

Still a Protectionist Trade Remedy The Case for Repealing Section 337

by K. William Watson

Executive Summary

Section 337 of the Tariff Act of 1930 gives the United States International Trade Commission (ITC) the power to exclude products from the United States that are imported pursuant to “unfair methods of competition.” The range of potential activities covered by the law is broad, but the most common claim brought before the ITC is patent infringement. In addition to filing a lawsuit in federal district court, U.S. patent holders can often use Section 337 to bring a second case over the same subject matter as long as the defendant imports the impugned product from abroad. This tactic has become increasingly popular because the ITC renders its decisions relatively quickly and has the authority to order a very powerful remedy—total exclusion of the product from the U.S. market.

The availability of a second venue to pursue patent lawsuits poses serious systemic problems. Section 337 contravenes a foundational element

of free trade known as national treatment and violates the commitments of the United States as a member of the World Trade Organization. The law negatively impacts the integrity and functionality of U.S. patent law by establishing a dual-track system for patent enforcement and retains its ability to serve as a purely protectionist trade remedy mechanism.

Proposals for modest reform offer an incomplete solution, and attempts to coordinate litigation at the ITC and district court proceedings will not end the discrimination, because the mere existence of a separate law and agency to handle patent cases against importers violates trade obligations. Repealing Section 337 is the only way to ensure the integrity of the U.S. patent system, to bring the United States into compliance with trade obligations, and to prevent future abuse of this protectionist trade law.

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Introduction

Companies looking to succeed in today's high-tech consumer gadget industry are constantly vying for greater market share by making the most innovative products. Under the surface of this competition for brand penetration and subscriber accounts is a complex web of intellectual property licenses that makes it possible for multiple competing companies to use each other's patented technology. A tablet computer or smart phone, regardless of its brand, almost certainly employs various technologies patented by Google, Microsoft, Samsung, and Apple, among others. This unusual relationship of collaborative competition has resulted in a state of constant litigation between companies that can afford to use the courts as tools to negotiate better terms to license very valuable technologies.

One of these tools is Section 337 of the Tariff Act of 1930, which empowers the U.S. International Trade Commission (ITC) to exclude imports from entry into the United States if it finds that foreign manufacturers have engaged in unfair methods of competition. Although the law did not originally mention patent infringement, that is by far the most common claim made before the ITC. Patent litigators prefer Section 337 because ITC investigations are much faster than district court trials and because the remedy—total exclusion of the product from the U.S. market—is very effective. Those and other reasons have prompted a significant spike in the number of new ITC investigations filed in recent years. But while the threat of exclusion is beneficial to a complaining patent holder, American consumers face the real possibility that a competitive product could be kept off the shelf over a disputed patent worth a tiny fraction of the product's total value.

Consider, for example, the impact of the ITC on the current mobile device "patent war" between Apple, Google, and Microsoft. All three companies own patents that are essential to the modern smartphone and tab-

let computer operating system, as do a variety of other companies all around the world. Indeed, a single smartphone embodies technology covered by approximately 200,000 active patents.¹ Predictably, legal conflicts erupt over whether a device manufacturer has acquired all the licenses necessary to cover so many patents. If the device were made in the United States, these conflicts could be settled by a federal district court, which awards monetary relief to compensate the successful plaintiff for losses caused by the patent infringement.

Because smartphones and tablet computers are assembled abroad and then imported into the United States, their manufacturers can simultaneously be brought before both a federal district court and the ITC, where their products face potential exclusion from the U.S. market. Exclusion can be a particularly harsh remedy for patent infringement when one considers that the infringed patent may contribute mere pennies to the total value of a device that costs hundreds of dollars. Rather than compensate the patent holder for losses resulting from infringement, the exclusion remedy gives a patent holder the ability to gain an unfair advantage by keeping legitimate competitors out of the market. And it grossly inflates the licensing cost for a patent merely because it is being used by an imported product.

Unfortunately, this is exactly what is happening at the ITC today. The ITC has recently issued exclusion orders against smartphones from HTC and Motorola because of their use of Google's Android operating system without having acquired the proper licenses from Apple and Microsoft, respectively. In turn, Motorola (now owned by Google) brought successful complaints against Apple's iPhone and Microsoft's Xbox gaming console, both of which now face the possibility of exclusion from the U.S. market. District courts have the power to prohibit future sales of a product found to infringe a patent, and they use it if they determine that doing so is the proper remedy in that case. Maybe these infringements are so detrimen-

tal to the patent holder that they justify banning the products, but we don't know that because the ITC grants injunctive relief automatically. This possibility is called into question by the fact that HTC's response to the exclusion of its Evo 4G LTE phone has been simply to remove the Apple-patented feature that allows a user to dial phone numbers displayed in a web browser, and that the patents at issue in the Motorola case are estimated to be worth 33 cents per phone.²

The excessive remedies available from the ITC show that Section 337 remains a dangerous and disruptive protectionist trade-remedy law masquerading as a necessary patent litigation venue. Its mere existence violates U.S. international trade obligations, because the benefits of litigating at the ITC are only available when the alleged infringer manufactures abroad. Moreover, having two separate laws and institutions enforcing patents has had negative consequences for the coherence of U.S. patent law, particularly in the debate over the proper role of non-practicing entities, sometime known as "patent trolls." Also, Section 337 contains very broad language covering "unfair methods and unfair acts in importation," which makes it possible to use the law as a vehicle for other more obviously protectionist complaints like below-cost pricing, lax labor standards, or whatever else a creative and enterprising trade lawyer could conjure up to protect a client from import competition.

The best way to reform Section 337 is to abolish it altogether. The only reasonable justification offered for retaining Section 337 is that district courts lack the power to stop infringement by foreign manufacturers. This argument is premised on an inaccurate perception of Section 337 respondents as untraceable foreign counterfeiters hiding behind national borders to leach off of innovative U.S. industries. In truth, the vast majority of respondents at the ITC are well-known corporations with operations in the United States, and many are champions of the innovative U.S. industries that Section 337 is supposedly meant to protect.

Having a special patent enforcement mechanism just for imports serves no legitimate purpose and poses substantial risk to the effectiveness of the patent system, the ability of the United States to participate in the international trading system, and the rights of American consumers to pick their own winners and losers in a globalized economy.

Nefarious Origins

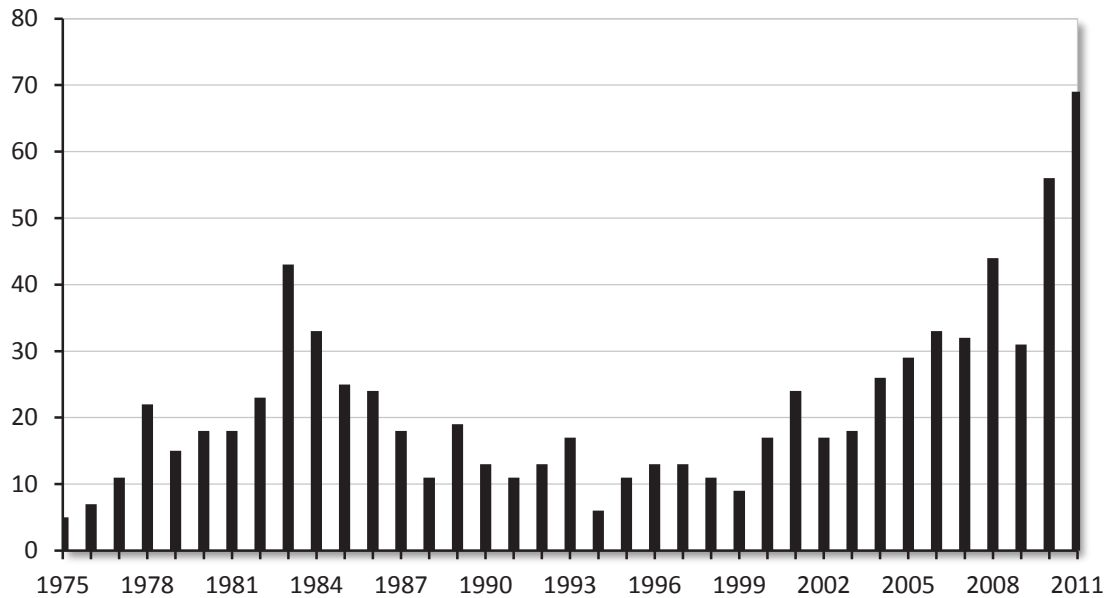
Much of the trouble with Section 337 can be traced to its origin as Section 316 of the decidedly protectionist Fordney-McCumber Tariff Act of 1922. The Act represented a new high-water mark for protectionist policy in United States history. In addition to raising tariffs, the new Republican majority in the 67th Congress invented a number of trade-remedy tools that the president could use to keep out competitive imports.³ One of these tools was the authority, under Section 316, to exclude imports found to be imported pursuant to "unfair methods of competition and unfair acts." Although the provision was renumbered as Section 337 of the (also infamously protectionist) Smoot-Hawley Tariff Act of 1930, substantive changes were minimal, and the law continued to empower the Tariff Commission to conduct investigations and make recommendations to the president that particular imported goods be excluded from the U.S. market.⁴

The original substance of Section 337 bore many of the features common to contemporary trade-remedy mechanisms. Much as in antidumping and countervailing duty investigations today, Section 337 complainants were required to show that the alleged unfair competition caused injury to a domestic industry. And, like today's Section 201 safeguard actions, any remedy recommended by the agency was subject to presidential review and disapproval.

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Figure 1
New Section 337 Investigations Filed Each Year Since 1975



Source: United States International Trade Commission.

considering passage of the Tariff Act of 1922, the Senate Finance Committee report explaining the act stated, “The provision relating to unfair methods of competition in the importation of goods is broad enough to prevent every type and form of unfair practice and is, therefore, a more adequate protection to American industry than any antidumping statute the country has ever had.”⁵ The Tariff Commission accepted early on that patent infringement counted as an unfair act, but because procedures at the Tariff Commission were cumbersome and relief was uncertain, the law remained seldom used until major changes were made in 1974.

All legislative changes to Section 337 since its inception have been intended to make the law more effective as a patent enforcement mechanism. In 1974, Congress gave jurisdiction over Section 337 cases to the newly created International Trade Commission with formal adjudication procedures that highly resemble a court trial. An administrative law judge oversees each investigation, which involves a trial-like discovery phase and oral hearing. These changes prompted a new

level of interest in Section 337 (see Figure 1, above), and over 90 percent of Section 337 cases filed at the ITC since its inception in 1975 have been patent related.

The Omnibus Trade and Competitiveness Act of 1988 included a number of amendments to Section 337 designed to make the law a more effective avenue for pursuing patent disputes. These included the addition of a patent-specific cause of action that was separate from the generic unfair competition proscription. Complaints based on this patent-specific provision need not allege any injury to domestic industry. Moreover, requirements for what constituted a “domestic industry” were significantly diminished. Language was removed from the law that originally required complainants to show that the domestic industry was “efficiently and economically operated,” and it was made clear that mere licensing activity within the United States, regardless of manufacture, was enough to enable a potential complainant to bring a claim before the ITC. These changes enhanced the efficiency of the ITC as a patent venue by removing some of the law’s trade-

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related aspects, but because Section 337 only applies to imports, it was now even more discriminatory than before. Moreover, the original broad language concerning unfair methods of competition remained intact.

Faster Procedures and More Powerful Remedies

There are a number of differences between a patent infringement case in district court and a Section 337 investigation at the ITC that, on the whole, make the ITC a substantially more advantageous venue for patent holders. One of the most effective of these differences is the remarkably short time frame for ITC investigations. Until 1994, the ITC was required by statute to complete its investigation within 12 months (18 months for complex cases). Although the explicit time limit was removed, Section 337 still requires the ITC to complete its investigations “at the earliest practical time,” which turns out to be 12–16 months.⁶ In district court, on the other hand, patent infringement suits generally take twice that long to reach conclusion.⁷ Other procedures related to jurisdiction, the discovery process, and confidentiality of information also benefit complainants.

Another striking difference between the ITC and district court is the kind of remedy available. The standard remedy for patent infringement is monetary damages designed to compensate the patent holder for past acts of infringement by the defendant. At the ITC, however, the only remedy available is injunctive relief that is meant to prevent future infringement. If the ITC determines that a respondent violated Section 337 by importing infringing goods, it issues a limited exclusion order that instructs customs officials to stop all imports of that product made by the respondent. In special circumstances, the ITC may even issue a general exclusion order that applies to all imports of the product from a particular country, and it may also issue a cease and desist order to

prevent the sale of stock merchandise imported before the exclusion order went into effect.

The availability of an exclusion order recently increased the attractiveness of the ITC for certain patent holders following a decision by the U.S. Supreme Court limiting the availability of injunctive relief in district court cases. In most kinds of civil suit, injunctive relief is only available if the plaintiff can show irreparable harm and inadequacy of monetary damages, but courts have traditionally been willing to issue cease and desist orders in patent cases without such a showing. This changed in 2006, when the Supreme Court held in *eBay v. MercExchange* that victorious plaintiffs in a patent suit must demonstrate the need for injunctive relief subject to the same factors used in all other cases.⁸

The ruling limited the potential value of patent litigation in district court for so-called non-practicing entities. This term refers to patent holders who do not practice the patent they own but instead merely license the rights under the patent to others. Some of these entities may be independent inventors or research universities, while others are businesses known pejoratively as “patent trolls” that buy up patents in order to sue anyone who uses the invention. Because these firms are solely in the business of selling patent rights and would be made fully whole by monetary relief, they are unlikely to meet the factors laid out in *eBay*.

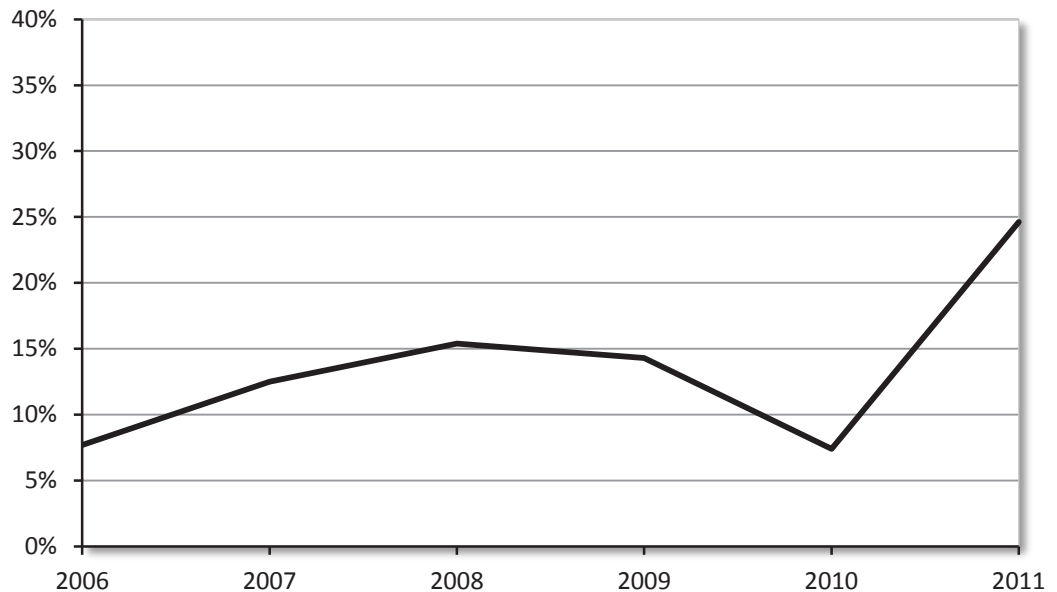
The existence of a separate patent enforcement mechanism in Section 337 has frustrated efforts to reform and adapt the patent system to these changing market realities in a way that puts importers at a disadvantage. The Court’s decision in *eBay* does not affect the availability of injunctive relief at the ITC, which automatically grants an exclusion order when there is infringement. Some of the recent dramatic increase in new Section 337 cases at the ITC (see Figure 2) can be linked to an influx of cases brought by non-practicing entities.

The exclusion remedy is also excessively disruptive because it can keep an entire

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Figure 2
Portion of New Section 337 Cases Filed by Non-practicing Entities



Sources: RPX Corporation; United States International Trade Commission.

product out of the U.S. market even if the infringed technology covers only a tiny fraction of the product's total value. For example, in July 2012, the ITC issued an exclusion order against Motorola's Android-based smartphones because they use a software application patented by Microsoft. As mentioned above, the value of that software is estimated at 33 cents per phone.⁹ In a strange twist, any settlement deal will certainly be affected by the fact that Motorola, now owned by Google, is, in turn, asking the ITC to exclude imports of Microsoft's Xbox gaming console over a similar software licensing dispute. The only real losers in this dispute, then, are the American people, whose access to high-tech products is held hostage as a bureaucratic agency determines how to divvy up competing companies' profits.

Harmful and Illegal Discrimination

Section 337 promotes trade discrimination that harms the U.S. economy and vio-

lates our World Trade Organization (WTO) commitments. Treating imports by a different, more onerous, standard gives a real benefit to domestic producers in a way that distorts the market in favor of special interests. Besides directly impacting U.S.-based companies that manufacture goods abroad for sale in the U.S. market, import protectionism harms American consumers, who are left with less efficiently priced choices, and it harms U.S. producers that rely on imported inputs or supplies. The standard domestic mechanism for protection of intellectual property—litigation in federal district court—is not inadequate to the task, and it is certainly not so hopelessly ineffective that we must sacrifice some the benefits of free trade in order to better ensure compliance by manufacturers operating abroad.

Section 337 also violates the rules of the WTO, which are meant to ensure the benefits of free trade by, among other things, prohibiting unjustified discrimination against imports. Article III:4 of the General Agreement on Tariffs and Trade (GATT) states, "The products of the territory of any con-

tracting party imported into the territory of any other contracting party shall be accorded treatment no less favourable than that accorded to like products of national origin.”¹⁰ This obligation is known as “national treatment” because it requires all WTO members to treat imported goods the same as domestically produced goods.

A dispute settlement panel determined in 1989 that Section 337 violated this national treatment obligation.¹¹ The panel’s report noted a number of features of ITC investigations under Section 337 that impose less favorable treatment on imports. Some of these features were superficially addressed in subsequent legislative amendments, but the core elements of discriminatory treatment remain intact.

First, the panel took issue with the fact that patent holders were able to choose which forum they wished to bring their case in—and they could even bring their case in both venues simultaneously. While the ITC is unavailable if the defendant manufactures the product in the United States, importers face the possibility of being brought before either the ITC or a district court. Amendments to Section 337 made after the GATT case addressed only the issue of simultaneous proceedings by giving respondents at the ITC the right to demand a temporary stay of proceeding in the district court until the ITC case is resolved. This very narrow change only delays the district court action; it does nothing to prevent a patent holder from subjecting an importer to potential liability in both venues.

Second, the panel also noted the detrimental impact of strict time limits on the respondents’ ability to develop an effective defense before the ITC. Congress responded by eliminating the statutory limit of 12–18 months and replaced it with a requirement that the ITC complete its investigation at the “earliest practical time.” The ITC continues to impose strict time limits for responses and discovery, which gives an undue advantage to complainants—who have had as much time as they need to assemble their

case before initiating the investigation. This aspect of the ITC investigation is often lauded for making the proceedings quicker and more efficient compared with district court cases, but much of the burden for achieving that efficiency falls on respondents.

Finally, the panel found that the remedies available at the ITC were greater than those available elsewhere. The limited exclusion order enables U.S. customs to enforce an injunction automatically, while a cease and desist order issued by a district court can only be acted upon if the original plaintiff brings a new action to seek enforcement. Also, the ITC can issue a general exclusion order, in certain cases, to exclude all products of the kind at issue in the investigation—even if their manufacturer was not a respondent in the case. The panel rightly condemned the issuance of such orders in light of the fact that no similar remedy exists in purely domestic cases.

Section 337 violates U.S. trade obligations despite the existence of exceptions within the GATT related to enforcement of intellectual property. One of the general exceptions to GATT disciplines comes from Article XX(d), which provides that “nothing in this Agreement shall be construed to prevent the adoption or enforcement by a contracting part of measures . . . necessary to secure compliance with laws or regulations . . . relating to . . . the protection of patents, trade marks and copyrights.”¹² The key question for purposes of Section 337 is whether the different treatment accorded to imports by the law is “necessary” to prevent patent infringement. It isn’t.

No Necessity

Proponents of Section 337 mistakenly claim that the availability of the ITC and the advantages it offers over proceedings in district court are justified because foreign producers operate outside the jurisdiction and enforcement capabilities of federal courts, and so the broad powers of the ITC are nec-

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essary to ensure that infringing products are kept out of the U.S. market. There are two particular scenarios that might frustrate the judicial enforcement of patent rights: 1) where the court lacks personal jurisdiction over the infringer and so cannot render or enforce a judgment; and 2) where the identity of the foreign manufacturer is unknown.

These concerns do not justify Section 337. Potential jurisdictional difficulties simply do not necessitate having a more rapid and efficient process for making a legal determination for all imported products than for all domestic products. Moreover, typical cases at the ITC do not implicate either of those two scenarios but are instead consistently litigated both in district court and at the ITC.

A review of Section 337 cases reveals that the law is not being used to address jurisdictional problems. One study found that 65 percent of Section 337 cases filed between 1995 and 2007 were accompanied by parallel litigation in district court.¹³ Significantly, in 89 percent of those conflicts, the district court case was filed before the ITC complaint.¹⁴ This means that district court jurisdiction over the defendant was already established before the plaintiff decided to add a Section 337 complaint. One alarming reason why district court jurisdiction has not been a problem for cases filed parallel with an ITC investigation is that most Section 337 cases involve respondents with businesses based in the United States. That same study noted that 72 percent of ITC investigations involved at least one domestic respondent, and in 15 percent of the reviewed cases all respondents were U.S.-based companies.¹⁵

Investigations initiated in 2011 involved a number of very high-profile respondents who are not likely to slip under the radar. In addition to U.S.-based firms like Cisco, TiVo, and Apple, many of the foreign companies involved as respondents, such as Sony, LG, and Nintendo, have major operations in the United States. These companies are all very easy to sue in any court in the United States and have billions of dollars worth of assets within easy reach to satisfy a judgment. The

goods at issue in these cases are not counterfeits sold by unscrupulous foreign pirates; they are often major brands whose owners are brought before the ITC by a competitor as part of a comprehensive litigation strategy that often results in an undisclosed, out-of-court settlement. The additional burden of an ITC investigation is just part of the equation that determines how much a company is willing to pay.

One ongoing battle in the mobile device patent wars aptly demonstrates the absurdity of the jurisdictional difficulties argument to justify the current scope of Section 337. After Samsung released its Galaxy series of tablet computers, Apple immediately bombarded the Korean technology firm with patent infringement lawsuits, claiming that many of Samsung's products infringe on Apple's patents in a deliberate attempt to copy the overall look and feel of Apple's iPad. Suits have been brought in courts all over the world, with inconsistent results. In Germany and Australia, lower-court decisions banning certain Samsung models are currently under appeal. In the United Kingdom, Apple not only lost its infringement suit but was ordered to apologize to Samsung in paid advertisements in popular British newspapers and on its company website. In the United States, Samsung faces both an ITC investigation and a district court trial, each with the power to prohibit Samsung from selling its products in the United States regardless of what happens in the other venue. The ITC proceeding seems especially redundant in this case since Apple was awarded a preliminary injunction by a district court judge prior to conclusion of the Section 337 case.

Apple has plenty of avenues to pursue its case against Samsung, with courts all over the world weighing in. In every country besides the United States, the decision is made by one entity. U.S. district courts have not encountered any special difficulties addressing potential infringement nor, as the preliminary injunction barring sale of Samsung's Galaxy tablet in the United State demonstrates, have they been unable to en-

act effective remedies. While not all cases that come before the ITC are as high profile as the conflict between Apple and Samsung, the situation demonstrates how inappropriate Section 337 is in a global marketplace where individual products are made and sold all over the world.

Concerns over jurisdiction and enforceability of judgments cannot justify the discriminatory procedures and automatic remedies of the ITC. At most, they call for granting district courts the power to issue limited exclusion orders upon a finding of infringement so as to enlist the aid of customs to enforce the court's judgment. They do not necessitate the existence of a separate enforcement mechanism, particularly not one as powerful as the ITC.

Dangerous Potential

Although Section 337 is used almost exclusively for patent disputes, it retains language that can be used to impose drastic trade barriers against competitors on the ground that they engage in "unfair" practices. Nonpatent claims at the ITC were much more common in the 1970s and 80s than they are today, but historical trends and recent developments in case law give reason to believe that, without amendment, Section 337 could soon gain popularity as a venue for more generalized grievances or even be used to pursue overtly protectionist goals.

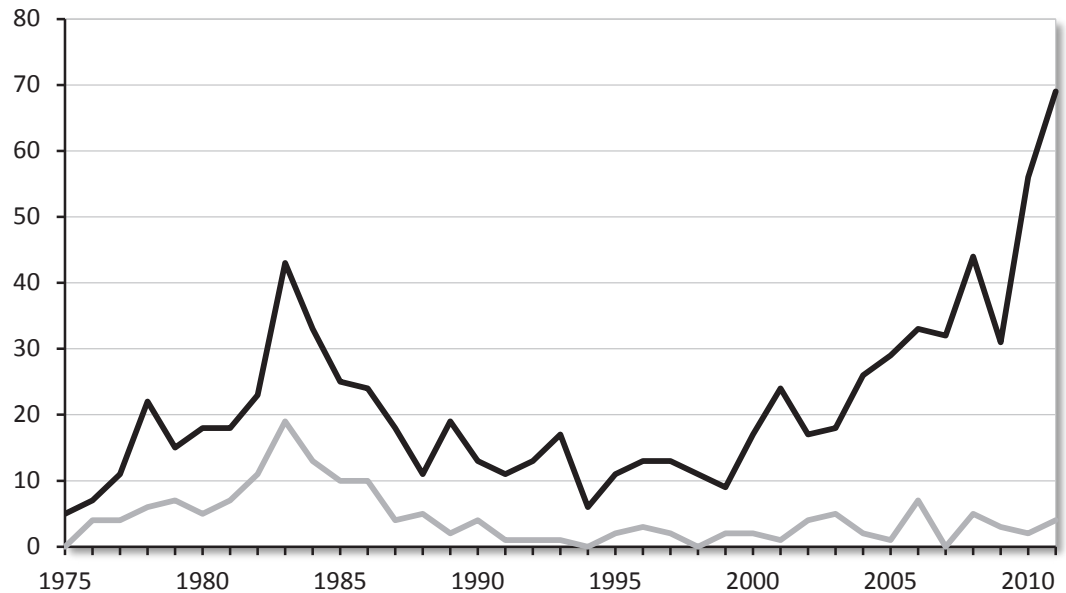
A broad range of nonpatent claims have been made under Section 337, usually accompanying a claim of patent infringement. In addition to copyright and registered trademark infringement, most nonpatent claims are generally of an intellectual property nature, with misappropriation of trade secrets and common-law trademark infringement being the most common. The unfair competition clause of Section 337 has also been used to make a variety of antitrust claims, particularly in the early days of the ITC, and even to claim simple breach of contract.

These kinds of claims were much more common years ago than they are today. From 1975 to 1990, approximately one in every three Section 337 cases involved at least one nonpatent claim. Since 1990, the portion has been less than one in 10. When the rate of new filings sharply increased in the mid-1980s, the portion of those cases involving a nonpatent claim stayed fairly constant, but the current jump in new filings has quite clearly been in single-claim patent infringement cases. As Figure 3 demonstrates, since the 1988 reforms were enacted to make Section 337 more accessible as a patent venue, the number of cases with a nonpatent claim has remained fairly constant, despite a marked increase in total claims. Those amendments did not in any way diminish the usefulness of Section 337 to litigate nonpatent disputes, however, and the increased attention recently brought to Section 337 may very well attract a different class of litigants seeking relief under a broader array of claims. Indeed, in the first six months of 2012, complainants filed as many investigations with a nonpatent claim as they did in all of 2011.

A recent appeals court decision recognizing the power of Section 337 to regulate purely extraterritorial activity provides another reason to suspect that an increase in nonpatent claims is imminent. In October 2011, the Court of Appeals for the Federal Circuit affirmed a decision by the ITC to exclude a product on the basis of trade secret misappropriation, even though all "unfair acts" occurred entirely abroad.¹⁶ Although this decision was made in the context of a trade secrets claim, which is among the most common and consistently asserted nonpatent claims at the ITC, it has serious implications for the future of Section 337. The ITC may soon become a vehicle for challenging extraterritorial conduct that is legal where it occurs but which would violate U.S. law if done within the United States. Common hypothetical examples include the use of child labor, environmental degradation,¹⁷ and bribery.¹⁸ Regardless of whether one approves of such practices, the moral sufficien-

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Figure 3
New Cases with a Nonpatent Claim Compared with All New Cases Filed



Source: United States International Trade Commission: 337 Investigation Histories.

As international pressure succeeds in reducing abusive practices in antidumping and countervailing duty investigations, the incentive to route cases through Section 337 will increase.

cy of foreign laws or law enforcement should not be reviewed by the ITC at the behest of commercial competitors seeking to exclude their rivals' products from the U.S. market. Such suits are unlikely to lead to improved conditions abroad, but almost certainly will result in protectionist trade diversion at the expense of American consumers. Fortunately, no such claims have yet been made, but there is currently no obvious impediment under Section 337 to doing so.

Another alarming possibility is that Section 337 could be used as an alternative venue for traditional trade remedy actions, such as antidumping and countervailing duty investigations. The potential for overlap between Section 337 and other, more-targeted trade remedies was recognized early on, and a provision in the law expressly prevents the ITC from instituting an investigation concerning activity covered by the antidumping and countervailing duty regimes. Nevertheless, the broad scope of Section 337 is an invitation to enterprising trade lawyers to fashion complaints alleging some form

of "unfair trade" to seek protection from more efficient competitors manufacturing abroad. Antidumping and countervailing duty investigations garner much more international attention and scrutiny than Section 337, and as international pressure slowly succeeds in reducing abusive practices in those investigations, the incentive to route cases through Section 337 will increase.

There is one reassuring aspect of Section 337 that could limit its usefulness as a general trade remedy mechanism: presidential review. The president, through the office of the U.S. Trade Representative, may nullify an ITC decision under Section 337 by disapproving that decision within 60 days. Although the president's disapproval authority is broad and may be exercised for "policy reasons," it has only been used five times.¹⁹ The first use was by President Carter in 1978 out of concern that the matter implicated U.S. obligations regarding antidumping duties.²⁰ The last president to disapprove an order was Ronald Reagan in 1987.²¹ The existence of the presidential disapproval mech-

anism may be one reason why parties have not used Section 337 as expansively as they could. Even though presidential review acts as a restraint on Section 337—because it can only decrease the total number of exclusion orders issued—its discretionary nature casts a shadow of uncertainty and politics over the entire process. A purely legal determination certainly won't always produce a good result, but allowing politicians to override the result gives them arbitrary power over people's lives as courtroom lawyering gives way to backroom lobbying. When private companies can hire Washington lobbyists to help settle their disputes, the American public always loses.

Repeal Section 337

A truly effective reform would restore the integrity of U.S. patent law as applied to all patent owners and potential infringers regardless of a product's origin, would satisfy U.S. trade obligations by eliminating procedural and substantive discrimination, and would prevent abuse of Section 337's broad proscription of "unfair competition" for protection from import competition. There is only one simple and effective solution: repeal the law. The ITC has no business imitating a court of law and is not equipped to do so. The foreign origin of a product does not make it necessary to subject its producer to a separate regime that more quickly and forcefully settles intellectual property disputes. The existence of two distinct patent enforcement mechanisms disrupts the balance of U.S. patent law and, because one mechanism is only available to challenge imports, violates U.S. trade obligations. Merely amending Section 337 to solve specific problems cannot sufficiently address these issues.

Although they would not solve all the problems caused by Section 337, many partial reform proposals have been offered. These proposals generally fall into one of two categories—1) make the ITC more like a district court; or 2) enhance the trade-remedy aspects of ITC investigations.

Diminishing the differences between the ITC and district court by harmonizing the available remedies is definitely a step in the right direction, but doing so would not fully address the discrimination.²² One way to diminish the difference is to give the ITC the ability to grant monetary relief in lieu of exclusion orders. This approach would reduce the frequency of market-distorting exclusion orders but would further the character of ITC as a specialized patent court for imports and increase the discriminatory effect of Section 337.

The most common proposal aimed at diminishing differences between the two venues is to require the ITC to consider the *eBay* factors for injunctive relief that currently apply in district court. This would limit the availability of Section 337 for non-practicing entities and harmonize the law in the two venues without adding to the powers of the ITC.

Another category of reform proposals seeks to make Section 337 more like a traditional trade-remedy mechanism. One way to do this is to undo the 1988 amendments and only allow domestic manufacturers to bring claims before the ITC.²³ Both this proposal and the proposal to extend the *eBay* ruling to the ITC seek to reduce the attractiveness of Section 337 for a particular class of complainants. Certainly, limiting access to the ITC would cause a decrease in the number of cases. But the primary problem with Section 337 is not the identity of complainants who can bring cases, but rather the identity of the respondents who are subject to ITC jurisdiction. As long as Section 337 applies only to importers, it will be impermissibly discriminatory regardless of who can take advantage of the discrimination.²⁴

Proposals to increase the powers of the ITC to deny relief on public policy grounds are equally shortsighted. While this, too, would reduce the number of exclusion orders, it also increases uncertainty and widens the gap between patent law at the ITC and in district courts. Moreover, focusing on domestic industry requirements and

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Modest reforms to the powers of the courts could enable them to overcome any enforcement difficulties, without the need for a separate agency.

public policy-based discretion threatens to restore or strengthen the original character of Section 337 as a protectionist trade-remedy mechanism. Limiting who can challenge importers at the ITC does not address the problematic fact that only importers can be challenged at the ITC. Perhaps the most troubling aspect of these reform proposals is that they actively seek to maintain the advantages currently available to patent holders at the ITC. If the existence of dual-track patent litigation has exacerbated concerns over the role of non-practicing entities in our patent system, then the best approach is to do away with Section 337, not merely limit its impact.

The proposal for modest reform that comes closest to addressing the real problems of Section 337 is to limit the jurisdiction of the ITC to only those cases in which the district court has been unable to exercise personal jurisdiction over the alleged infringer. This approach recognizes that the justification for Section 337 simply does not apply to all imports. Limiting the special procedures and harsh remedies of the ITC to those situations that actually pose difficulties to patent enforcement takes seriously the problem of unnecessary discrimination. The shortcomings of this reform come from the fact that it leaves Section 337 intact to be used as a protectionist trade remedy and that jurisdictional difficulties simply do not justify using different procedures to make a legal determination of patent infringement.

If a situation truly arises where the powers of a federal district court are ineffective to adjudicate and remedy infringement of a U.S. patent, modest reforms to the powers of the courts could enable them to overcome the relevant difficulties without the need for a separate agency. Such reforms should address the situation where legitimate, actual difficulties arise because of an alleged infringer's foreign production. For example, district courts could be granted the power to issue limited exclusion orders, in addition to cease and desist orders, if they determine that monetary damages are insufficient in

a particular case. In cases where the court determines that it has no jurisdiction over a foreign defendant, the court could assert *in rem* jurisdiction over the imported products (as the ITC does now), assume the insufficiency of monetary damages, and so automatically grant a limited exclusion order upon a finding of infringement. This approach is properly limited in how it treats imports because it only invokes a difference in treatment once a determination has been made that a difference is warranted. The difference in treatment, in turn, addresses only the difficulty that prompted it—namely the inability of the court to effectively remedy the infringement using only the same tools it uses against domestic manufacturers.

Conclusion

The efficiency and effectiveness of the ITC as a patent litigation venue are the result of Section 337's essential character as a protectionist trade remedy. Section 337 succeeds too well in its mission to overcome barriers to patent enforcement posed by foreign-based manufacturing, but any effort to ensure that the law does not disrupt the proper functioning of the patent system or breach U.S. trade obligations requires that Section 337 be so diminished in its scope as to become completely worthless to anyone.

Repealing the law is the only truly acceptable course of action, and concerns about importation and patent infringement can and should be addressed within the bounds of traditional enforcement mechanisms applicable to both foreign and domestic goods. Section 337 violates U.S. trade obligations because it treats imported products less favorably in a way that is not necessary to enforce U.S. patent law. Federal district courts rarely lack jurisdiction over Section 337 respondents sufficient to prevent and remedy infringement. Enforcing patents through two separate venues that apply different laws and impose different remedies also disrupts the policy balance of patent law that promotes

innovation. The debate over the proper role and rights of non-practicing entities should not be confounded by Section 337's unnecessary legal redundancy. Finally, the broad powers of the ITC provide an enticing avenue for U.S. companies who would rather invoke government protection than innovate in the face of foreign competition. "Unfair methods of competition" is a concept that lacks rational definition and could be used to the detriment of U.S. manufacturers and consumers. Whether it is through discriminatory patent enforcement or more transparent protectionist trade barriers, preventing American consumers and businesses from acquiring valuable high-tech products is detrimental to U.S. economic competitiveness and quality of life.

The current state of the global "patent wars" in the mobile device industry aptly demonstrates the risks posed by Section 337. Courts have been perfectly capable of imposing strong remedies to deal with patent infringement, which sometimes include banning a product from the market. Most of these disputes, however, are merely part of a business model where competitors must collaborate to pool together the many patented technologies that make up cutting-edge consumer products such as smartphones and tablet computers. While companies would love to have their competitors' products forced off the shelf, the truth is that many of the disputes involve patents that are worth only a tiny fraction of the product's total value, meaning that injunctive relief is not always appropriate. The fact that goods are imported does not make infringement more damaging to the patent holder or otherwise alter the factors that legitimately determine what remedy should be applied.

There is no conflict here between complying with trade obligations and enforcing intellectual property rights—Section 337 violates trade rules because it is unnecessary to enforcing patents. If there are any situations in which the district courts are not properly equipped to remedy or prevent patent infringement, then policymakers should consider enhancing the powers of those courts.

Because there is no conflict between enforcing patents and affording equitable treatment to imported goods, and because the broad powers of the ITC to address unfair methods of competition in importation are harmful to U.S. interests, Section 337 should be revoked in its entirety.

Notes

1. "The Android Patent War," *Wall Street Journal*, December 5, 2011, <http://online.wsj.com/article/SB10001424052970204826704577074523539966352.html>.
2. Nathan Olivarez-Giles, "U.S. Customs Approves Some HTC Phones for Sale, But Blockade Continues," May 21, 2012, <http://www.wired.com/gadgetlab/2012/05/u-s-customs-approves-some-htc-phones-for-sale-but-blockade-continues/>; Susan Decker, "Google's Motorola Mobility Offers to End Microsoft Cases," June 21, 2012, <http://www.bloomberg.com/news/2012-06-20/google-s-motorola-mobility-offers-to-settle-microsoft-cases.html>.
3. Antidumping Act of 1921, Pub. L. No. 67-10, 42 Stat. 11 (1921).
4. The only substantive changes were 1) to eliminate a choice of remedy under the 1922 version, which allowed the president to either exclude articles or increase the tariff imposed on them up to 50 percent; and 2) to remove language that allowed the president to deny entry under bond during the pre-investigation period if exclusion was ordered in advance of the investigation.
5. *Frischer & Co. v. Bakelite Corp.*, 39 F.2d 247, 259 (Ct. Cust. Pat. App. 1930).
6. Tom M. Schaumberg, *A Lawyer's Guide to Section 337 Investigations before the U.S. International Trade Commission* (Chicago: ABA Publishing, 2010), p.12.
7. *Ibid.*
8. *eBay v. MercExchange*, 547 U.S. 388 (2006).
9. Decker, "Google's Motorola Mobility Offers to End Microsoft Cases."
10. General Agreement on Tariffs and Trade 1994, art. III, para. 4, April 15, 1994, Marrakesh Agreement Establishing the World Trade Organization, Annex 1A, 1867 U.N.T.S. 187; 33 I.L.M. 1153 (1994).

11. GATT Panel Report, *United States–Section 337 of the Tariff Act of 1930*, January 16, 1989.
12. General Agreement on Tariffs and Trade 1994, art. XX, para. d, April 15, 1994, Marrakesh Agreement Establishing the World Trade Organization, Annex 1A, 1867 U.N.T.S. 187; 33 I.L.M. 1153 (1994).
13. Colleen V. Chien, “Patently Protectionist? An Empirical Analysis of Patent Cases at the International Trade Commission,” *William & Mary Law Review* 50, no. 1 (2008): 92–93.
14. *Ibid.*
15. *Ibid.*, 94.
16. *TianRui Group Co. v. International Trade Commission*, 661 F.3d 1332 (Fed. Cir. 2011).
17. Schaumberg, *A Lawyer’s Guide to Section 337 Investigations*, pp. 226–27.
18. Jeremy P. Evans and Andrew R. Booth, “Civil Relief for Foreign Corrupt Practices Injuries,” American Bar Association, October 17, 2011, <http://apps.americanbar.org/litigation/committees/businessstorts/articles/fall2011-civil-relief-foreign-corrupt-practices-injuries.html>.
19. James R. Klaiber and Ethan Lee, “Seeking Disapproval: Presidential Review of ITC Orders,” *Law* 360, November 11, 2011.
20. James R. Klaiber & Ethan Lee, “Seeking Disapproval: Presidential Review of ITC Orders,” *Law* 360, Nov. 11, 2011.
21. *Ibid.*
22. Sapna Kumar, “The Other Patent Agency: Congressional Regulation of the ITC,” *Florida Law Review* 61, no. 3 (2009): 529.
23. Colleen Chien, “Protecting Domestic Industries at the ITC,” *Santa Clara Computer and High Technology Law Journal* 28, no. 1 (2011): 169.
24. Limiting access to Section 337 to exclude foreign manufacturers risks adding further discrimination. Article 3 of the WTO Agreement on Trade Related Aspects of Intellectual Property (TRIPS) requires WTO to afford foreign nationals equal treatment with regard to protection of intellectual property. Allowing only domestic manufacturers to bring a case under Section 337 would prevent many foreign owners of U.S. patents from enforcing them at the ITC and may potentially constitute less favorable treatment in violation of the TRIPS Agreement.

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