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Section 337

This article explores ways in which Section 337 can be used in cases other than those involving statutory intellectual property rights (i.e., patents and registered trademarks, copyrights and mask works).

The Use of Section 337 in Non-Patent Matters

BY GARY M. HNATH

Section 337 has been underutilized in recent years in non-IP cases, but the statute is in fact very broad and sweeping, and generally prohibits any unfair acts in the importation of articles into the United States. This provides tremendous opportunities for new and creative uses of Section 337 to combat unfair imports.[1]

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I. INTRODUCTION Section 337 was first enacted as Section 337 of the Tariff Act of 1922 (42 Stat. 943), and later as Section 337 of the Smoot-Hawley Tariff Act of 1930 (19 U.S.C. A§ 1337). As originally enacted, the statute broadly prohibited unfair acts or practices in the sale for importation, importation, or sale after importation of articles into the United States.

The statute was not widely utilized until passage of the Trade Act of 1974, which amended the statute in several important respects, making use of the statute much more attractive to domestic manufacturers seeking relief from unfair imports causing injury in the United States. The most significant of the 1974 amendments required the U.S. International Trade Commission to make its final decisions in Section 337 investigations within 12 months, or 18 months in more complicated cases. Other amendments included making ITC decisions final, subject only to Presidential veto for policy reasons, rather than mere recommendations to the President; broadening the remedies available under the statute to include cease and desist orders, in addi-

[1] This article will not address certain other applications of Section 337 which are really intellectual property-based, even though they do not involve patents, registered trademarks, registered copyrights or registered mask works. Section 337 cases have been brought, for example, in cases of common law trademark infringement and to address gray market goods violations.

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tion to exclusion orders; and making available all legal and equitable defenses, for example, patent invalidity and enforceability, to accused respondents. In addition, the proceedings under the statute were made subject to the provisions of the Administrative Procedure Act, including requiring a trial-type hearing before a Federal Administrative Law Judge.

In 1988, further significant amendments were made to Section 337 as part of the Omnibus Trade and Competitiveness Act of 1988. The most significant amendments were to eliminate the requirement of showing injury to the domestic industry in cases involving statutory intellectual property rights (patents, registered copyrights, registered trademarks or registered mask works); eliminating the requirement that the complainant's domestic industry must be ''efficiently and economically operated''; and expanding or clarifying the definition of domestic industry to include activities such as engineering, research and development, and licensing.

The most recent significant changes to the statute were in 1994, in response to findings of a GATT Panel that Section 337 unfairly discriminated against foreign originating goods. As a result of those amendments, the statute was amended to substitute target dates for fixed time limits; making available counterclaims which could be removed to a Federal District Court; and providing for stays of parallel District Court proceedings at the request of a respondent. These changes succeeded in making the procedures under Section 337 GATT-compliant without impairing the effectiveness of remedies under Section 337.

Section 337 provides many powerful advantages over District Court litigation, including the speed of the forum (target dates of 12-16 months from the very beginning of the case to final Commission decision are typical), the unique remedies provided (Customs-enforced exclusion orders), rapid discovery procedures (discovery responses are typically due in 10 days, and parties who do not provide adequate discovery responses in a timely manner can be sanctioned and/or subject to a finding of default), and the ability to bring foreign companies before the ITC quickly and without the delay of international service of process (when aninvestigation is instituted, the ITC serves the complaint on the foreign companies, and parties who fail to appear can default and have exclusion orders entered automatically against them). This makes the ITC an attractive forum to obtain almost immediate discovery and put pressure to bear quickly on a potential respondent, which must promptly decide whether or not to participate in the case or default and have its products excluded.

The statutory language of Section 337 is very broad and prohibits any ''unfair methods of competition and unfair acts in the importation of articles into the United States, or in the sale of such articles by the owner, importer, or consignee.'' While the vast majority (over 90%) of Section 337 investigations involve allegations of patent infringement, the statute can be used in many other ways as described in the examples below. It should be emphasized that to some extent, these are unchartered waters. Precisely what types of unfair acts would ultimately be held to be within the scope of the statute, and what type of nexus to importation would need to be demonstrated, have not been fully spelled out.

ITC decisions are by statute ''in addition'' to other remedies provided by law. Therefore, a company can choose to pursue an exclusion order under Section 337, while also pursuing a claim for damages in district court. Also by statute, a respondent in the district court case involving the same issues as the ITC proceeding has the right to an automatic stay of the district court case until the Commission determination becomes final. See 28 U.S.C. § 1659.

The remedies available under Section 337 include general exclusion orders. These are orders that apply regardless of the source of the goods. For example, in the patent context, a general exclusion order would prevent the importation of any products that infringe the subject patent, not just those that were made by the named respondents to the investigation.

The Federal Circuit has held that ITC decisions have no preclusive effect in patent cases because of language in the legislative history of the statute that specifically refers to the non-preclusive effect of ITC decisions in such cases. The general rule, however, is that administrative decisions can in fact be preclusive and indeed, ITC decisions have been held to have preclusive effect in parallel District Court cases involving trademarks. The same rule would appear to apply to other types of unfair acts. In other words, it may not be necessary to relitigate the facts and conclusions reached by the Commission in a non-patent case, if the Complainant wishes to pursue a claim for damages in parallel District Court litigation.

It should also be noted, as a general proposition, that in cases not involving statutory intellectual property rights (i.e., patents, registered copyrights, registered trademarks and registered mask works), a complainant would need to show injury to the domestic industry (one notable exception is a case for monopolization, as discussed below).. This is, of course, not an insurmountable burden, and indeed, in general, if a complainant feels it is being harmed by unfair imports, there should be some type of injury which can be demonstrated. It should be kept in mind, however, that this is an additional element that may need to be established in some of the cases discussed below.

With that introduction, the following are some scenarios in different types of cases which could give rise to a possible Section 337 claim for relief.

II. SPECIFIC APPLICATIONS OF THE STATUTE

A. Anti-Trust Violations *Scenario:* Company A is importing products into the United States that compete with products manufactured domestically. The imported products are the subject of anticompetitive price fixing by a cartel operating exclusively outside of the United States.[2] Company B, a competitor in the U.S., may employ Section 337 to obtain relief (in the form of an exclusion order or a cease and desist order) without awaiting the results of a lengthy investigation by a federal antitrust authority or suffering through the protracted discovery phase in an Article III court. Once the investigation begins, Company B can obtain discovery in a matter of two to three months. If successful, Company B's exclusion order will prevent Company A from

[2] Under *Hartford Firs Ins. Co. v. California,* 509 U.S. 764 (1993) and the International Antitrust Guidelines, foreign practices that have a substantial and harmful effect on U.S. commerce are actionable under the Sherman Act and the FTC Act.

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importing its harmful product, and the cease and desist order will prevent future similar violations from occurring.

Under Section 337, codified at 19 U.S.C. § 1337, it is unlawful to import or sell ''articles'' in the United States when the ensuing effect is to (i) ''destroy or substantially injure an industry in the United States,'' (ii) ''prevent the establishment'' of such an industry, or (iii) ''restrain or monopolize trade and commerce in the United States.'' Any activity causing such an effect is deemed an ''unfair method of competition'' under the statute. 19 U.S.C. § 1337(a).

Section 337 invokes concepts familiar to traditional antitrust analysis under the Sherman and FTC Acts, such as ''unfair method[s] of competition,'' restraints of trade, and monopolization. However, Section 337 also provides a remedy against importers and sellers that erect barriers to entry, raise domestic rivals' costs, or otherwise injure a domestic industry. Furthermore, because Section 337 does not require a showing of injury to competition and does not appear to restrict the standing of potential claimants, Section 337 may have a much broader reach than the antitrust laws.

The use of Section 337 as a vehicle for enforcing claims that would otherwise arise under the antitrust laws is not new. In several early investigations after the 1974 amendments to the statute, Section 337 was often used in cases involving collusive bidding, combinations or conspiracies to monopolize and/or restrain trade in commerce, anticompetitive licensing, patent misuse, knowingly asserting patents beyond their valid scope, pricing allegations, and refusal to deal and sell. However, it has been over 20 years since a Section 337 complaint was filed based on an allegation of monopolization or other anticompetitive conduct. [3]

For the reasons discussed above, Section 337 has powerful advantages that can be used just as effectively in antitrust cases as in patent cases. This could be a very powerful option to a traditional case in district court to bring claims for antitrust violations.

B. Labor and Employment/Trade Secret Violations *Scenarios:* As employee layoffs become more and more common, a growing concern is a company's ability to protect its trade secrets from being used by a departing employee. Consider the following scenarios:

Mr. Smith voluntarily leaves Widgets USA to set up a competing company, also in the United States. For economic reasons, the new company's products are made overseas. You suspect that the products are being made using the company's trade secrets.

Ms. Jones is laid off from Widgets USA and decides to set up a competing company outside of the United States. The new company manufactures widgets outside the US and imports the widgets into the United States for sale.

Mr. Clark is fired from Widgets USA and moves across the street, opening up a competing business. While the new company's product, made abroad, is not considered to use Widget USA's trade secrets, Mr. Clark is believed to be using customer lists and other financial information from Widgets USA in order to help build his new business.

Ms. Moore is laid off from EuroWidgets, subsidiary of Widgets USA in Germany, and she decides to come to the United States to open up a competing business. Using the former employer's trade secrets, the new company in the U.S. sources its products from Asia.

In each of the above scenarios, Widgets USA is losing significant market share to its new competitor, and having to lower its prices to maintain what market share is left. Can Section 337 be used to provide a swift and effective remedy under these facts?

Yes, the company could file a complaint under Section 337, alleging trade secret misappropriation, conversion, theft, breach of contract, and any other associated claims that might relate to the former employee's setting up of a new business using unfair methods of competition. The employer could seek, as a remedy, an order excluding any articles made using the misappropriated trade secrets from entering the United States. The employer could also seek a cease and desist order which would prevent the employee and/or the employee's new company from using the misappropriated trade secrets in connection with imported articles. In fact, one of the leading authorities on trade secret law has described the ITC's ability to issue exclusion orders in trade secret cases as ''formidable'' and ''powerful.'' R. Milgrim, Trade Secrets, § § 6.02[6] and 7.03{3] at 6.46.2 and 7-56.

As noted above, over 90% of the cases under Section 337 are patent-based. However, Section 337 has been used in the past in at least thirty cases involving allegations of trade secret misappropriation.[4] Recently, for

[3] Some of the earlier cases include *Angolan Robusta Coffee,* 337-TA-16 (combination or conspiracy to monopolize and/or restrain trade and commerce); *Ceramic Tile Setters,* 337-TA-41 (combination or conspiracy to monopolize and/or restrain trade and commerce, pricing allegations); *Chicory Root,* 337-TA-27 (combination or conspiracy to monopolize and/or restrain trade and commerce, pricing allegations, refusal to deal or sell); *Color Television Sets,* 337-TA-23 (pricing allegations); *Compressed Air Powered Tire Changers,* 337-TA-73 (pricing allegations); *Electrically Resistive Monocomponent Toner,* 337-TA-253 (combination or conspiracy to monopolize and/or restrain trade in commerce); *Electronic Audio and Related Equipment,* 337-TA-7 (pricing allegations, refusal to deal or sell); *Fabricated Steel Plate Products,* 337-TA-58 (collusive bidding, pricing allegations); *High Fidelity Audio and Related Equipment,* 337-TA-14 (combination or conspiracy to monopolize and/or restrain and commerce); *Limited Charge Cell Culture Microcarriers,* 337-TA-129 (refusal to deal or sell); *Monumental Wood Windows,* 337-TA-40 (combination or conspiracy to monopolize and/or restrain trade and commerce, pricing allegations); *Precision Resister Chips,* 337-TA-63-65 (combination or conspiracy to monopolize and/or restrain trade and commerce, anticompetitive licensing, patent misuse); *Welded Stainless Steel Pipe and Tube,* 337-TA-29 (pricing allegations).

[4] *See, e.g., Apparatus for the Continuous Production of Copper Rod* (337-TA-52); *Aramid Fiber Honeycomb* (337-TA-305); *Coamoxiclav Products* (337-TA-479); *Compressed Air Powered Tire Changers* (337-TA-73); *Cupric Hydroxide* (337-TA-128); *Dot Matrix Impact Printers* (337-TA-32); *Electronic Wall Stud Finders* (337-TA-257); *Floppy Disc Drives* (337-TA-203); *Fluidized Bed Combustion Systems* (337-TA-213); *Garment Hangers* (337-TA-255); *High Precision Solenoids* (337-TA-119); *Incremental Dental Positioning Adjustment Appliances* (337-TA-562); *Ink Jet Printers* (337-TA-261); *Internal Mixing Devices* (337-TA-317); *Limited-Charge Cell Charger Microcarriers,* (337-TA-129); *Mass Flow Devices* (337-TA-91); *Mechanical Gear Couplings* (337-TA-343); *Modified Vaccinia Ankara (''MVA'') Viruses and Vaccines* (337-TA-550); *Molded-In Sandwich Panel Inserts* (337-TA-99); *Non-Contact Laser Precision Dimensional Measuring Devices* (337-TA-239); *Picture-In-A-Tube Video Add-On Products* (337-TA-269); *Plastic Light Duty Screw Anchors* (337-TA-158); *Power Woodworking Tools* (337-TA-115); *Precision Resistor Chips* (337-TA-63-65); *Removable Hard Disc Cartridges* (337-TA-351); *Semiconductor Devices* (337-TA-525); *Shoe Stiffener Components* (337-TA-

example, in *Certain Cast Steel Railway Wheels,* Inv. No. 337-TA-655, the complainant, Amsted Industries Incorporated, alleged that two Chinese companies and two U.S. companies were involved in misappropriation of trade secrets relating to the manufacture of cast steel railway wheels. Amsted alleged that the respondents deliberately ''poached'' nine employees from one of its licensees and used its trade secrets to manufacture competing cast steel railway wheels in China. Amsted also alleged the use of its trade secrets by the respondents in seeking U.S. certification for their products, and in selling, marketing and distributing their products in the United States. Amsted sought, as relief, an exclusion order preventing entry into the U.S. of wheels made by the respondents using its trade secrets, as well as cease and desist orders preventing the respondents from advertising, selling or marketing the accused products in the United States. The case recently went to trial, and a decision is expected later this year.

Some of the procedural aspects of a Section 337 investigation may be particularly advantageous in a trade secret case. For example, the ITC has very strict protective orders, issued immediately at the start of the case by the ALJs, which permit access to a company's confidential business information only by outside counsel and independent experts. Therefore, a complainant can produce discovery regarding its trade secrets without the respondents themselves having access to that information, in contrast to litigation in state or federal court, where a protective order needs to be negotiated by the parties and often gives in-house counsel or a limited number of employees for the defendant access to confidential documents and testimony.

While there are a fair number of cases that have involved trade secret misappropriation claims, in most of these cases there were associated claims for patent infringement or other unfair acts combined with the trade secret allegations. In addition, many of these cases were earlier cases that were brought before the statute was amended to eliminate the injury requirement for cases of patent infringement. It may be that since the statute was amended companies, faced with multiple grounds for relief, have chosen to limit their claims to patent infringement and avoided adding claims such as trade secret misappropriation which could put injury at issue and subject the complainant to discovery concerning sales, prices, etc. Nevertheless, the ITC's ability to provide a forum in which relief can be obtained rapidly, and just as importantly, discovery can be expedited, even as to parties outside the United States, make the ITC well worth considering for trade secret misappropriation cases in which the competing articles are being made outside of the United States and imported into the U.S.

C. Environmental Violations *Scenario:* Company A competes with Company B. Company B is making products outside of the United States which, if sold in the U.S., would not be in compliance with U.S. environmental laws and standards. Company A wishes to prevent the non-conforming products from coming into the United States and being sold. Can Section 337 be used to provide relief?

Probably so. Although a matter of first impression, there appears to be no reason why this statute could not be used under these facts. As noted above, the statute generally prohibits any unfair methods of competition or unfair acts in the importation of articles into the United States. It can certainly be argued that articles that are made and sold in the U.S. in violation of U.S. environmental laws could be the subject of a Section 337 investigation and subject to an exclusion order.

Two interesting issues arise in considering this scenario. First, could a violation of foreign environmental laws could be an unfair act or unfair method of competition? An argument could be made that the unfair method or unfair act does not need to be a violation of U.S. law, but could be a violation of any country's laws. This would raise interesting issues regarding the extraterritorial reach of Section 337, yet the statutory language, at least on its face, would appear to allow for such a claim.

A second issue is whether a claim under Section 337 could be based on an act outside the U.S. which, if practiced in the U.S., would violate U.S. environmental laws. This is a more difficult argument. It would, in effect, impose our environmental laws on other countries and in such cases bar the imports from those countries. Better arguments would be presented if, as outlined above, either (1) the product itself would violate U.S. environmental laws (for example, an auto engine is imported that fails to comply with U.S. emissions standards) or (2) the conduct would violate the host country's own laws or even international treaties (for example, tuna is being imported that is being harvested in violation of international standards or treaties), therefore giving the company an unfair advantage.

D. Violation of Labor Laws *Scenario:* A competitor is making products overseas using unfair labor practices (such as violation of work week standards, child labor, etc.). Those products are then imported into the United States and compete with a company's own products made here in the U.S. Can Section 337 afford relief?

This again would be a novel use of the statute. If the foreign company is complying with its own laws, then it would be difficult to argue that Section 337 should apply. Otherwise, the statute could be used in effect to impose our own labor laws (such as minimum wages) on another country. However, if the conduct would violate the foreign company's own domestic laws, or perhaps even international laws, treaties or standards, then Section 337 might apply.

E. Unsafe Consumer Products *Scenario:* Company A is importing toys that violate federal or state safety standards. Company B wishes to prevent the importation and sale of those toys. Could Section 337 be used under these facts to provide a remedy?

Probably so. The unfair act would be the violation of the laws relating to product safety. An interesting issue would arise if the standards are not mandatory, such as UL standards. An argument could be made, for example, that if a company was claiming that its products were UL compliant and they were not, this would be an unfair act or method of competition. Otherwise, if the standard is voluntary and no claim of compliance is being made, it would be difficult to argue that Section 337 applies.

These are just some of the potential uses of Section 337. In reality, the statute can be used in almost any

208); *Skinless Sausage Casings* (337-TA-148 and 337-TA-169); *Swivel Hooks/Mounting Brackets* (337-TA-53); and *Wet Motor Circulating Pumps* (337-TA-94).

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case where an article is being imported into the United States and some unfair method or some unfair act can be identified. If an article is being imported, and a company is being harmed by the importation of that article, it is worth exploring the use of Section 337 to see whether the statute might provide some basis for relief and a remedy. If so, all of the advantages of Section 337 — the speed of the statute, the unique remedies in the form of exclusion and cease and desist orders, the ability to name all accused parties in one proceeding and effect prompt service of process, the ability to obtain rapid discovery, etc. — may make Section 337 the preferred remedy for a company to obtain relief.

III. CONCLUSION There is a wide open field available for exploring creative and novel uses of Section 337 as a powerful remedy to provide relief in cases where harm is being caused by imported products.