

Volume 10, Number 11
November 2006

THE ITC OR THE DISTRICT COURT?
WHERE TO PROTECT YOUR
INTERNATIONAL
INTELLECTUAL PROPERTY

GILBERT B. KAPLAN
COURTLAND REICHMAN

PREFACE

The protection of intellectual property from infringing imports has become an increasingly important and high stakes strategy for U.S. companies. The fate of a company can be won or lost based on a patent or copyright dispute. The historic forum for the resolution of international intellectual property disputes, U.S. District Court, is being challenged by the International Trade Commission (“ITC”) as the venue of choice.

In this *Briefly*, Gilbert B. Kaplan and Courtland Reichman describe the legal and practical issues behind this growing reliance on the ITC as the arbiter of intellectual property disputes. The authors then provide valuable insights and practice tips for anyone faced with prosecuting or defending an intellectual property claim. The choice of forum can yield dramatically different outcomes, and Messrs. Kaplan and Reichman carefully lay out the advantages and disadvantages of each.

We hope you find this *Briefly* an interesting and helpful guide for this increasingly important area of the law.

Like all other publications of the National Legal Center, this monograph is presented to encourage a greater understanding of the law and its processes. The views expressed in this monograph are those of the authors and do not necessarily reflect the opinions of the advisers, officers, or directors of the Center. The *Briefly*. . . booklets are designed to be short, insightful treatments of leading legal issues of interest to the private sector.

Richard A. Hauser
President
National Legal Center

**Volume 10, Number 11
November 2006**

**THE ITC OR THE DISTRICT COURT?
WHERE TO PROTECT YOUR
INTERNATIONAL
INTELLECTUAL PROPERTY**

**GILBERT B. KAPLAN
COURTLAND REICHMAN**

© 2006 National Legal Center
for the Public Interest
ISSN 1089-9820
ISBN 0-937299-46-4
ISBN 1-930742-84-3
Published November 2006

**NATIONAL LEGAL CENTER
FOR THE PUBLIC INTEREST**

1776 K Street, N.W., 8th Floor
Washington, D.C. 20006
Tel: (202) 466-9360
Fax: (202) 466-9366
E-mail: info@nlcpi.org
Please visit our Web site at: www.nlcpi.org

The National Legal Center for the Public Interest is a tax-exempt, nonprofit public interest law and educational foundation, duly incorporated under the law of the District of Columbia, to provide nonpartisan legal information and services to the public at large. NLCPI is qualified to receive tax-deductible contributions under I.R.C. Sec. 501(c)(3).

TABLE OF CONTENTS

PREFACE

RICHARD A. HAUSER Inside Front Cover

EXECUTIVE SUMMARY v

THE ITC OR THE DISTRICT COURT? WHERE TO PROTECT YOUR INTERNATIONAL INTELLECTUAL PROPERTY

GILBERT B. KAPLAN and COURTLAND REICHMAN

I.	INTRODUCTION	1
II.	OVERVIEW OF SECTION 337 ADVANTAGES	3
III.	PROCEDURAL DISTINCTIONS BETWEEN SECTION 337 AND DISTRICT COURTS	6
	A. The Forum	6
	B. Nature of the Complaint: Extensive 337 Complaints ...	7
	C. Counterclaims in 337 Actions and in Federal District Court Actions	9
	D. Amendments to the Complaint in Section 337 Actions .	11
	E. Parties and Their Roles	14
	F. Timelines in the Two Forums	18
	G. Discovery, Including Foreign Discovery	20
	H. Differences in Service and Venue	23
	I. Motion Practice	23
	J. Trial and Post-Trial Procedures	24
	1. Evidentiary and trial procedures	24
	2. Trial procedures	25
	3. Remedy, bonding, and public interest submissions .	27
	K. The Presidential Review Period	28
	L. The Bonding Requirement during the Presidential Review Phase	34
	M. Actions by the ITC Subsequent to Presidential Disapproval of the ITC Order	35
	N. Enforcement of the 337 Remedy by Customs and OUII	37
	O. Appellate Jurisdiction—ITC Exclusion Orders Are Rarely Stayed during Appeal	38
IV.	LEGAL DIFFERENCES AND SIMILARITIES BETWEEN 337 ACTIONS AND DISTRICT COURT IP ACTIONS	40
	A. Section 337 Is an “Unfair” Trade Statute	

Incorporating a Variety of Possible Claims, Primarily in the IP Area	40
B. The Importation Requirement	41
C. Domestic Industry Requirements	43
D. Differences between the Available Remedies	46
E. The Possibility of Covering Downstream Products within Exclusion Orders in Section 337 Cases (the <i>Eprom</i> Test for the Coverage of Downstream Products)	47
F. The Requirement of Showing Injury in Nonstatutory IP Cases (i.e., Trade Secret Cases, Antitrust Cases) .	50
G. Reference in the ITC Regulations to Submissions by Other Federal Agencies within Section 337 Proceedings	51
H. Appellate Review	53
I. Effect of ITC Decisions in Other Actions	56
V. RECENT DEVELOPMENTS IN SECTION 337; CASE TRENDS	59
A. Filings by Foreign-Based Companies	59
B. The Effect of <i>eBay Inc. v. MercExchange, L.L.C.</i> ...	61
C. Proposed Legislative Changes Related to Section 271(g)	64
VI. CONCLUSION	68
ABOUT THE AUTHORS	69
ABOUT THE NATIONAL LEGAL CENTER	
Board of Directors	73
Legal Advisory Council	75
The Mission	Inside Back Cover

EXECUTIVE SUMMARY

It is no secret that intellectual property protection has become one of the battlegrounds for 21-st century international competition among companies. But two recent developments have crystallized what may be an accelerating trend toward the use of a rather unusual, not widely known forum in which to litigate intellectual property disputes: the International Trade Commission, a federal agency in Washington, D. C.

The International Trade Commission (or the “ITC”) is responsible for administering a statute called “Unfair Practices in Import Trade,” 19 U.S.C. § 1337. The statute, commonly referred to as “Section 337,” is an alternative to the U.S. district courts as a forum for intellectual property litigation, and it has a number of important advantages for plaintiffs. Under Section 337, a company whose patent, copyright, trademark, or other IP right is being infringed upon by imports can ask the ITC to enter an order barring such imports from entry into the U.S. market. This remedy, called an “exclusion order,” is ultimately enforceable by Customs, with the assistance of the ITC staff itself. Since the United States remains the largest market in the world for most products, this is quite a club. A plaintiff (called a “complainant” at the ITC) must be able to show that its IP is valid and infringed. The other major condition on the remedy is that the complainant must, unlike in a district court case, have a “domestic industry” in the United States that exploits the IP at issue. The definition of “domestic industry,” however, is very broad. It includes manufacturing, but also research and development in the United States, and even licensing another company in the United States to use the IP. Indeed, even foreign-based companies that meet one of these tests can file a Section 337 case, and more and more of them have chosen to do so, as long as they meet one of the domestic industry criteria.

The use of Section 337 has grown exponentially over the last few years, at a much faster rate than the growth in district court IP actions, albeit from a smaller base. There are several reasons why complainants like this forum. First, relief is very fast. The average Section 337 case proceeds from filing of the complaint to final judgment within about 15 months, much faster than most district court actions. For a U.S. company that believes it is being harmed by infringing imports, the speed of the remedy is very attractive. Second, the exclusion orders barring imports can be applied by the ITC even to parties that are not before it. If a complainant can show that there is a risk that exporters to the United States will circumvent a more limited exclusion order by changing their names, by employing new or different factories, or otherwise by developing circumvention schemes, the ITC will impose a very broad exclusion order, called a “General Exclusion Order,” against *all* infringers of the IP at issue, even those not named or

identified in the complaint. This is a much broader remedy than available in the district court.

Third, the judges and other staff at the ITC are sophisticated and knowledgeable about IP issues, as well as interested in such issues. In fact, Section 337 administrative law judges and staff do nothing but these kinds of IP cases. In this way, they differ significantly from district court clerks and judges for whom IP cases compete for time and attention with a broad range of other civil and criminal matters. In addition, Section 337 cases traditionally have allowed a wide range of discovery in foreign countries, something that can be difficult to obtain from a district court. Next, obtaining personal jurisdiction over foreign infringing exporters may be a significant problem in a district court case. In Section 337 cases, however, it is not an issue, because technically the ITC is exercising jurisdiction over the infringing imports rather than the foreign parties. Finally, the location of the ITC, on a quiet side street “strategically” located about halfway between the White House and Capitol Hill, makes many complainants feel this is a very good forum for a U.S. company, or even a foreign company with a U.S. “domestic industry,” to take on infringing foreign imports.

The main disadvantage of a Section 337 case in comparison to a district court case is that damages cannot be awarded by the ITC. But there is no preclusion against large settlements, including license agreements, which can yield significant financial benefits to a complainant.

Two recent developments seem to have made this forum even more desirable. First, there is a recent Supreme Court case, *eBay Inc. v. MercExchange, LLC.*, in which the Supreme Court held that an injunction against a party infringing upon a patent would no longer be virtually guaranteed, but would depend on a balancing of the equities among the parties. This is the test used in most injunctive actions in the courts. It basically means you compare whether granting an injunction against use of a patented article is more harmful to the infringer than it is beneficial to the patentee. This development was a reversal of years of practice where injunctions for patent infringement were basically guaranteed. In addition, a court now has to look at whether damages might afford sufficient relief to a patentee, without injunctive relief.

The Section 337 statute has no such limitation or balancing test within it. The statute says that if an IP violation is found, the ITC “shall” exclude the infringing entries from the United States. Although there is a broadly worded public interest test within Section 337, it has been applied only eight times in more than 550 cases, and its use is unlikely to increase, even in the face of *eBay*. The ITC cannot provide

for a damage remedy, so if it does not enter an exclusion order, it will provide no relief whatsoever for the IP violation, an unlikely result for any administrative agency to embrace. Therefore, parties seeking to bar the use of a patent-infringing product may see real advantages to proceeding under Section 337, compared to the uncertainty engendered by *eBay*.

Another recent case may also increase the ITC caseload, and has caused a flurry of legislative activities (so far, however, not leading to any new laws). The ITC has determined that certain defenses to infringement of process patents that can be raised in the district courts do not apply in Section 337 actions. This ruling was upheld by the Court of Appeals for the Federal Circuit (“CAFC”) in a 2004 case, *Kinik Co. v. United States International Trade Commission*. Specifically, the sale of a product made using a patented process abroad is not foreclosed under the patent laws as applied in the district courts if the product is materially changed by subsequent processes, or is only a trivial part of another imported product. Although this defense is embodied in the patent law, the ITC says that the defense by its terms is limited *only* to the patent law and does not apply in Section 337 cases. So, theoretically, one could bring a case at the ITC and win even if the same case in the district court would be foreclosed by this defense (referred to under the patent laws as a Section 271(g) defense). A number of ongoing cases at the ITC concern complex process patents, and this has led to an effort by respondents in these cases to amend Section 337 to incorporate the 271(g) defenses, and a counterattack by petitioners to prevent these changes from being put into the law. Much of this occurred in late-night sessions of congressional committees at the end of a recent congressional term. It seems that progress was being made by the proponents of change until the petitioners in the ongoing 337 cases discovered what was happening and fought back. The result, legislatively, is stasis, but in the meantime a class of cases involving infringement of process patents stands a better chance of victory at the ITC than in the district courts.

In sum, a general counsel or corporate official facing infringing imports has to consider Section 337 cases as an attractive alternative forum to the district courts. Likewise, importers are likely to face increasing challenges from this remedy.