CHAPTER 1

Introduction to Section 337 Investigations

A primary concern for intellectual property (IP) rights holders is protection from unfair foreign competition. Since the advent of the patent as a method of publicly disclosing novel inventions, it has been imperative that those inventions, and thus those patents, be protected during their period of exclusivity. This applies in the United States just as elsewhere in the world. Indeed, globalization of the marketplace has made IP protection and international trade inextricably linked. Enforcing U.S. patent and other IP rights is one way of protecting domestic industry from unfair competition emanating from outside the United States.2

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 40 years as 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

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

2. Section 337 can be used to address a variety of “unfair methods of competition and unfair acts,” although the vast majority of cases involve claims regarding IP, the most frequent of which are allegations of patent infringement. See 19 U.S.C. § 1337(a)(1)(A) (2006). For that reason, this book speaks largely and generally about “infringement.”
jurisdiction; and its specialized knowledge of patent law. The number of complaints instituted increased from an annual average of 12 investigations during the years 1990 to 2000 to an annual average of 34 investigations for the years 2001 to 2011, with 2011 having set a record high of 69 new investigations and 2012 on a similar track.

Under the statute, the ITC has the power to exclude infringing products from entry into the United States. This exclusion is based on the existence of an unfair method of competition, which, in the case of patents, federal trademarks, and copyrights, is presumed or, for common law-based allegations, is proven to cause substantial injury to a domestic industry. Traditionally, the “domestic industry” criterion 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, importing articles that infringe a patent, federal trademark, or copyright is unlawful if “an industry in the United States” exists “relating to” articles protected by the patent, trademark, or copyright. That industry is defined to “exist” if there is: (1) significant investment in plant and equipment; (2) significant employment of labor or capital; or (3) substantial investment in the exploitation of the patent, trademark, or copyright as evidenced by expenditures on engineering, research, development, or licensing. The third portion of this definition, added as part of the 1988 amendments, means that, with respect to most cases brought under Section 337, it is no longer necessary for the complainant to have production facilities located in the United States. However, the meaning of “substantial” is not apparent from the statute itself or its legislative history and is being developed on a case-by-case basis, particularly in the context of “licensing.”

3. The filing of a complaint does not begin a formal ITC Section 337 investigation but, instead, results in a 30-day “presinstitution proceeding”; a Section 337 investigation on a complaint begins once the ITC “determines 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) (2012).


5. Id. at § 1337(a)(3).

6. The different industry requirements are discussed in Chapter 5, Section C, “Domestic Industry.”
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. The elimination of this requirement has had an important practical effect: prior to the amendment, over half of the total expense litigating a Section 337 case was incurred in establishing injury, making such actions inaccessible to many prospective complainants. Without the burden of proving injury, many more IP owners can afford to bring a claim.

A Section 337 investigation involves a number of players: the Commission itself, the administrative law judge, an investigative attorney from the Office of Unfair Import Investigations (in most cases), the complainant(s), the respondent(s), possible third parties, the Office of the Secretary, and the Commission’s General Counsel’s office. Nonetheless, the speed at which Section 337 investigations are conducted is remarkable—an important advantage for companies seeking immediate relief. The actual hearing generally occurs seven to nine months from the date of institution of the investigation, as opposed to the typical two to three years in federal district court. The majority of Section 337 investigations are targeted for completion in approximately 16 months, which is quicker than even the fastest dockets in the Eastern District of Virginia and the Eastern District of Texas.

9. Currently, there are six administrative law judges at the ITC.
10. The roles of these players are explained in Chapter 4, “Participants.”
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 it requires more documentation than does notice pleading in federal district court. Second, there is a public interest aspect resulting from Section 337’s origin as a trade statute. Third, and perhaps most important, a Section 337 investigation cannot result in a monetary award, whereas an infringement action in federal court can. 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. Nevertheless, the options need not be 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 a stay the court action if it is also named as a respondent in a Section 337 investigation.

Between 2000 and 2011, almost 50 percent of investigations settled, 10 percent of complaints were withdrawn, and about 1 percent were terminated due to 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. There are four primary remedies available under the statute: a temporary
exclusion order, a general exclusion order, a limited exclusion order, and a cease and desist order. When an exclusion order becomes effective, 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 on government revenue. It also acted as an independent, nonpartisan, quasi-judicial executive agency in charge of studying the economic effects of 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. These 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, 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 investigations from 1975 through 1984. Most of the articles involved were low-tech items, such as tools or basic consumer products.

11. The differences among these types of remedies can be found in Chapter 11, “Types of Relief.”

12. 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.
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 above, 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 electronics 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 10 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 represent approximately 85 percent of allegedly infringing products, with Taiwan and China leading the list of source countries.13

The volume of Section 337 cases has skyrocketed. In 2009, 31 cases were instituted. This figure grew to 56 cases in 2010 and 69 cases in 2011.14 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.

13. Data compiled from complaints of all cases filed at the ITC in 2010 and 2011. Note that this large percentage of products originating in Asia includes products contracted by or made for U.S.-based companies.

B. THE FUTURE OF SECTION 337

While the future cannot be predicted, there are signs that the Commission will provide more focus to 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 the word “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. 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, a recent Federal Circuit case 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. 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 (“Interlocutory Appeals of ALJ Decisions, Commission Review, Public Interest, and Presidential Review”).