ITC Section 337 Trends for 2010

Smart in your world
Arent Fox

If January's activity is any indication of this year's expected caseload for US International Trade Commission's ("ITC" or "Commission") intellectual property infringement actions under Section 337 of the Tariff Act of 1930 (19 USC 1337), then 2010 has started on a high note. Five new 337 complaints were filed in the first three weeks of January on products such as notebook computers, cellular phones, PDAs, wireless communication system server software and LCD devices. This is an indicator of the continuing attractiveness of 337 investigations to owners of intellectual property and the likely increase in its use during 2010.

Section 337 offers advantages not available anywhere else: an expedited timeline in which cases are completed in 12-15 months, an effective product-exclusion order enforced by US Customs and Border Protection (CBP), experienced administrative law judges, no requirement for personal jurisdiction over accused infringers, and the right to relief against accused infringers who do not appear to defend themselves. A 337 investigation resembles intellectual property proceedings in district courts, with several important exceptions: jurisdiction is limited to imported goods, a domestic industry employing the intellectual-property rights at issue is required, and the nonavailability of monetary damages from the ITC (although an ITC Section 337 case can be and generally is combined with a parallel case in district court involving the same parties, patents and products). We summarize below a few of the trends that have surfaced recently on issues such as the domestic industry requirement, the jurisdictional reach of the ITC, and the scope of remedies, which will be worth following in 2010.

As an introductory point, it is important to note that as American and foreign companies realize the great potential of Section 337 cases, the number of ITC patent cases is bound to continue to increase in 2010 and beyond. For example, an increasing number of foreign-based companies now appear as complainants in Section 337 actions. Many non-US based companies can satisfy the domestic industry requirement for bringing a 337 action based on their activities within the United States or those of their domestic licensees. Likewise, respondents in 337 cases have included not only foreign companies but also US companies involved in making, importing, or distributing products of foreign origin in the United States.

1. Meeting the Domestic Industry Requirement Based on Licensing

Under Section 337(a)(3)(C), a complainant may satisfy the domestic industry requirement solely by relying on licensing activities that relate to the patent asserted in the investigation, even if there are no American manufacturing activities of the patented products. Generally, a complainant need only demonstrate a substantial investment in its licensing program and a sufficient nexus between the patent at issue and the alleged domestic licensing industry.

Although the Commission has previously stated that no minimum monetary expenditure is required to show "a substantial investment," it is has recently reopened the discussion on what does or should qualify as "substantial investment" in licensing activities for purposes of the domestic industry prong. In *Certain Coaxial Cable Connectors and Components Thereof and Products Containing Same* (Inv. No. 337-TA-650), the Commission decided to review a finding that the complainant met the domestic industry requirement where the "substantial investment" consisted primarily of legal fees to enforce the patent and secure post-litigation licenses. The Commission requested public comments on “the interpretation of Section 377(a)(3) as it pertains to licensing” and in particular posed several questions for the parties and the public, including whether all spending in connection with licensing efforts should be considered “investment,” how much consideration should be given to different types of licensing efforts and whether legal fees qualify as “investment” within the meaning of Section 337(a)(3)(C). The Commission’s determination, expected by mid-March, will be of interest not only to prospective complainants seeking to qualify as a domestic industry under the licensing prong, but also to respondents asserting affirmative defenses based on the absence of a domestic industry.

2. Exclusion Orders and Downstream Products Post-*Kyocera*

ITC exclusion orders directing CBP to exclude products from entry into the United States may take one of two forms: (a) a general exclusion order (GEO) directing exclusion of all infringing products, regardless of source, or (b) a limited exclusion order (LEO) directing exclusion of all infringing products of named respondents. The decision of the US Court of Appeals for the Federal Circuit in *Kyocera Wireless Corp. v. ITC*, 545 F.3d 1340 (Fed. Cir. 2008), affected the availability of both types of exclusion orders: it limited the reach of a LEO regarding downstream products containing infringing devices, and made it more difficult for complainants to obtain a GEO in a patent case. *Kyocera* held that “the ITC lacks statutory authority to issue a LEO that excludes imported products by entities not named as respondents before the ITC.” In other words, only named respondents could have their downstream products excluded from entry in the United States under a LEO. For complainants, one of *Kyocera*’s implications is that they will need to name downstream product manufacturers in order to seek relief against them. For respondents (or downstream manufacturers of a product incorporating the infringing devices), *Kyocera* can offer only limited comfort because it has yet to be interpreted in a subsequent case, but it could mean that downstream manufacturers will be more likely to be named as respondents at the ITC..

The effect of *Kyocera* on the availability of a GEO in a patent case has been more tangible: no GEO was entered in a patent case in 2009 or so far in 2010. After *Kyocera*, the Commission has been stringently interpreting the statutory requirements for granting a GEO based on either (a) a need to prevent circumvention of a LEO or (b) a pattern of violation (infringement) coupled with actual difficulty in identifying the source of the infringing goods.

While there is talk of legislative action to address the effects of *Kyocera*, post-*Kyocera* issues will most likely continue to generate debate in 2010, at least until any new decision interpreting *Kyocera* attempts to settle some of the lingering uncertainty.

3. The ITC’s Broad Jurisdictional Reach in Gray Market Goods Cases

A recent case involving the online sales of infringing gray market cigarettes highlights the ITC’s broad jurisdictional reach under Section 337 and signals its willingness to find jurisdiction going forward in arguably borderline cases. In *Certain Cigarettes and Packaging Thereof*, Inv. 337-TA-643, the ITC asserted jurisdiction over a foreign respondent despite not being an owner, US importer of record, or US distributor of the infringing gray market goods, as long as there was a nexus between his actions and the importation. The ITC found a violation of Section 337 and issued a general exclusion order banning imports of gray market cigarettes and their packaging bearing Philip Morris USA’s Marlboro®, Virginia Slims® and Parliament® trademarks. The ITC found that one

Smart in your world®
Arent Fox

need not be an "owner, importer, or consignee" to commit unlawful acts of importation or sale for importation under Section 337. The foreign entity was subject to the ITC's jurisdiction because it brokered the importation and sale by advertising the gray market cigarettes on its Web sites, taking purchase orders from US customers, and arranging for shipments.

The ITC found such activities to be within the ambit of Section 337(a)(1)(C), which defines as unlawful the "importation into the United States, the sale for importation, or sale within the United States after importation by the owner, importer, or consignee, of articles that infringe a valid and enforceable United States trademark registered under the Trademark Act of 1946." Because the foreign respondent was involved in the sales process, although not being the owner, importer, or consignee, the ITC had jurisdiction under Section 337.

Should you have any questions, please contact the Arent Fox attorney with whom you work or a member of Arent Fox's International Trade Practice Group.