such an order the complainant has the burden of demonstrating, first, a widespread pattern of unauthorized use of the patented invention, and second, business conditions from which one might reasonably infer that foreign manufacturers other than the respondents to the investigation might attempt to import infringing products.

The Panel acknowledged that the Article XX(d) exception could be applicable if it were “difficult to identify the source of infringing products or to prevent circumvention of orders limited to the products of named persons.” These examples are consistent with the test applied by the Commission and should, in addition to the Commission’s *Pumps* test, be incorporated into the statute. These limits on general orders should not “weaken” § 337 for most U.S. owners of rights sought to be enforced through the invocation of the remedy § 337 was designed to provide.

b. *The Resolution does not address other issues*

The Resolution attempts to address the specific findings of the GATT Panel. It does not go further. Therefore, it does not cover:

i. *Reduced burden of proof for TEOs.* An important “vice” of some other proposals for § 337 reform rests in the suggestions that § 337 complainants in patent cases be relieved of the obligation to show “irreparable harm” to obtain “temporary” relief. For the reasons discussed under ¶ 2.a.iii, above, this change



would *create*, rather than solve, a GATT compliance problem. Therefore, no such change is proposed; indeed, adherence to existing District Court practice is affirmed.

ii. *Exclusive jurisdiction of District Courts to order "permanent" relief.* The GATT Panel did not find as violative of GATT the mere existence of a § 337-type remedy (an "exclusion order" addressed to goods—even those produced by parties that had not participated in the proceeding leading up to the order). It focused on the procedural problems mentioned above and addressed in the Resolution. Some U.S. commentators, including those circulated by the USTR, suggest that compliance with the GATT Panel Report may require shifting to a court (either a U.S. District Court or the Court of International Trade) the sole authority to issue any "permanent relief," including an exclusion order with a duration longer than for a "provisional" period pending the court's final decision. This view has prompted, in turn, concerns about the ability of such courts, with traditionally limited territorial jurisdiction, to issue nationwide exclusion orders.

As noted above, a close reading of the GATT Panel Report suggests a recognition by the Panel that the "mere" existence of the administrative remedy of the total exclusion of infringing imports does not violate the GATT. The agreement only prohibits border measures that *unfairly* discriminate against imports.

Providing a forum, such as the ITC, to hear and determine cases involving imports only, is not an unfair discrimination if the measures proposed were adopted. If adopted, there would be no need to consider whether District Courts could (or should) be given the power to issue exclusion orders affecting all imports. However, modern views of the jurisdiction of the federal courts suggest that so long as *due process* concerns are satisfied, the *Constitution* imposes no impediment on a particular District Court or other Article III court of original jurisdiction (such as the Court of International Trade) to issue orders affecting imports anywhere in the United States. However, present *statutes* defining the power and venue of such courts would require modification if the courts were given such authority. The Resolution does not address that issue on the assumption it is unnecessary.

iii. *Review of the scope of exclusion orders.* ITC exclusion orders are now delivered to the U.S. Customs Service for implementation. A decision by the Service denying entry of a product based on the order may be protested by the importer, and review of the protest may be sought in the Court of International Trade. This system appears to operate without objection on GATT compliance grounds.

If District Courts were to be the sole agency issuing "permanent" exclusion orders, a problem would arise if the same courts could not also review the implementation of their orders by the Customs Service. However, existing law vests exclusive jurisdiction to review Customs Service decisions in the CIT. Presumably this would also be changed if District Courts issued exclusion orders. The Resolution does not address that issue on the assumption it is unnecessary.