

**AN INTRODUCTION TO REMEDIES AND  
ENFORCEMENT PROCEEDINGS IN SECTION 337  
INVESTIGATIONS AT THE INTERNATIONAL TRADE  
COMMISSION**

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**Introduction:** This paper has been created for the Intellectual Property Owners Association (“IPO”) ITC Committee to provide background to IPO members regarding remedies and enforcement proceedings under Section 337. It should not be construed as providing legal advice or as representing the views of IPO.

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**WHITE PAPER - AN INTRODUCTION TO REMEDIES AND  
ENFORCEMENT PROCEEDINGS IN SECTION 337 INVESTIGATIONS  
AT THE INTERNATIONAL TRADE COMMISSION**

By: Robert J. Walters<sup>1</sup> and Yefat Levy<sup>2</sup>

**I. Introduction**

The U.S. International Trade Commission (“Commission” or “ITC”) is empowered under Section 337 of the Tariff Act of 1930<sup>3</sup> to issue powerful remedies to prevent unfair practices in the importation of goods into the United States, including infringement of intellectual property rights. These remedies can serve as an appealing alternative to the relief available in U.S. District Courts for intellectual property owners. Moreover, as injunctions have become more difficult to obtain in U.S. District Courts as a result of the Supreme Court’s decision in *eBay, Inc. v. MercExchange, LLC*, 126 S.Ct. 1837 (2006), the Commission’s authority under Section 337 to issue exclusion orders, which are similar in effect to injunctive relief, has not been diminished.

While monetary damages are not available under Section 337, the exclusion orders issued by the Commission in a Section 337 investigation can be broad in scope, potentially applying to entities that were not party to the investigation and applying to redesigned products. The Commission may also issue cease and desist orders to parties to an investigation. Furthermore,

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<sup>3</sup> 19 U.S.C. §1337 (2000).

Section 337 investigations are not as lengthy as typical cases in the federal court system. While in U.S. District Courts can potentially span years before a resolution is reached, Section 337 investigations are typically completed in about one year. This paper will explore the remedial measures available via Section 337 and the ITC, as well as the procedural vehicles for obtaining them.<sup>4</sup>

## II. Remedies – Orders Issued by the Commission

The primary remedy in Section 337 investigations is an exclusion order issued by the Commission to prohibit importation of infringing goods into the United States. Exclusion orders are issued to U.S. Customs and Border Protection (“Customs”), now an agency within the Department of Homeland Security, which bars the excluded goods from entry into the United States. This “automatic” enforcement of exclusion orders differs from the enforcement of District Court injunctions, which typically require the prevailing party to identify violations and seek enforcement of the injunction through a contempt proceeding.

Exclusion orders differ from District Court injunctions in other ways as well – for instance, the scope of products covered by an exclusion order may be broader than the scope of an injunction, and infringers may be required to prove that redesigned products do not infringe the asserted intellectual property rights. In addition, as noted above, the Supreme Court’s decision in the *eBay* case has not affected the Commission’s ability to issue exclusion orders. The Commission considered the applicability of the *eBay* decision to Section 337 actions in *Certain Baseband Processor Chips and Chipsets, Transmitter and Receiver (Radio) Chips*,

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<sup>4</sup> For a detailed discussion of recent developments in Section 337 remedies, see Tom M. Schaumberg and Michael L. Doane’s White Paper entitled *Section 337 Remedy Updates* (available at [https://www.ipo.org/AM/Template.cfm?section=Posted\\_Documents&template=/MembersOnly.cfm&ContentID=16447](https://www.ipo.org/AM/Template.cfm?section=Posted_Documents&template=/MembersOnly.cfm&ContentID=16447)).

*Power Control Chips and Products Containing Same, including Cellular Telephone Handsets*, Inv. 337-TA-543 (“Baseband Processor Chips”). The Commission rejected the argument that the test for injunctive relief set forth in *eBay* must be followed in Section 337 actions, finding that the Tariff Act of 1930 was a legislative modification of the traditional equitable test for injunctive relief.<sup>5</sup>

**A. Exclusion Orders:**

The Commission can issue two types of exclusion orders – limited exclusion orders, which are the more common type, and general exclusion orders. The two types of exclusion orders are intended to address different factual scenarios, as discussed below.

**1) Limited Exclusion Orders**

Limited exclusion orders are “limited” in the sense that they apply only to the specific parties that the Commission finds to be in violation of Section 337. Nonetheless, limited exclusion orders generally have a broad scope in that they apply to all varieties or models of the infringing product, and may apply to future products of the type found to infringe. In fact, it is against Commission policy to identify specific model numbers in an exclusion order. Thus, if an infringing product is redesigned or renamed, the limited exclusion order may still exclude its importation.

The Commission discussed the scope of limited exclusion orders in a 1998 opinion. *Certain Hardware Logic Emulation Systems and Components Thereof*, ITC Inv. No. 337-TA-383. In that investigation, the ITC issued both a limited exclusion order and a permanent cease and desist order, and held that the order should apply to all models of respondent’s product. *Hardware Logic*, Comm’n Opinion at 16 (March 31, 1998). In so deciding, the ITC emphasized

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<sup>5</sup> *Baseband Processor Chips*, Comm. Op. at 62-63 n.230.

that the respondent carries the burden of proving that variations of the same product do not infringe upon the complainant's patent. Likewise, it is the respondent's duty to seek clearance for importation of particular models or redesigned products, and the respondent's options for doing so include an advisory opinion or a modification proceeding. *Id.* at 16-17.

## **2) General Exclusion Orders**

General exclusion orders are broader than limited exclusion orders and require Customs to exclude *all* infringing articles from entry into the United States, regardless of their source. Given their sweeping scope and potential to disrupt trade, general exclusion orders are only issued if additional findings are made that: (a) such an order is necessary to prevent circumvention of a limited exclusion order, or (b) there is a pattern of violation of the statute and it is difficult to identify the source of the infringing products. 19 U.S.C. § 1337(d)(2); *Certain Airless Paint Spray Pumps and Components Thereof*, Inv. No. 337-TA-90.

Examples of a widespread pattern of unauthorized use include (1) unauthorized importation into the United States of infringing articles by numerous foreign manufacturers; (2) the pendency of foreign infringement suits based upon foreign patents which correspond to the domestic patent in issue; or (3) other evidence which demonstrates a history of unauthorized foreign use of the patented invention. *See Certain Airless Paint Spray Pumps*, Inv. No. 337-TA-90, Comm. Op. (1981); *see also Certain Plastic Retail and Grocer Bags*, Inv. No. 337-TA-492.

## **3) Downstream Products**

Exclusion orders can also extend to "downstream products" (i.e., products that incorporate the infringing products), even when the manufacturer of the downstream product is not a party to the investigation. *See Baseband Processor Chips*, Inv. 337-TA-543. The potential

for exclusion orders to reach downstream products is a powerful aspect of the remedies that can be sought at the ITC.

The Commission first claimed the power to exclude downstream products in *Certain Erasable Programmable Read-Only Memories* (“*EPROMs*”). *Certain Erasable Programmable Read-Only Memories, Components Thereof, Products Containing Such Memories, and Processes for Making Such Memories*, Inv. No. 337-TA-276, USITC Pub. 2196, (May 1989), *aff’d sub nom. Hyundai Electronics Industries Co., Ltd. V. U.S. Int’l Trade Comm’n*, 899 F.2d 1204, 1209 (Fed. Cir. 1990). In the *EPROMs* case, the Commission named nine factors to consider when determining the application and scope of a remedy in a Section 337 case. Those factors, collectively known as the “*EPROMs* factors,” are (1) the value of the infringing articles compared to the value of the downstream products into which they are incorporated; (2) the identity of the manufacturer of the downstream products; (3) the incremental value to the complainant of the exclusion; (4) the incremental detriment to respondents of exclusion; (5) the burden on third parties resulting from exclusion; (6) the availability of alternative downstream products not containing the infringing articles; (7) the likelihood that the downstream products actually contain the infringing articles; (8) the opportunity for evasion of an exclusion order not including downstream products; and (9) the enforceability of an order by Customs.

These nine factors guided the Commission in its decision in *Baseband Processor Chips*. There, the complainant sought an exclusion order against a manufacturer of infringing processor chips used in various handheld wireless communications devices such as PDAs and cellular phones. During the investigation, a number of wireless service providers and manufacturers of wireless devices intervened in the action in an attempt to convince the Commission that an order excluding downstream products would have a negative impact on their industry.

Ultimately, the Commission issued a surprising decision that rejected the Administrative Law Judge's ("ALJ") recommendation as well as the remedies proposed by the parties. Instead, the Commission excluded the infringing chips and certain downstream products, but not downstream products already present in the United States as of June 7, 2007, the date of the decision. According to the Commission, the "grandfathering clause" that exempted existing imported products represented a compromise that would ameliorate the impact of the decision on the public and the wireless communications industry.

**B. Cease and Desist Orders:**

Cease and desist orders are an additional remedy that may be issued alone or in conjunction with exclusion orders. Typically, the Commission issues cease and desist orders when significant inventories of infringing products are already present in the United States. These orders require *in personam* jurisdiction and are directed against a particular entity. The Commission has broad authority to frame cease and desist orders to prohibit conduct related to importation of infringing products, such as service and repair of previously imported goods. *Hardware Logic*, Comm'n Opinion at 31 (March 31, 1998). Cease and desist orders may also impose obligations such as a requirement that any importations of infringing products be reported to the ITC. *Id.* at 30-31. When cease and desist orders are violated, complainants may bring enforcement actions before the Commission, which then has authority to assess a civil penalty against the infringer.

In one investigation, respondents were found to have wrongfully imported "gray market" tractors that were made overseas but not intended for sale in the United States. The Commission entered a cease and desist order that included a requirement that any importation of infringing goods be reported to the ITC. Following entry of the orders the respondents began importing

different models of the infringing tractors without reporting the importation to the ITC. The complainant filed an enforcement proceeding and the Commission found that the importation and sale of these tractors violated the cease and desist order -- and assessed a penalty of over \$2.3 million.<sup>6</sup> *Agricultural Vehicles*, Inv. No. 337-TA-487; *see also San Huan New Material High Tech, Inc. v. U.S. Int'l Trade Comm'n*, 161 F.3d 1347, 1364-65 (Fed. Cir. 1998).

### **C. Consent Orders**

Consent orders may be issued by the Commission in order to settle an investigation pending before the ITC, or even before the start of an investigation. These orders are based upon agreements entered into by the respondent(s) and the Commission. A consent order will include, among other things, provisions prohibiting importation of the accused goods, which are enforced similarly to cease and desist orders.

## **III. Enforcement Proceedings**

Once an exclusion order is entered by the Commission, Customs will take steps to enforce that order automatically. But as Customs is responsible for monitoring the importation and arrival of all goods and persons into the United States, proactive intellectual property owners may want to assist Customs in enforcing exclusion orders. For instance, complainants may provide Customs with information relating to the product at issue and suspected importations.

If infringing imports continue to gain entry to the United States or if a Commission order is otherwise violated, a complainant can seek relief at the ITC through various enforcement

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<sup>6</sup> In setting the amount of the penalty, the Commission considered six factors: (1) the good or bad faith of the respondent; (2) the injury to the public; (3) the respondent's ability to pay; (4) the extent to which respondent has benefited from its violations; (5) the need to vindicate the authority of the Commission; and (6) the public interest. *See also San Huan New Material High Tech, Inc. v. U.S. Int'l Trade Comm'n*, 161 F.3d 1347, 1364-65 (Fed. Cir. 1998).

procedures. Knowledge of these different procedures can be very useful in dealing with a determined or intransigent importer.

**A. Informal Enforcement Proceedings**

Upon notice of a violation of an exclusion order or a cease and desist order, the ITC's Office of Unfair Import Investigations ("OUII") may correspond with the accused party in an attempt to resolve the issue without resorting to formal proceedings. Based on these informal proceedings, the Commission may issue any additional orders necessary to ensure compliance with the existing order. ITC Rules of Practice and Procedure, Rule 210.75(a) (hereinafter "Rule 210.75(a)").

**B. Formal Enforcement Proceedings**

Both the Commission and the complainant may institute a formal enforcement proceeding to address possible violations of any existing Commission order (*e.g.*, an exclusion order, cease and desist order, or consent order). Once a proceeding is initiated, the Commission may hold a public hearing to take evidence on the alleged violations.

If an enforcement proceeding results in a finding of a violation of the exclusion order, the Commission has flexibility in fashioning a remedy. For example, the Commission may modify an existing order to put a stop to the importation of infringing items. *See, e.g., Certain Neodymium-Iron-Boron Magnets, Magnet Alloys, and Articles Containing Same*, Inv. No. 337-TA-372. In addition, the Commission may decide to assess monetary penalties for violations of cease and desist orders.

Where appropriate, the Commission can bring a civil action in a U.S. District Court under Rule 210.75 to recover an assessed penalty or to seek an injunction against the respondent. *See*

*San Huan New Material High Tech, Inc. v. U.S. Int'l Trade Comm'n*, 161 F.3d 1347, 1364-65 (Fed. Cir. 1998). Pursuant to § 337(i), the Commission may also issue an order providing for the seizure and forfeiture of any imported article item subject to an exclusion order, if the importer had previously attempted to import the article and had received written warning that seizure could take place.

### **C. Emergency Proceedings**

When a complainant believes that urgent action is necessary to prevent the violation of a Commission order, and where subsequent relief will not adequately repair the substantial harm that would result from a violation, complainants may seek an emergency proceeding. *See* Rule 210.77. In an emergency proceeding the Commission may immediately, without notice or a hearing, modify or revoke a previous order and replace a cease and desist order with an exclusion order. In such circumstances, however, formal enforcement proceedings must be instituted to allow the accused party an opportunity to be heard.

### **D. Defenses in Enforcement Proceedings**

In 2004, the Federal Circuit expanded the rights of respondents and third parties in Commission enforcement proceedings. In *VastFame Camera, Ltd v. U.S. Int'l Trade Comm'n*, the Federal Circuit overturned a Commission decision and held that third party importers should be permitted to raise defenses, including patent invalidity, in Commission enforcement proceedings. *VastFame Camera, Ltd v. U.S. Int'l Trade Comm'n*, 386 F.3d 1108 (Fed. Cir. 2004).

The Federal Circuit's decision was grounded in its finding that Commission enforcement proceedings are governed by § 337(c), which provides that “[a]ll legal and equitable defenses

may be presented in all cases.” 19 U.S.C. § 1337(c) (2006).<sup>7</sup> Previously, third-party importers could only present limited defenses in the face of a Commission enforcement proceeding against them.

#### **IV. Dealing with the Scope of Exclusion Orders – Redesigned and New Products**

Respondents and third-parties wishing to import goods have several formal methods of ascertaining whether particular goods are subject to an exclusion order. These methods may be useful to parties who need clarification in determining whether the exclusion order in place applies to their proposed imports.

##### **A. Advisory Opinions**

The Commission may, upon the request of any person, issue an advisory opinion concerning whether importation of a particular product or other conduct would violate a Commission order. The Commission considers several factors in deciding whether to issue such an opinion: (1) whether it would be in the public interest, (2) whether it would benefit consumers and competitive conditions, (3) whether it would facilitate enforcement, and (4) whether the proposed course of action is realistic, necessary for the requester, and presented clearly. *See Hardware Logic*, Initial Advisory Opinion (August 7, 2000), Comm’n Non-Review (September 22, 2000). The proposed importation must be more than hypothetical – however, plans or preparations to commercialize the design may provide sufficient basis for an advisory opinion. *Id.*

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<sup>7</sup> Following remand, the Commission considered and rejected VastFame’s invalidity defense. *See* Notice of Termination of Investigation, 70 Fed. Reg. 71861 (November 30, 2005).

While Section 337 and the ITC rules do not impose mandatory deadlines for the issuance of advisory opinions, the Commission may set a deadline by which the ALJ must issue an Initial Advisory Opinion (“IAO”). For example, the Commission set an IAO deadline of nine months in *Certain Condensers, Parts Thereof and Products Containing Same Including Air Conditioners for Automobiles*, ITC Inv. No. 337-TA-334.

## **B. Modification Proceedings**

Any person who wishes to have a Commission order modified based on a change in law or fact may request such a modification by filing an appropriate motion with the Commission. In practice, modification proceedings may be used by prevailing complainants to seek revision of an order to deal with new types of allegedly infringing conduct, or by respondents to seek clarification that new products do not infringe.

## **C. Administrative Proceedings at Customs**

Importers may also seek a ruling from Customs to obtain relief from Commission exclusion orders. However, such a ruling is not binding on the Commission and may subject the importer to an enforcement proceeding before the Commission and potential sanctions. An importer may request an administrative ruling from Customs that its goods do not come within the scope of an existing exclusion order, though such rulings are generally only available with respect to prospective importations. Importers may also seek relief for goods for which importation was attempted, but which were barred under an exclusion order.

When a respondent or third party obtains such an administrative ruling from Customs, a conflict may arise when the ruling is in conflict with a previous Commission order or decision. In *Eaton Corp. v. United States*, 395 F. Supp. 2d 1314 (Ct. Int'l Trade 2005), the Commission

issued an exclusion order and cease and desist order against respondent ArvinMeritor. When ArvinMeritor wanted to import a redesigned version of the infringing product, it sought an advisory opinion from the Commission and an administrative ruling from Customs stating that the redesigned product did not fall within the scope of the limited exclusion order. While the Commission was still deciding whether to issue the opinion in ArvinMeritor's favor, Customs began allowing the importation of the redesigned product.

Upon notice of this result, the complainant filed suit in the Court of International Trade to obtain an injunction against Customs allowing the redesigned products into the United States until either the Advisory Opinion (from the Commission) or the Administrative Ruling (from Customs) issued. The court granted the injunction, finding that it would cause irreparable harm to allow the redesigned products to enter when the Commission had not yet decided whether the redesigned products were infringing. Under *Eaton*, the Commission remains the authority on the scope of exclusion orders, pending an appellate ruling.

## **V. Future Directions in Section 337 Remedies**

The Commission was presented with a new enforcement dilemma in *Certain Sildenafil or Any Pharmaceutically Acceptable Salt Thereof such as Sildenafil Citrate and Products Containing Same*, Inv. No. 337-TA-489 ("Sildenafil"), and *In the Matter of Certain Tadalafil Or Any Salt Containing Same Solvate Thereof And Products Containing Same*, Inv. No. 337-TA-539 ("Tadalafil"). Both cases involved the importation of infringing generic versions of the popular erectile dysfunction drugs Viagra and Cialis. The pharmaceutical companies that hold the patents for those drugs (Pfizer and Lilly, respectively) brought Section 337 actions against the importers. While the Commission found infringement and issued a general exclusion order against the respondents, the reach of the order was limited by the fact that the respondents did

not import the products in mass quantities for sale by retailers in the United States. Rather, the respondents generated most of their business via the internet, often using direct e-mail marketing campaigns, and shipped the product directly to the consumers from overseas.<sup>8</sup>

This scenario presents an enforcement issue for which a complete solution is still being sought, since effectively policing a flood of individual packages being sent to consumers requires enormous resources, and the Internet affords the infringers a degree of anonymity that assists in the evasion of an exclusion order. As consumers continue to turn to the Internet for generic prescription drugs (and other infringing products), this issue may be revisited by the Commission.

## **VI. Conclusion**

The ITC offers a number of advantages in the remedies and enforcement options available to intellectual property owners who are concerned about the importation of infringing products. The exclusion orders and enforcement proceedings discussed above can provide effective relief – and ITC proceedings can be an efficient, expedited, and less costly alternative to litigation in U.S. District Courts.

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<sup>8</sup> In its argument to the Commission, Lilly described the respondents as “fly by night entities that would have no qualms about changing or obscuring their identities in order to evade a limited exclusion order.” *In the Matter of Certain Tadalafil Or Any Salt Containing Same Solvate Thereof And Products Containing Same*, Inv. No. 337-TA-539.