

# An Introduction to Section 337 Proceedings at the ITC

The following is intended as an introductory description of Section 337 patent infringement actions at the United States International Trade Commission (“ITC”). It is not intended to substitute for advice of counsel on the bringing or defending of a suit under the statute. Section 337 law and practice is constantly changing and must be assessed in light of the particular factual circumstances in question.

## Beginning of A Case

Section 337 of the Tariff Act of 1930, as amended, allows owners of U.S. intellectual property rights to prevent the importation of products found to infringe those rights by obtaining exclusion orders from the U.S. International Trade Commission (“ITC”), an independent federal agency with quasi-judicial authority. The vast majority of Section 337 complaints are based on claims of patent infringement. However, Section 337 complaints may also be based on other types of unfair acts, including trademark infringement and misappropriation of trade secrets.

With regard to patents, Section 337 specifically applies to imports that infringe a U.S. patent, or that are made by a process covered by a U.S. patent. In brief, the elements of a patent-based Section 337 claim are (1) an infringement (2) by imported goods, and (3) the existence of a domestic industry relating to the articles protected by the patent. With respect to patent issues, the ITC generally follows the substantive patent law of the U.S. Court of Appeals for the Federal Circuit and other federal courts. For the other elements of a Section 337 claim, the ITC has developed its own body of law.

A Section 337 case is commenced by filing a complaint with the Secretary of the ITC, which is then reviewed by the ITC’s Office of Unfair Import Investigations (“OUII”). A “statement of public interest” regarding the potential effects of the requested remedy must be filed along with the complaint. In the first few weeks following the filing of a complaint, members of the public, as well as proposed respondents, may submit comments relating to the public interest, and complainant may reply to those comments.<sup>1</sup> During the three weeks after the filing of a complaint, OUII prepares a memorandum summarizing the complaint

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<sup>1</sup> Within a few days after the filing of a complaint, the ITC publishes a notice in the Federal Register that allows for the submission of comments on public interest issues within eight calendar days of publication of the notice. Complainant has three additional calendar days in which to reply to such submissions.

and circulates to the six commissioners of the ITC a so-called “action jacket,” which contains OUII’s memorandum and recommendation regarding institution of the requested investigation. OUII may also request supplementation of the complaint during this period. If OUII concludes that the complaint complies with the ITC’s rules and sets forth the elements of a section 337 claim in sufficient detail, it will recommend that the ITC vote to initiate a Section 337 investigation. As a practical matter, the ITC almost always institutes the requested investigation within approximately thirty days after filing, assuming the complaint and supporting documentation satisfy the ITC’s pleading requirements.<sup>2</sup> However, the Commission may institute an investigation that is somewhat narrower than requested by complainant. The investigation may, for example, include some but not all of the proposed respondents listed in the complaint.

Once the commissioners vote to institute an investigation, the Secretary of the ITC serves the complaint on the defendants (“respondents”), and publishes a notice of institution in the Federal Register announcing the commencement of the investigation. The Chief Administrative Law Judge will then assign the investigation to one of the ITC’s administrative law judges (“ALJs”).<sup>3</sup> The notice of institution will state whether OUII will participate in the investigation. If OUII is named a party to the investigation, it will participate as an independent litigant representing “the public interest,” though it may withdraw from the investigation later in the proceedings.<sup>4</sup> Also, in accordance with its increased emphasis on public interest issues, in some investigations, the notice of institution may direct the presiding ALJ to create a record on public interest issues during the violation phase of the investigation. And, in all cases, the Commission will seek input from

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<sup>2</sup> The ITC requires a more detailed complaint than the district courts, including a claim chart showing infringement by a representative product of each asserted independent claim of the patents at issue. In other words, notice pleading is insufficient. Before filing a section 337 complaint, complainants may submit their draft complaints in confidence to the OUII for review. The OUII reviews draft complaints and gives complainants advice and assistance regarding revisions to such complaints. Most complaints are thus vetted before filing and this weeds out incomplete and potentially frivolous complaints.

<sup>3</sup> There are currently six ALJ positions at the ITC, one of which is now vacant. The current ALJs, listed in terms of seniority, are: Chief Judge Charles Bullock, Judge Theodore Essex, Judge Thomas Pender, Judge David Shaw, and Judge Dee Lord.

<sup>4</sup> In recent years, OUII has been assigned to participate in approximately two-thirds of new Section 337 investigations. Because the OUII, or “Staff,” is a neutral third party in the investigation, the ALJs may give more credit to Staff arguments than those of the other parties on some issues. Therefore, the parties often will make special efforts to communicate and cooperate with the Staff in attempts to persuade the Staff to take particular positions. The Staff may side with either the complainant or respondents on a given issue or it may craft positions that differ from those of any of the private parties.

the public and the parties on public interest issues in connection with its remedy determination in the later stages of the proceeding.

Upon institution of the investigation, discovery normally begins immediately.<sup>5</sup> The assigned ALJ presides over the case, laying down ground rules for discovery, ruling on motions, and conducting the evidentiary hearing, which is a trial-type proceeding governed by the Administrative Procedure Act. The ALJ's initial decision ("initial determination" or "ID") on violation is subject to review by the ITC. Appeals from the ITC's final decision are heard by the U.S. Court of Appeals for the Federal Circuit. Also, if a violation is found, the U.S. Trade Representative, acting for the President, may veto the ITC's remedial orders for policy reasons within 60 days of issuance.<sup>6</sup> However, such vetoes are quite rare.

### Types of Relief and Time Limits

Both temporary and permanent relief are available from the ITC. By law, the ITC must complete temporary relief proceedings within 90 days of the Federal Register notice of institution (150 days if the case is designated "more complicated"). Temporary relief proceedings at the ITC are relatively rare.

Prior to the amendments to Section 337 which took effect on January 1, 1995, permanent relief proceedings (as opposed to temporary proceedings) had to be completed within 12 months of the Federal Register notice of institution (18 months in "more complicated" cases). Since the amendments, the ITC is no longer subject to statutory time limits, but is instead required to make a determination at "the earliest practicable time," and set a "target date" for completion of the investigation within 45 days after institution. In recent years, target dates in Section 337 cases have averaged approximately 15-16 months. As can be seen from the attached timeline, Section 337 investigations normally proceed quite rapidly, with an average of five months for fact discovery and 8.5 months from institution to the evidentiary hearing in cases with 15-16 month target dates.

In temporary relief proceedings, the ALJ conducts what is essentially a preliminary injunction hearing. Indeed, the ITC follows the same substantive standards of the federal district courts, *i.e.*, likelihood of success on the merits coupled with irreparable harm. In both temporary and permanent relief proceedings, the elements of proof required vary somewhat from those in district

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<sup>5</sup> Protective orders are issued at the beginning of every case, and information generally cannot be withheld from outside counsel on the basis of confidentiality.

<sup>6</sup> This veto power rests with the President, but has been delegated to the U.S. Trade Representative. The 60-day period during which an order may be vetoed is often referred to as the "presidential review period."

court in that the plaintiff (“complainant”) must show that there has been importation of the goods in question (usually not difficult, as even one instance of importation will suffice) and that there is a “domestic industry” relating to the allegedly protected articles. (A temporary relief complainant must also make a showing of economic injury.) Since the 1988 amendments to Section 337, a domestic industry exists if there is, within the United States with respect to an article protected by the patent: “(A) significant investment in plant or equipment; (B) significant employment of labor or capital; or (C) substantial investment in the patent’s exploitation, including engineering, research and development, or licensing.” 19 U.S.C. § 1337(a)(3). The domestic industry requirement focuses on investments made in the United States, not upon the citizenship of the complainant. Thus, foreign as well as domestic companies regularly satisfy the domestic industry requirement. However, satisfaction of the requirement can be challenging in cases where the complainant relies upon engineering, research and development, or licensing, especially if complainant is a non-practicing entity and none of its licensees produce the patented articles in the United States.

If it finds in favor of the complainant, the ITC issues a permanent exclusion order (or a temporary exclusion order (“TEO”) in the case of TEO proceedings). There are two types of ITC exclusion orders – limited and general exclusion orders. The most common form of exclusion order is a limited exclusion order, which prohibits the importation of infringing goods made by or on behalf of respondents found to violate Section 337. General exclusion orders, which require additional proofs including a showing of a widespread pattern of unauthorized use or a likelihood of circumvention of a limited exclusion order, prohibit the importation of infringing goods by all unlicensed entities regardless of whether they were respondents in the investigation. ITC exclusion orders are forwarded to Customs and Border Protection (part of the U.S. Department of Homeland Security) for enforcement.

The ITC may also issue cease and desist orders against ongoing U.S. activities involving imported goods, and the ITC is empowered to impose civil penalties that are the greater of either \$100,000 or two times the value of the articles imported in violation of the cease and desist order for each day of violation of such order. The ITC has no authority to award damages or attorney fees (other than as sanctions). It also may not hear counterclaims; however, respondents have the right to file counterclaims at the ITC, but they must be immediately removed to a district court with jurisdiction over the parties.

### **Other Considerations**

In considering the use of the ITC, it is important to remember some of the advantages and disadvantages of that forum. In general, the advantages are speed of process, the breadth of discovery, the exclusive focus of the ITC’s ALJs on these cases, the lack of any need to establish personal jurisdiction for

purposes of exclusion orders, and the availability of a nationwide exclusionary remedy enforced by Customs and Border Protection. Moreover, in appropriate cases, a complainant can sue a large number of infringers in a single ITC action and obtain a general exclusion order that reaches the imports of additional unnamed infringers. And, through a limited exclusion order, a complainant may be able to reach secondary or “downstream” products of named respondents that incorporate infringing articles. The disadvantages of Section 337 proceedings include the unavailability of damages or attorney fees, the need to show a domestic industry in a protected article (not simply ownership of an U.S. intellectual property right), and the involvement of the government as an interested and active party. Because of these differences, firms claiming patent infringement involving goods imported into the United States often initiate concurrent actions in the ITC and in federal district court. Under the 1995 amendments, however, section 337 respondents are entitled to an automatic stay of a federal court proceeding on the same patents pursuant to 28 U.S.C. § 1659, if they make a timely request for such a stay.