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Avoiding 3 Problems With ITC Section 337 Remedies

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A business can get relief from the International Trade Commission (ITC) by proving that a foreign business is using unfair methods of competition and unfair acts in the importation of a product or article, such as by infringing a US patent, trademark or copyright.

To get relief against such infringement, a business starts a Section 337 proceeding at the ITC. The desired relief—a Section 337 remedy—usually involves some form of exclusion of the article that is being unfairly imported into the US.

While a 337 remedy can be a great help to a business, problems can arise in getting and enforcing the appropriate remedy. Recent developments in ITC case law, as well as a recent report by the US Government Accountability Office (GAO) identifying weaknesses in the enforcement of Section 337 remedies, illustrate how these problems can arise. Fortunately, solutions exist.

This article provides an overview of Section 337 remedies and proceedings, identifies three common problems that

may arise with them in light of recent developments and provides solutions to each problem.

Overview Of ITC Section 337 Remedies

Businesses generally choose to go to the ITC for relief, rather than go through a court proceeding, because a Section 337 ITC proceeding typically provides faster relief or because the ITC has the power in certain situations to issue broader relief in the form of a general exclusion order than a court would have.

There are two types of exclusion orders. First, a general exclusion order usually prohibits the importation of all infringing articles, regardless of their owner, importer and place of origin, and whether or not the owner or importer participated in the underlying investigation.

The second type of order is a limited exclusion order, which is typically limited in its application to respondents named in the ITC complaint. But, in



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the past, the ITC has issued limited exclusion orders that extended to non-respondents' products that incorporated the infringing article, referred to as "downstream products."

However, in an Oct. 14, 2008 decision the Court of Appeals for the Federal Circuit indicated that the ITC had overstepped its authority by issuing a limited exclusion order which extended to downstream products.

Three Common Problems—And Solutions

A business can encounter problems with Section 337 remedies in a number of ways. It may not word its complaint in a way that allows the ITC to grant it the remedy it needs or seeks.

The recent Federal Circuit decision has a significant impact on the remedy the ITC will grant, and, if the impact of that decision is ignored, a business may end up with a remedy that doesn't accomplish its objectives in bringing the case. Finally, even if a business does win an exclusion order, there may be problems in enforcing it.

Here are three common Section 337 remedies problems—and how to solve them:

Problem #1: Complaint Is Too Narrowly Worded

If the Section 337 complaint filed with the ITC is too narrowly worded, a complainant may not get the remedy it wants or needs. The ITC will strictly construe the complaint when granting default relief: if a particular product or importer is not named in the complaint, the remedy the ITC will provide may not cover that product or importer.

Example: Microsoft initiated a Section 337 proceeding regarding design patents relating to its Xbox video game system. The complaint named Ultimate Game Club as the respondent and identified two of the respondent's video game accessories as allegedly infringing the asserted design patents.

After Ultimate Game Club failed to respond or show cause, Microsoft sought an exclusion order

requesting exclusion of video game systems from Ultimate Game Club, exclusion of components of video game accessories from Ultimate Game Club and exclusion of products by Future Tech LLC.

The ITC denied the request because the complaint failed to address such relief. Despite inclusion in the title of the proceeding—"Certain Video Game Systems, Accessories and Components Thereof"—the ITC found that the complaint lacked allegations pertaining to video game systems and components.

Moreover, Microsoft's argument that a general statement reserving the right to add additional infringing products provided no grounds for interpreting the complaint's allegations broadly, as the ITC stuck to its practice of strictly construing a complaint when shaping a default remedy (In the Matter of Certain Video Game Systems, Accessories and Components Thereof, Inv. No. 337-TA-473, Commission Opinion on Remedy, the Public Interest and Bonding, Dec. 24, 2002).

Solution: Identify All Relevant Entities And Products In Complaint

As with other litigations, a well-drafted complaint lays the groundwork for the desired relief.

In drafting a Section 337 complaint, identify all entities that import the infringing products, including common commercial names, and identify all allegedly infringing products. As illustrated in the Microsoft example, the ITC strictly construes allegations of a complaint when granting default relief.

Problem #2: Downstream Products Of Unnamed Parties Not Subject To Limited Exclusion Order

Thanks to the recent Federal Circuit decision, the ITC's remedy of a limited exclusion order no longer bars importation of downstream products by businesses that are not parties to the Section 337 proceeding. As a result, if a complainant obtains a limited exclusion order, it may not get the full protection it needs or thought it was seeking.

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Here's what happened in the Federal Circuit case. Broadcom Corporation's Section 337 complaint named Qualcomm Incorporated and alleged certain Qualcomm processor chips infringed Broadcom patents.

The complaint did not name any manufacturers of downstream products known to include Qualcomm chips, nor did it support the intervention of such manufacturers in the liability phase of the proceeding.

After full litigation between the parties, the ITC issued a limited exclusion order that included cellular telephone handsets and PDAs that included the Qualcomm chips (that were not subject to "grandfathering") for exclusion.

On appeal, the Federal Circuit vacated the ITC's limited exclusion order. The appeal focused on the ITC's authority to issue limited exclusion orders against downstream products when the makers and importers of those products were not parties to the Section 337 proceeding.

In vacating the order, the Federal Circuit held that the ITC's statutory authority for issuing limited exclusion orders cannot extend to unnamed parties.

For the ITC to exclude downstream products in situations where the manufacturers and importers of those products are not party to the underlying proceeding, the complainant must seek and satisfy the requirements set by law for obtaining a general exclusion order before the ITC can issue such an order (*Kyocera v. ITC*, No. 07-1493 (Fed. Cir. 2008)).

Solution: Request General Exclusion Order, Name Downstream Parties

In situations where importation of the allegedly infringing product primarily occurs within downstream products, request a general exclusion order, as opposed to or along with a limited exclusion order.

Also, consider naming and giving notice to downstream parties, so that a limited exclusion

order will be an effective remedy against them. Failing to provide such details in the complaint may significantly limit the relief available, and may pose difficulties in later attempts to enforce the granted relief.

As illustrated by the Federal Circuit's decision in the case above, the ITC's authority to issue limited exclusion orders does not extend to barring downstream products of unnamed parties.

Problem #3: Weaknesses In The US Customs And Border Patrol System Make It Difficult To Enforce Exclusion Orders

After the ITC issues an exclusion order, it is up to the United States Customs and Border Patrol (CBP) to ensure that the infringing articles subject do not gain entry into the United States.

CBP will post an internal "Trade Alert" based on information it gets from the ITC and create targeting instructions for its ports of entry regarding incoming shipments that require examination for goods subject to an exclusion order.

If goods subject to exclusion arrive at a port of entry, CBP denies the good entry and issues a notice of exclusion to the importer.

Theoretically, this sounds like a smooth system. But, in reality, enforcement problems arise. In March 2008, a report by the United States Government Accountability Office (GAO) identified weaknesses in the CBP's enforcement system.

For instance, the GAO reported that the number of exclusion order examinations decreased over the last few years and that a significant time lapse exists between the issuance of an exclusion order and the CBP Trade Alert. (For a copy of the report, go to www.gao.gov/new.items/d08157.pdf).

Other weaknesses in the enforcement system arise when the CBP tries to enforce exclusion orders against importers shipping directly to end consumers, rather than through standard ports of entry.

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For instance, the ITC issued general exclusion orders in Section 337 proceedings brought by pharmaceutical companies against generic drug importers.

However, the usual broad reach of a general exclusion order was weakened because the importers did not import the infringing products in commercial quantities for resale by US retailers.

Instead, they sold the products via the Internet and established a practice of shipping products from international locations directly to domestic consumers. In these and similar situations, effective enforcement of general exclusion orders exceeds the CBP's charge and capacity.

Finally, where there is a technical question about whether a particular type of import falls within the scope of an exclusion order, the CBP may not be in a position to review and decide the question on a timely basis. As a result, coverage of commercially significant infringing imports may be delayed or prevented.

Solution: Assist The CBP In Enforcement Efforts

Work with ITC staff to ensure that the instructions to the CBP or enforcing the order are clear, administrable and of a scope that will fully capture and anticipate future imports of infringing articles.

After obtaining an exclusion order, take affirmative steps to work with the CBP to enforce it. CBP headquarters educates field personnel about enforcement of an exclusion order based on information given to them by the party who got the exclusion order.

To help the CBP, identify the ports and expected times of entry most likely used by the violating importers and give this information to CBP officials and those ports of entry.

Also, describe how CBP officials can quickly and easily identify violating imports. This can include collaborating with CBP officials to create advanced testing methods. In short, providing intelligence to the CBP strengthens its ability to enforce an exclusion order.

While there is no complete solution to the problem of direct shipment to consumers buying from the internet, it may be possible in some circumstances to persuade the ITC to target significant distributors, processors or importers of the infringing goods via a cease and desist order.

Get The Relief You Need

When starting a Section 337 proceeding at the ITC, it's important to carefully think out exactly what you hope to achieve. Without careful consideration you may end up with relief that doesn't help you in your situation. When drafting your complaint, make sure it names all parties and products that are harming your business.

In light of the recent Broadcom decision, determine whether a limited exclusion order will help you achieve your goals, or whether a general exclusion order will better serve you. Finally, whatever type of exclusion order you ultimately get, follow-up with the CBP in their enforcement of the order.

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