

Introduction to Section 337 Investigations

A primary concern for businesses in the United States, particularly intellectual property (IP)¹ rights holders, is protection from unfair foreign competition. Section 337 of the Tariff Act of 1930 is an important tool in that effort. Although most commonly used to target infringement of intellectual property rights, particularly patents, Section 337 can be used to address a variety of unfair acts in the importation of articles into the United States, such as misappropriation of trade secrets. Indeed, globalization of the marketplace has inextricably linked IP protection and international trade. Enforcing U.S. patent and other IP rights, and certain common law rights, is one way of protecting a domestic industry from unfair competition emanating from outside the United States.

Owners of U.S. IP, primarily patent owners, have used Section 337 of the Tariff Act of 1930 to protect their rights against infringing, imported products. Although not widely used at its inception, Section 337 has become increasingly popular over the past 45 years as IP rights holders have learned how to take advantage of the protection the statute affords. The International Trade Commission (ITC or Commission) has sole authority to investigate alleged Section 337 violations. The ITC has become a popular forum for a multitude of reasons: the effective remedies it offers IP holders; its ability to conduct expedited hearings; its broad jurisdiction; and its specialized knowledge of patent law. The number of complaints instituted² increased from an annual

1. Please refer to the “List of Abbreviations” at the beginning of this book for all abbreviations.

2. The filing of a complaint does not begin a formal ITC Section 337 investigation but, instead, results in a 30-day “pre-institution proceeding.” A Section 337 investigation begins once the ITC “determine[s] whether the complaint is properly filed and whether an investigation should be instituted on the basis of the complaint” and provides official notice by publication in the *Federal Register*. See 19 C.F.R. §§ 210.8, 210.9, 210.10(a)–(b) (2014).

average of 17 investigations during the years 1990 to 2003 to an annual average of 42 investigations for the years 2004 to 2017, with 2011 having set a record high of 69 new investigations.

Under the statute, the ITC has the power to exclude infringing products from entry into the United States. In the case of investigations based on federally registered IP rights, such as patents, federal trademarks, and copyrights, this remedy can be obtained based on a showing of (1) infringement of a complainant's IP rights by imported articles and (2) the existence of a domestic industry protected by the IP rights in question. For investigations based on common-law allegations, such as theft of trade secrets, the complainant must additionally establish that the imported articles have caused or threaten to cause substantial injury to a domestic industry. Traditionally, the "domestic industry" requirement was satisfied by demonstrating that facilities, equipment, and labor in the United States were utilized to produce a protected item. However, in 1988, amendments to the law relaxed the domestic industry requirement in recognition of the fact that much actual production had moved off-shore. As the law stands now, "an industry in the United States" exists if there is (1) significant investment in plant and equipment; (2) significant employment of labor or capital; or, as added in 1988, (3) substantial investment in the exploitation of the patent, trademark, or copyright as evidenced by expenditures on engineering, research, development, or licensing "relating to" articles protected by the patent, trademark, or copyright.³ The third part of this definition is only available, however, for investigations based on federally registered IP rights. The domestic industry requirement continues to be contentious and is evolving on a case-by-case basis, particularly in the context of "research and development" and "licensing."⁴

The 1988 amendments also eliminated the need to show injury to a domestic industry in patent, trademark, or copyright cases brought under Section 337. Seeking to make Section 337 "a more effective remedy for the protection of U.S. intellectual property rights," Congress determined that requiring proof of injury beyond that presumed by proof of the infringement itself was not necessary.⁵ The elimination of this requirement has opened the door to more complainants who might not have been able to meet the injury requirement. Even as to complainants that could prove injury, the amendment had an important practical effect: prior to the amendment, over half of the total expense litigating a Section 337 case was incurred in establishing

3. 19 U.S.C. § 1337(a)(2)-(3).

4. The different industry requirements are discussed in Chapter 5 Section C, "Domestic Industry."

5. H.R. REP. NO. 40-100, pt. 1, at 156 (1987).

injury, making such actions inaccessible to many prospective complainants. Without the burden of proving injury, Section 337 is less costly for litigants, and many more IP owners can afford to bring a claim.⁶

A Section 337 investigation involves a number of players: the Commission itself, the administrative law judge,⁷ an investigative attorney from the Office of Unfair Import Investigations (in most cases), the complainant(s), the respondent(s), third parties (from whom discovery may be sought), the Office of the Secretary, and the Commission's General Counsel's office.⁸ Nonetheless, the speed at which Section 337 investigations are conducted is remarkable—an important advantage for companies seeking immediate relief. The evidentiary hearing (the ITC's version of a trial) generally occurs seven to nine months from the date of institution of the investigation, as opposed to the typical two to three years in most federal district courts. The majority of Section 337 investigations are targeted for completion in approximately 16 months.

Although the ITC offers complainants a number of distinct advantages over a federal district court, there are a few drawbacks. First, a prospective complainant must make extensive preparations before filing a Section 337 complaint, as the Commission's Rules require more documentation than notice pleading in federal district court. Second, the Commission must consider the public interest before issuing any remedy, a rare but occasionally drastic pitfall for otherwise prevailing complainants.⁹ Third, and perhaps most important, a Section 337 investigation cannot result in an award of damages, which are only available in a federal court case. However, a monetary award may not be critical to the IP owner, particularly when the infringing goods have just begun entering the market and protection of the market is the owner's paramount concern. Moreover, the options are not mutually exclusive as parallel litigation is possible: an IP owner may seek institution of a Section 337 investigation in conjunction with initiating an infringement action in federal court. However, 28 U.S.C. § 1659(a) gives the district court defendant a right to stay the court action if it is also named as a respondent in a Section 337 investigation.

Between 2007 and 2017, 50 percent of investigations settled, 10 percent of complaints were withdrawn, and about 1 percent were terminated due to

6. See Andrew S. Newman, *The Amendments to Section 337: Increased Protection for Intellectual Property Rights*, 20 L. & POL'Y INT'L BUS. 571, 576 (1989).

7. The ITC is currently authorized to have six administrative law judges.

8. The roles of these players are explained in Chapter 4, "Participants."

9. Even more rarely, a Commission remedy can be set aside by the U.S. Trade Representative, under a delegation of statutory authority given to the President. See, e.g., *Certain Elec. Devices, Including Wireless Commc'n Devices, Portable Music & Data Processing Devices & Tablet Computers*, Inv. No. 337-TA-794, USTR Letter (Aug. 3, 2013).

arbitration. Of the cases that received a final Commission determination, as might be expected in proceedings governed by due process, findings of violation and non-violation were virtually equal, coming in, respectively, at 20 and 19 percent.

As discussed in Chapter 11, there are four primary remedies available under the statute: a temporary exclusion order (analogous to a preliminary injunction), a general exclusion order, a limited exclusion order, and a cease and desist order.¹⁰ When an exclusion order goes into effect, U.S. Customs and Border Protection (Customs), which is part of the Department of Homeland Security, will bar the infringing products from entering the country. If there is evidence that infringing products are still entering the United States in violation of an exclusion order, an enforcement proceeding may take place at the ITC. Any party adversely affected by a Commission decision under Section 337 may appeal the decision to the U.S. Court of Appeals for the Federal Circuit.

A. HISTORICAL BACKGROUND

The ITC was established in 1916 as the U.S. Tariff Commission. Its primary function was to maintain and update the tariff schedules of the United States, a critical responsibility given the importance of tariffs to government revenue. It also acted as an independent, nonpartisan, quasi-judicial executive agency in charge of studying the economic effects of the customs laws. When Section 337 of the Tariff Act of 1930 was enacted, it was not well understood and did not offer any defined procedures. Consequently, it was infrequently used.

That did not change until 1974, when the statute was significantly amended. Those changes made Section 337 much more appealing to litigants seeking a quick remedy—namely, to stop the entry of infringing imports. First, all Section 337 investigations, at that time, were to be completed within 12 months or, if deemed “more complicated,” 18 months. Moreover, Section 337 investigations became subject to due process requirements under the Administrative Procedure Act,¹¹ thus mandating an adjudicative hearing.

Despite these changes, the revamped Section 337 did not immediately attract a substantial number of litigants. In 1975, only five investigations were launched, and, for the next decade, the Section 337 caseload remained extremely light. A few common denominators characterized Section 337

10. The differences among these types of remedies can be found in Chapter 11, “Remedy, Public Interest, and Bonding.”

11. The Administrative Procedure Act (APA) governs the manner in which federal administrative agencies create and enforce regulations in order to implement legislation. 5 U.S.C. §§ 551–559. Section 337 is unique among trade remedy laws in that it is the only such law subject to the APA.

investigations from 1975 through 1984. Most of the articles involved were low-tech items, such as tools or basic consumer products. In addition, individual patent holders and small companies were the most active in taking advantage of Section 337. Geographically, the majority of the allegedly infringing products, 62 percent, came from highly developed parts of the world: Western Europe, Canada, and Japan.

Between 1985 and 1994, two major developments stimulated great change in Section 337 litigation. The first development, and ultimately the most catalyzing event, was congressional passage of the Omnibus Trade and Competitiveness Act of 1988, a bill that included important reforms to Section 337. As mentioned previously, these reforms removed the injury requirement for federally recognized IP violations and substantially relaxed the definition of domestic industry. The 1988 amendments made Section 337 claims much more attractive to IP owners. The second major development was the rapid rise of the electronics industry. By 1995, 16 percent of Section 337 cases involved a dispute over electronic articles. A corollary to this development was the geographic shift in Section 337 investigations—most respondents were now from the newly developing Asian economies of Taiwan, Hong Kong, Singapore, and South Korea. Soon thereafter, an increasing number of Chinese companies became respondents in Section 337 actions. Between 1995 and 2011, the trends of the previous ten years continued. By 2004, 46 percent of all cases at the ITC involved high-tech articles, most of which were produced in Asia, a 30 percent increase over the previous decade. Today, articles from Asia continue to represent a significant portion of allegedly infringing products, with Taiwan and China leading the list of source countries.

In recent years, the statute's popularity has also been fueled by the surge of foreign-based complainants owning U.S. IP who are quickly learning how to take advantage of reforms within the law to protect their position in the U.S. market against "foreign" infringers.

B. THE FUTURE OF SECTION 337

While the future cannot be known, the Commission will continue to provide more focus on the domestic industry and public interest aspects of the statute. Many articles are being published and legislation introduced seeking to provide a clearer definition of "licensing," which was added as part of the domestic industry amendments to the statute in 1988. At the same time, the Commission, as an expert administrative agency, is interpreting this term as cases come before it. As the result of Federal Circuit and ITC precedent, it is required that a complainant relying on substantial investments in the exploitation of the IP right through research and development, engineering

or licensing for its domestic industry establish that there is actually an article protected by the asserted IP right.¹²

Similarly, the public interest inquiry, required to be undertaken before the Commission imposes a remedy, is receiving new impetus in balancing the benefits of protecting IP against the effects of exclusion on the public. At the same time, the Federal Circuit has held that the traditional district court four-factor test for injunctive relief does not apply to the ITC, since the ITC provides different relief from that available in the federal courts.¹³ As a result, Section 337's public interest considerations are not necessarily connected to the equitable principles applied in district court. These matters will be given in-depth treatment in Chapters 5 ("Elements of a Section 337 Investigation") and 12 ("Commission Review of ALJ Decisions and Presidential Review of Commission Remedial Orders").

Finally, although patent infringement remains the primary type of unfair act alleged in Section 337 investigations, other types of unfair acts and unfair methods of competition are becoming more prominent. For instance, allegations of trade secret misappropriation, as well as trademark and trade dress infringement, and antitrust violations, have arisen in a number of recent investigations. These types of investigations, as well as potential new types of unfair acts and unfair methods of competition are discussed in Chapters 3 ("Types of Investigations") and 16 ("Frontiers of Section 337").

12. See, e.g., *Certain Computers & Computer Peripheral Devices & Components Thereof & Prods. Containing Same*, Inv. No. 337-TA-841, Comm'n Op. (Jan. 9, 2014).

13. *Spansion, Inc. v. U.S. Int'l Trade Comm'n*, 629 F.3d 1331 (Fed. Cir. 2010).