

SECTION 337:

A Comparison Between Intellectual Property Actions Under Section 337 at the ITC and U. S. District Court

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I. Introduction

Over the last thirty years, owners of United States intellectual property rights, particularly owners of United States patents and federally registered trademarks, have increasingly taken advantage of the protection provided by Section 337 of the Tariff Act of 1930. This statute, which is enforced by the United States International Trade Commission ("ITC"), provides for exclusion from the United States market products that infringe a valid and enforceable United States intellectual property right.

An intellectual property rights owner ("IPR owner") may seek institution of a Section 337 investigation in conjunction with or as an alternative to an infringement action in federal court.² Which course of action to follow depends, of course, on the facts, but also, on the IPR owner's goals. While an infringement action in federal court can result in a monetary award, this may not be the best choice where the infringing goods have just begun entering the United States market. A Section 337 investigation, on the other hand, is often advantageous because it is not necessary to establish personal jurisdiction over the infringers and the relief it provides is exclusion of infringing products from the market. These and other considerations may lead an IPR owner to conclude that a Section 337 investigation is the most effective course of action to obtain relief against infringers.

Section 337 is a border enforcement mechanism intended to address "unfair methods of competition and unfair acts" in the importation of articles into the United States. The most commonly asserted type of unfair acts and, indeed, the ones specifically identified in the statute, are importations of articles that infringe a valid and enforceable United States patent or a

² It should be noted that, if brought in conjunction, the federal court action can be stayed by the defendant pending resolution of the Section 337 investigation. 28 U.S.C. § 1659.

federally registered trademark, copyright, semiconductor mask work or boat hull design. Patent infringement cases represent approximately 90% of recent Section 337 investigations.

II. Elements of Section 337

For investigations involving one of the above enumerated intellectual property rights, the complainant must establish three elements: (1) importation, (2) infringement of the asserted intellectual property right, and (3) the existence of a domestic industry relating to that right. The requirements of importation and a domestic industry are unique to Section 337.

a. Importation and Jurisdiction

Under Section 337, a key requirement is proof that there have been imports of the products in question. Jurisdiction is *in rem*, i.e., over the product. Personal jurisdiction is *not* required in a Section 337 action. The importation requirement may be satisfied by showing actual importation or by demonstrating that a sale has been made for importation of the accused products into the United States. In many cases, proof of importation is not disputed and is stipulated. As long as importation can be shown, the ITC has jurisdiction. Besides commercial importation, importation of a few samples or a contract for future sale for importation into the United States can be sufficient to meet this requirement. Furthermore, it should be noted that goods made in the United States might satisfy the importation requirement if they are exported for assembly into a final product and then reimported into the United States. Thus, even companies active in the United States can be found to violate Section 337. Personal jurisdiction is required, however, in order to obtain a cease and desist order over a particular named respondent.

This jurisdictional requirement of Section 337 is in contrast to the jurisdictional and venue requirements for patent infringement litigations in the federal courts. Under Section 1338(a) of Title 28, the federal courts have exclusive jurisdiction for patent infringement. 28 U.S.C. § 1338(a).

Section 1440(b) provides for venue of patent disputes in the district where the defendant “resides” or has committed an act of infringement and has a “regular and established place of business.” 28 U.S.C. § 1400(b). An IPR owner must establish personal jurisdiction and venue for each named defendant and alleged infringer.

The differences in jurisdictional requirements at the ITC, compared to a district court allow an IPR owner to sue all infringing parties in one forum, rather than filing multiple suits in multiple jurisdictions in order to obtain personal jurisdiction over all defendants. Personal jurisdiction in a single federal court may be particularly difficult to obtain, for instance, where there are multiple infringers or if the infringer is a foreign company with few, if any, contacts with the United States. In short, an IPR owner's course of action may be dictated by the particular facts of its case. If the infringer is located abroad and imports its infringing product into the United States, Section 337 may provide more efficient and effective relief than a district court.

b. Infringement and Defenses

Generally proof of infringement and proof of defenses to infringement are the same in the ITC as in district court. Under Section 1337(c) all legal and equitable defenses can be presented. 19 U.S.C. § 1337(c). However, there are differences for infringement actions based on process patents. Under Section 271(g) of Title 35, a process patent owner has the right to bring an infringement action in federal district court against a party that imports or sells in the United States a product made abroad using a patented process. This provision was added to Section 271 in 1988. Prior to 1988, a process patent owner's only avenue for relief against products made abroad by use of an infringing process was in the ITC under the provisions of what was then Section 1337a.³

³ After 1988 and the enactment of Section 271(g), Section 1337a became a part of Section 1337. (19 U.S.C. 1337(a)(1)(B)(ii)).

Section 271(g) sets forth two defenses that are available to a party accused of infringing a process patent under section 271(g). Section 271(g)(1) and (2) provide that a product made abroad by an allegedly infringing process, will not be found to be infringing if it is materially changed by subsequent processes or it becomes a trivial and non-consequential component of another product. These two defenses are available to accused infringers in federal district court, but are not available to accused infringers in a Section 337 action before the ITC. *Kinik Co. v. U.S. Int'l Trade Comm'n*, 362 F.3d 1359 (Fed. Cir. 2004). The Federal Circuit gave deference to the ITC's conclusion that Section 271(g) defenses did not apply to Section 337 actions and the fact that the enactment of Section 271(g) was not intended to change the rights process patent holders had under Section 1337(a).

Another potential area where there may be a difference for process patent holders bringing suit in the district court compared to the ITC is in the application of Section 295 of Title 35. Section 295 provides that the burden of proof of infringement of a process patent may shift in certain circumstances. Normally, a patentee has the burden to prove infringement by a preponderance of the evidence. Section 295 provides that this burden can shift for process patent holders if the Court finds that a substantial likelihood exists that the product was made by the patented process and that the plaintiff has made a reasonable effort to determine the process actually used by the alleged infringer, but was unable to determine the actual process used. If these elements are met, then the Court can shift the burden to the alleged infringer to rebut the presumption. It is unclear whether Section 295 applies to Section 337 actions and the issue has not been directly decided by the Federal Circuit. However, in *Nutrinova Nutrition Specialties and Food, GmbH v. U.S. Int'l Trade Comm'n*, 224 F3d 1356, fn. 1 (Fed. Cir. 2000), the Court indicated that “[i]t is possible that § 295 has no application to proceedings before the ITC, since

the statute on its face applies to Courts, not agencies.” It is important for process patent holders to be aware of these potential differences when considering filing a complaint.

c. Domestic Industry

Under Section 337, a complainant must also establish the existence of a domestic industry. There are two prongs to the domestic industry requirement: the technical prong and the economic prong. The technical prong is established by showing that the complainant (or its licensees) is practicing the intellectual property right.

The economic prong is established by showing that the intellectual property right is being “exploited” in the United States. Exploitation of the intellectual property right in the United States can be met by any one of three showings: significant investment in plant and equipment, significant employment of labor or capital, or substantial investment in the exploitation of the intellectual property right, including engineering, research and development, or licensing. It is possible for foreign owners of United States intellectual property rights to take advantage of Section 337 as long as they can demonstrate they are engaged in the requisite amount of activity in the United States. Companies that are limited to licensing intellectual property have successfully established the existence of a domestic industry. Additionally, the owner of a process patent may establish the existence of a domestic industry even if the process is practiced overseas, if there is significant domestic activity devoted to exploitation of the patent. *In re Diltiazem Hydrochloride*, 337-TA-349 (1995).

III. The Parties and The ITC Staff

There are three parties to a Section 337 action: the Complainant(s), Respondent(s) and the ITC Staff. The presence of the ITC Staff is a significant difference between Section 337

actions and district court actions. The function of the ITC Staff is to protect the public interest. The ITC Staff is an independent third party and participates fully in the investigation.

IV. Remedy

A significant feature of Section 337 investigations is the relief available. If the ITC determines that there is a violation of Section 337, it may issue either a general or limited exclusion order barring importation of the infringing products into the United States. The ITC may also issue cease and desist orders. Monetary damages are not available at the ITC.

An ITC action may be more favorable in some instances than a district court action in view of the Supreme Court's recent ruling in *eBay v. MercExchange LLC*, 126 S. Ct. 1837 (2006). In the *eBay* decision, the Supreme Court reversed the decision of the Federal Circuit granting a permanent injunction to MercExchange based on the finding that eBay infringed MercExchange's patent. The Supreme Court found that the traditional four factor test applied when determining whether to award injunctive relief to a successful patentee. Thus, a successful patentee in district court will have to show the following four factors in order to obtain a permanent injunction: (1) irreparable injury; (2) the remedies at law are inadequate to compensate for that injury; (3) that considering the balance of hardships between the plaintiff and defendant, a remedy in equity is warranted; and (4) that the public interest would not be disserved by a permanent injunction. In contrast to the above requirement, a successful patentee in a Section 337 action that has established a domestic industry and infringement, need only show that the issuance of an exclusion order would not be against the public interest.

A general exclusion order, a remedy unique to the ITC, will exclude from importation into the United States *all* infringing products, regardless of source. This means that, even if an infringer is not a named party to the Section 337 investigation, its products may be excluded

from future importation. Because of the potential disruption of legitimate international trade that a general exclusion order may cause, additional proof is required of rampant infringement by numerous infringers, including unidentified infringers, or of other indications of potential circumvention. If the standard for obtaining a general exclusion order cannot be met, the ITC may issue a limited exclusion order barring the infringing products of the *named* respondents from future importation into the United States.

The scope of the exclusion order is often an issue in Section 337 litigations. In many cases, the exclusion order is directed to the specific products at issue, *e.g.*, calculators, shoes, etc., and there is little dispute as to the scope of the order. However, the situation is more complicated when the infringing product enters the U.S. within another larger product, *e.g.*, chips within a computer. In some instances the ITC will extend the exclusion order to cover downstream products. In deciding whether an exclusion order should extend to downstream products, the ITC looks to such factors as the value of the infringing products to the imported product, the identity of the manufacturers, the ease of enforcement, and the potential of disrupting legitimate trade. *EPROMS*, Inv. No. 337-TA-376 (1989).

U.S. Customs and Border Protection (“Customs”), which is part of the Department of Homeland Security, enforces all general and limited exclusion orders. In some situations, the ITC and Customs may consult with each other concerning enforcement of exclusion orders.

In addition to exclusion orders, if the ITC has personal jurisdiction, it may also issue cease and desist orders to specific U.S. respondents barring various activities, including the further purchase of infringing products from abroad or the sale of infringing inventory already in the United States. The ITC, in contrast to Customs, enforces cease and desist orders.

Under circumstances in which an IPR owner is facing substantial immediate and irreparable harm from infringing imports, the ITC has authority to exclude articles from entry on a preliminary basis during the pendency of an investigation. This temporary exclusion order ("TEO") is imposed only after a determination by the ITC that there is reason to believe there is a violation of Section 337. The decision on entry of a TEO must, in accordance with the statute, be issued within 90 days after initiation of the investigation or, in more complicated cases, within 150 days. The standard at the ITC for issuance of temporary relief at the ITC is similar to the standard for obtaining a preliminary injunction in district court. As is the case with preliminary injunctions in federal court, TEOs have not been pursued frequently because the test requires a showing of the likelihood of success on the merits and irreparable harm. Moreover, to discourage frivolous requests, the ITC can require complainants to post a bond as a prerequisite to receiving temporary relief. The ITC may also issue temporary cease and desist orders under these provisions.

V. Advantages of Section 337 Actions

The advantages of a Section 337 investigation are (1) speed; (2) expert judges; (3) broad jurisdiction; and (4) efficient and effective relief. A Section 337 investigation is typically completed in less than 15 months from the date of institution of the investigation. The actual hearing (or trial) generally occurs seven months from the date of institution, as opposed to often two or more years in federal court.

A prospective complainant must make extensive preparations before filing a Section 337 complaint as it requires substantially more documentation because of its expedited nature than a notice pleading complaint in federal court. Moreover, the discovery process will proceed very quickly, which can be burdensome on both the complainant and respondents in a Section 337

investigation. A well-prepared complainant, however, will have the advantage of advance preparation. The expertise of the ITC's administrative law judges ("ALJ") is an added benefit in this process. Unlike federal court judges, the vast majority of cases brought before the ITC's ALJs involve allegations of patent or trademark infringement.

VI. Conclusion

A Section 337 investigation and an infringement action in federal court each has its advantages. However, if an IPR owner is interested in fast and effective relief from infringing imports, a Section 337 investigation at the ITC is a course of action that deserves serious consideration.