

Intellectual Property Rights Protection and Enforcement: Section 337 of the Tariff Act of 1930

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October 26, 2009

Congressional Research Service
7-5700
www.crs.gov
RS22880

CRS Report for Congress
Prepared for Members and Committees of Congress
c11173008

Summary

Section 337 of the Tariff Act of 1930 allows U.S. companies to protect themselves from imports that infringe intellectual property rights. The U.S. International Trade Commission (ITC) adjudicates complaints filed by U.S. companies alleging Section 337 violations. Primary remedies under Section 337 include exclusion orders and cease and desist orders. In recent years, there has been an increase in the number of Section 337 proceedings or actions. Members of Congress have expressed concern about the length of time for completion of Section 337 investigations and the effectiveness of enforcement of exclusion orders.

Section 337 of the Tariff Act of 1930

Section 337 of the Tariff Act of 1930 (19 U.S.C. §1337) is the primary option available to U.S. companies to protect themselves from imports into the United States of goods made by foreign companies that infringe U.S. intellectual property rights (IPR), such as patents, trademarks, and copyrights.[1]

The U.S. International Trade Commission (ITC) administers Section 337 investigations. The ITC is a quasi-judicial federal government agency responsible for investigating and arbitrating complaints of unfair trade practices.

The majority of unfair competition acts asserted under Section 337 involve allegations of patent infringement. These cases tend to be complex and require adjudication by the ITC.[2] In the case of most copyrights and trademarks, the Department of Homeland Security's Customs and Border Protection (CBP) agency, is empowered to make on-the-spot determinations of IPR infringement.[3]

Requirements for Filing a Section 337 Complaint

In general, U.S. companies must fulfill three requirements in order to assert unfair competition under Section 337. First, there must be an importation or a sale for, sale after, or potential future importation of the infringing product into the United States. It is not necessary for the imports to be in commercial, or mass, quantities. Second, an unfair act of competition relating to the imported good must occur, i.e., an infringement of a valid U.S. patent, copyright, or trademark. Third, a domestic company must be engaged in sufficient domestic activity, such as investment in plant and equipment or employment of labor and capital, in the United States related to the imported product in question. U.S. citizenship is not necessary to meet this third requirement.[4]

[1] For more information on IPR protection and enforcement, see CRS Report RL34292, *Intellectual Property Rights and International Trade*, by Shayerah Ilias and Ian F. Fergusson.

[2] Telephone conversation with ITC official, March 19, 2008.

[3] 19 U.S.C, § 156; 19 U.S.C. §1595a, and 19 C.F.R. §133.42.

[4] Thus, foreign companies with sufficient U.S. activity are able to file Section 337 complaints.

Standard Section 337 ITC Investigations

Investigation Process

Under statute, Section 337 investigations must completed "at the earliest practicable time" (19 U.S.C. §1337). The ITC issues "target dates" for identifying when the ITC proceedings should be completed. Previously, the ITC has attempted to complete most investigations in less than 15 months. In recent years, the target dates for many investigations have increased, due in part to the growing complexity of the subject matter and number of unfair acts under investigation in cases and the workload of ITC judges.[5] As shown in **Table 1**, Section 337 ITC investigations involve multiple steps that take place over the course of many months.

Table 1. Summary of Section 337 Investigation Process

Action	Timetable
Complainant files Section 337 case	Start of investigation
Decision to institute Section 337 case	Within 30 days after filing of complaint
Target date set for completion of investigation	Within 45 days after publication of notice of investigation
Evidentiary hearing	Initial Determination must be issued at least four months before target date
Initial Determination	
Decision on whether to review Initial Determination	Within 45 days after Initial Determination issued
Final Determination	Issued by target date
Enforceability of ITC determination	Within 60 days, unless disapproved by the President for policy reasons

Filing a Section 337 Complaint

Any company seeking relief under Section 337 must prepare a detailed complaint with information supporting the claims with the ITC, including background information on the intellectual property asserted in the claim and evidence of infringement.[6]

Institution and Assignment of Case

Upon receiving a complaint, the ITC has thirty days to determine whether or not to initiate a Section 337 investigation. If an investigation is instituted, the ITC assigns the case to an

[5] ITC, *Section 337 Investigations: Answers to Frequently Asked Questions*, Publication No. 4105, March 2009, p. 23.

[6] For more information on filing a Section 337 complaint, see ITC, *Section 337 Investigations: Answers to Frequently Asked Questions*, Publication No. 4105, March 2009. 19 C.F.R. Part 210 discusses the ITC investigation process, time frame, and parties involved.

Administrative Law Judge (ALJ), who oversees and conducts the investigation. The ITC also assigns an investigative attorney from its Office of Unfair Import Investigations (OUII), who provides his or her views to the ALJ regarding whether or not a Section 337 violation has taken place. The attorney also represents the public interest during the investigation. A target date for completion of the investigation will be set.

Evidentiary Hearing

The ALJ conducts a formal evidentiary hearing, typically lasting one to two weeks, generally within seven to ten months of the filing.

Initial Determination of Case

The ALJ then issues a preliminary ruling (an "Initial Determination") determining whether or not a Section 337 violation has occurred and proposing remedies (discussed in next section) if violations are found. The ALJ decision is based on the merits of the case. For instance, in a Section 337 case involving U.S. patents, the ALJ would evaluate the case based on patent infringement issues. The Initial Determination must be issued no later than four months prior to the target date.

Final Determination of Case

Within 45 days of the Initial Determination, the ITC Commissioners decide whether or not to review the Initial Determination. The Commissioners may decide to adopt the ruling. Alternately, they may elect to change all or some parts of the Initial Determination, or to completely reject or remand it. Generally, within three months of the Initial Determination, the Commissioners issue a "Final Determination," which takes into account public interest considerations, such as the impact on the public's health and safety or on the ability to satisfy U.S. market demands.

Settlement

Some cases before the ITC are settled before a final decision is made. Complainants (typically the patent holder) and respondents (the alleged infringer) may move to terminate an investigation. For instance, they may agree to cross-licensing or to resolve the dispute through arbitration.

Review of Determination

The Final Determination is sent to the President for review based on national security considerations. This decision is enforceable within 60 days if no actions are taken by the President. The President rarely has overturned the Final Determination. During the 60 day review period, respondents who continue activities ruled by the ITC to be in violation of Section 337 do so under bond.

If the Final Determination is *not* disapproved by the President, respondents engaging in such activities stand to lose a significant amount of money. In some cases, the bond is 100% of the total value of the imported products. Thus, while remedies are not enforceable until the conclusion of the 60 day review period, the bond frequently serves as a deterrent from engaging

in IPR-infringing activities. This is especially the case because the President rarely disapproves of ITC Final Determinations.

Appeals

Within the 60-day Presidential review period, the respondent (or anyone adversely affected by the Final Determination) can file an appeal of the decision to the U.S. Court of Appeals for the Federal Circuit. Depending on the circumstances, the Final Determination may or may not be enforceable while the appeal is being heard.

Amendments to Section 337

In the original enactment of Section 337, Congress stipulated that the ITC complete investigations within 15 months (from institution of a case to Final Determination). Section 337 was later amended to become compliant with the General Agreement on Tariffs and Trade (GATT), whose national treatment provision requires that member states not treat foreign member states' nationals any less favorably than their own nationals. There was concern that Section 337, as initially enacted, may not have allowed foreign companies to defend themselves adequately because the ITC adjudication process generally takes place at a faster pace than litigation in federal district courts. The ITC is now required by statute to complete investigations "at the earliest practicable time" (19 U.S.C §1337).

Section 337 Remedies and Enforcement

The ITC grants two primary remedies to U.S. companies: exclusion orders and cease and desist orders. The ITC may *not* issue monetary damages to U.S. companies. The time that it takes for remedies to become enforceable may vary because of differences in target dates and the possibility of appeals by respondents.

Exclusion Orders

Exclusion orders prohibit the importation of the infringing good into the United States. They are effective for as long as the patent is valid. Limited exclusion orders, the most commonly issued type of exclusion order, prohibit the importation of only those infringing goods originating from the parties named in the ITC investigation. In contrast, general exclusion orders prohibit the importation of *all* goods of the kind determined to be infringing, irrespective of the source of the infringing good. Because general exclusion orders are broad in their scope, they may disrupt international trade significantly. In general, they are issued only when circumvention of a limited exclusion order would be likely or it would be difficult to identify all infringing parties. The U.S. Customs and Border Protection agency enforces exclusion orders.

Cease and Desist Orders

Cease and desist orders require the termination of infringing-related activities, such as selling infringing articles previously imported that are currently in domestic inventories. These orders frequently are issued in conjunction with exclusion orders, particularly in situations where the

infringing goods are imported in commercial quantities. Cease and desist orders are enforced by the ITC, which is authorized to impose civil penalties on U.S. importers that violate cease and desist orders. Penalties per day may be as high as $100,000 or double the value of the goods involved.[7]

Preliminary Relief

U.S. companies may request that the ITC conduct expedited temporary relief proceedings and issue a temporary exclusion or cease and desist order while the regular investigation takes place. For preliminary relief, U.S. companies must provide significantly more evidence prior to the hearing than for a standard case. The ITC's decision to grant preliminary injunctions is based on: the likelihood of success for the complainant's case and the extent to which the domestic industry, respondents, and the public interest would be adversely affected if a preliminary injunction was not issued.

For temporary relief proceedings, a Final Determination (following an Initial Determination by the ALJ) is granted 90 days after institution for standard cases. For more complex cases, a Final Determination is granted 150 days after institution of the case. In cases where the complainant receives a temporary remedy, the complainant is required to put up a bond. Following the preliminary ruling, the full Section 337 standard case will proceed. If the preliminary injunction is not upheld in the regular investigation, the complainant may lose the bond money.

Trends in Section 337 Cases

In FY2008, the ITC reported a total of 88 active Section 337 investigations and ancillary proceedings, up from 73 in FY2007. Of the 88 active investigations in FY2008, 43 represented new Section 337 investigations and 7 represented new ancillary proceedings stemming from previously concluded Section 337 investigations.[8]

The Section 337 investigations frequently involved advanced technology areas such as integrated circuits, computer components, consumer electronic products, and chemical compositions. Over 90% of the new Section 337 investigations that were active in FY2008 involved cases of alleged patent infringement.[9]

Since 2002, there has been a general uptick in the number of Section 337 cases. In FY2008, the number of new cases was nearly four times higher than the number of new cases in FY2000. There also were over 50% more active cases in FY2008, compared to FY2007.[10]

The overall rise in international IPR infringement has contributed to the increase in Section 337 activity. Additionally, there has been increased publicity of the ITC as an IPR border enforcement

[7] Steven D. Hemminger, "Section 337 of the Tariff Act: Global IP Protection in Our Global Economy?," *Intellectual Property & Technology Law Journal*, Vol. 19, No. 4, April 2007.

[8] ITC, *Year in Review: FY2008*, USITC Publication No. 4093, p. 14. ITC, *Year in Review: FY2007*, USITC Publication No. 4002, p. 16.

[9] ITC, *Year in Review: FY2008*, USITC Publication No. 4093, p. 14.

[10] ITC, *Performance and Accountability Report: FY2008*, p. 73.

entity, partly due to recent high-profile rulings.[11] Moreover, there is greater corporate awareness of the potential benefits of filing a Section 337 case.

Prior to 2006, the average length for investigations (in which a final decision was reached) was less than 15 months. In FY2008, the average length for investigations rose to 16.7 months; the shortest completion time was six months and the longest was 28 months.[12]

In FY2008, the ITC issued two general exclusion orders, five limited exclusion orders, and 14 cease and desist orders.[13] In the prior year, the ITC issued four general exclusion orders, five limited exclusion order, and 14 cease and desist orders.[14]

Alternative to Section 337 Investigations

U.S. companies also may bring lawsuits against foreign entities in the venue of U.S. district courts to challenge the entry of infringing products into the United States. Federal district courts, unlike the ITC, can award monetary damages to the IPR holder and issue injunctions against infringers. If the adjudicated infringer violates the injunction by continuing to import the infringing product, it may face sanctions if the rights holder claims the infringer has acted in contempt of court. However, the federal courts do not possess direct authority to block imports, as the ability to issue exclusion orders enforced by the CBP rests with the ITC. If the adjudicated infringer lacks assets in the United States, enforcing a U.S. court's orders may prove difficult.[15] In addition, litigation in U.S. district courts tends to be more costly and to take longer to yield decisions than the Section 337 venue.

Issues for Congress

Some Members of Congress have expressed concern that the Section 337 venue does not provide immediate relief to U.S. companies facing unfair import competition. Proponents of a faster process have argued that the U.S. economy and public health and safety may be adversely affected by the continued importation of IPR-infringing goods while Section 337 investigations take place.[16] ITC proponents maintain that the length of time for investigations has risen because of increased Section 337 activity, which has contributed to heavier dockets for ALJs and investigation backlogs. In addition, they indicate that recent cases tend to involve more technologically complex products and that filings increasingly name multiple respondents, whereas previous cases generally named one respondent.[17] Others point out that ITC

[11] For instance, in the 2007 *Certain Baseband Processor Chips* (337-TA-543) case, Broadcom obtained a limited exclusion order prohibiting Qualcomm from importing infringing chips.

[12] ITC, *Performance and Accountability Report: FY2008*, pp. 68, 71.

[13] ITC, *Year in Review: Fiscal Year 2008*, USITC Publication 4093, p. 14.

[14] ITC, *Year in Review: Fiscal Year 2007*, USITC Publication 4002, p. 16.

[15] Telephone conversation with USITC official, March 19, 2008.

[16] U.S. Congress, Senate Committee on Finance, *Customs Reauthorization: Strengthening U.S. Economic Interests and Security* , Testimony by Greg P. Brown, Counsel, Ford Global Technologies, 110th Cong., 2nd sess., March 13, 2008.

[17] Telephone conversation with ITC official, April 24, 2008.

investigations are generally faster than litigation in federal district courts, where proceedings may take several years.

Concerns also have been raised about CBP enforcement of exclusion orders. A recent Government Accountability Office (GAO) report notes that U.S. companies spend millions of dollars to file Section 337 complaints before the ITC, but that enforcement of exclusion orders is limited because of a lack of resources. As of July 2007, CBP reported that 66 exclusion orders were in effect. The number of exclusion order exams carried out by CBP has declined since FY2002. While U.S. capacity to carry out IPR enforcement has increased, according to GAO, challenges remain because IPR enforcement frequently may not be a top CBP priority and there may not be adequate resources targeted to this effort.[18]

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[18] U.S. Government Accountability Office, *Intellectual Property: Federal Enforcement Has Generally Increased, but Assessing Performance Could Strengthen Law Enforcement Efforts*, GAO-08-157, March 2008.