

**BORDER ENFORCEMENT
SYSTEMS AGAINST IPR
INFRINGING GOODS IN
THE UNITED STATES**

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This overview focuses on intellectual property-based import investigations by the United States International Trade Commission, as well as of the role of U.S. Customs and Border Protection ("Customs") in the enforcement of exclusion orders and related activities.

I. OVERVIEW OF INTELLECTUAL PROPERTY-BASED IMPORT INVESTIGATIONS IN THE UNITED STATES

A. Introduction

Intellectual property-based import investigations (commonly known as "Section 337" investigations)¹ are conducted in the United States by the U.S. International Trade Commission ("ITC" or "Commission"). The ITC is an independent, nonpartisan, quasi-judicial federal agency that was originally established by the U.S. Congress in 1916 as the U.S. Tariff Commission.^{2, 3}

Section 337 investigations address unfair acts and unfair methods of competition in the importation of articles into the United States, the sale for importation, and/or the sale in the United States after importation. If the Commission finds that there is a violation of Section 337, then it may issue an exclusion order barring the imported product from entry into the United States, and it may also direct foreign and domestic companies to cease and desist from engaging in the unfair practices within the United States. The President may, for policy reasons only, disapprove the Commission's exclusion and/or cease-and-desist orders within sixty days of their issuance. Commission determinations may be appealed to the United States Court of Appeals for the Federal Circuit ("CAFC").

Section 337 offers several advantages to those seeking to enforce their intellectual property rights against infringing, imported products. Advantages such as worldwide discovery, expedited hearings, judges with expertise in intellectual property law and effective remedies enforced by Customs, part of the U.S. Department of Homeland Security, make a Section 337 investigation a highly effective vehicle for the enforcement of U.S. intellectual property rights.

B. Elements of a Section 337 Violation

Historically, Section 337 declared unlawful "unfair methods of competition and unfair acts" in the importation of articles into the United States. The most commonly asserted types of unfair act and, indeed, ones now specifically identified in the statute are importations of articles that infringe a valid and enforceable U.S. patent or federally registered trademark, copyright, semiconductor mask work or boat hull design. One of the primary objectives of the amendments made to

Section 337 by the Omnibus Trade and Competitiveness Act of 1988 ("1988 Amendments") was to make Section 337 a more effective mechanism for the enforcement of U.S. intellectual property rights against infringing imports.

As a result, the Commission uses two separate tests, depending on the nature of the unfair act under investigation, to determine whether a Section 337 violation exists. These tests are:

- (1) If the unfair act pertains to articles that infringe a valid and enforceable U.S. patent or federally registered copyright, trademark, mask work used in conjunction with a semiconductor chip product or registered boat hull design, the complainant must establish importation, infringement and that an industry relating to the intellectual property right exists in the U.S. or is in the process of being established (as demonstrated by significant investment in plant and equipment; significant investment in labor or capital; or substantial investment in the exploitation of the intellectual property, including engineering, research and development, or licensing); or
- (2) If the unfair act or method of competition does not pertain to one of the violations specified above, the complainant must prove all of the foregoing factors and, in addition, that the unfair act has the threat or effect of destroying or substantially injuring the domestic industry, preventing the establishment of such an industry or restraining or monopolizing trade and commerce in the United States.

Accordingly, under the first test, as long as there is a U.S. patent or a federally registered trademark, copyright, mask work or boat hull design and there has been significant or substantial economic activity in the U.S. with respect to the exploitation of that right, Section 337 may be used to protect the domestic industry covered by the intellectual property right from infringing imports without demonstrating injury. Foreign owners of U.S. intellectual property rights frequently take advantage of Section 337 when they can demonstrate they are engaged in the requisite amount of activity in the U.S. related to the intellectual property right.

The second test applies to situations that encompass a broad spectrum of unfair acts and methods of competition, including common law trademark infringement, passing off, trade secret misappropriation, violation of the Digital Millennium Copyright Act ("DMCA"), a variety of business torts and what would

otherwise be a violation of the antitrust laws. It has even been suggested that Section 337 can be used to attack imports resulting from foreign unfair labor practices, such as the use of prison labor or under-age workers. The more liberal domestic industry standard for intellectual property based investigations, which includes investment in engineering, research and development or licensing, does not, however, apply to investigations involving these kinds of unfair acts. Accordingly, a complainant asserting common law trademark rights, for example, must show significant domestic investments in plant, equipment, labor or capital and must meet the injury test to obtain protection under Section 337.

Because Section 337 is an international trade statute intended to remedy unfair acts in the importation of articles into the U.S., a key requirement of all Section 337 investigations is proof that there have been imports of the products in question. The importation requirement may be satisfied by showing actual importation or by demonstrating that a sale has been made for importation of the accused products into the U.S. Even the importation of samples or a contract for future sale for importation into the U.S. can be sufficient to meet this test. Furthermore, it should be noted that goods made in the U.S. may satisfy the importation requirement if they are exported for assembly into a final product that is then imported into the U.S. Thus, even companies active in the U.S. can be found to violate Section 337.

In short, the elements of a Section 337 violation are (1) an unfair act or unfair method of competition, e.g., patent infringement; (2) an importation, sale for importation or sale after importation of the accused product; (3) a domestic industry; and (4) in the case of investigations not involving a federally registered intellectual property right, injury resulting from the unfair act. The elements of importation, domestic industry and, in some instances, injury are necessary because Section 337 is a trade statute. Even with these additional elements, however, a Section 337 investigation has proven to be generally a more efficient and effective method of enforcing intellectual property rights against infringing imports than an action in United States federal district court.

C. Procedures in a Section 337 Investigation

A Section 337 investigation is normally instituted based upon a complaint filed by a private party with the Commission or, in rare instances, by the Commission on its own motion. The majority of past investigations have concerned allegations of patent infringement. The Commission has also instituted investigations based upon allegations of copyright infringement, misappropriation of trade secrets, trademark infringement (both federal and common law), the passing off of goods, violation of the DCMA and improper designations of origin. There have also been a number of cases which involved anticompetitive activities and other types of unfair competition. Importations and sales of articles made

without license by means of a process covered by a U.S. patent are also specifically prohibited under Section 337.

D. Institution of the Investigation

When a Section 337 complaint is filed it is a public document, with the exception of business confidential information. The complaint is directed to staff attorneys in two separate offices at the ITC: the Office of Unfair Import Investigations ("OUII") and the Office of General Counsel ("OGC"). During a 30-day period, attorneys in both offices investigate the background of the complaint and determine whether it meets certain procedural rules. The OUII and the OGC both make a recommendation to the Commission as to whether the complaint meets the rules and presents a cause of action that should be considered by the Commission for investigation.

If the Commission determines, as it normally does, that an investigation should be instituted, a notice is published in the Federal Register and copies of the complaint are served upon those named as respondents in the investigation and, in the case of foreign respondents, their respective embassies. A staff attorney from OUII is also designated as a formal party to the investigation and participates in all phases of the proceeding. The investigation is assigned to an Administrative Law Judge ("ALJ") who controls the conduct of the investigation until he issues an initial determination on violation and a recommended determination on remedy and bonding are issued. Importantly, all phases of the investigation are conducted under the provisions of the Administrative Procedure Act. This ensures that an investigation is conducted in accordance with the principles of procedural and substantive due process. While parties are not permitted to communicate with decision-makers at the Commission on an *ex parte* basis, this proscription does not extend to discussions with the OUII attorney assigned to the case.

E. Pre-Hearing Procedures

The date of publication of the Notice of Investigation in the Federal Register initiates the schedule for the Commission's investigation, including setting a target date for completion of the investigation. Significantly, it is through the use of such target dates – normally in the range of twelve to fifteen months – that the Commission has maintained its record of completing Section 337 investigations in an expeditious manner.⁴ Companies that are named as respondents in the investigation have twenty days after service of the complaint by the Commission in which to file a response to the complaint and Notice of Investigation. Additional time is provided when service of the complaint is made by mail, i.e., three days for domestic companies and ten days for foreign. Parties may begin to serve

requests for discovery upon each other once notice of the investigation appears in the Federal Register.

Due to the expedited schedule involved in these investigations, the time for discovery such as answering interrogatories, producing documents and conducting depositions is very short. The entire process of discovery in a twelve-month investigation normally takes place within approximately a five-month period. During this time, there may be one or more conferences with the ALJ, who controls the discovery process, rules upon motions and handles various requests of the parties to gain additional information or to be permitted to withhold information requested by an opposing party. Protective orders with respect to confidential business information are issued by the ALJ as a matter of course. Accordingly, confidential business information is routinely exchanged among outside counsel and independent experts but protected from public disclosure or disclosure to the opposing party.

Often, a great deal of the information needed by the complainant to prove its case is located in foreign countries. This information may be difficult to obtain, not only because of volume and distance, but also because some foreign governments do not allow discovery, as practiced in the U.S., to take place. Nonetheless, the Commission, with the approval of the CAFC, has given itself tremendous latitude in gaining access to information held by foreign companies. Although the Commission cannot issue subpoenas to compel foreign companies to divulge information or documents in the same way required of companies or persons located in the U.S., the Commission may impose sanctions for failure to provide information. Sanctions are similar to those set forth in Rule 37 of the Federal Rules of Civil Procedure ("FRCP") used in Federal district courts. These sanctions may include a finding that the information that the complainant should have been able to obtain would be unfavorable to the respondent's position or, in extreme cases, even a final ruling in the case in favor of the complainant. Sanctions may also be imposed against a complainant who fails to cooperate in discovery. As a practical matter, many of the Commission's Rules of Practice and Procedure closely track the FRCP.

For a foreign respondent, the discovery period can be quite burdensome because of the short time limits and the difficulties of transporting large numbers of documents or persons around the world and of coordinating with the U.S. attorneys representing it to ensure that accurate and complete information is compiled and presented to the Commission. The prospect of disclosing confidential business information, even under a protective order, also has proven to be difficult for foreign respondents in these cases. Nonetheless, cooperation in discovery is more the rule than the exception.

F. Hearing and Post-Hearing

Once the period of discovery is closed, preparation begins for the trial-type hearing before the ALJ. Normally, there is approximately one month between the close of discovery, including discovery of expert witnesses, and the beginning of the hearing, during which pre-trial briefs and exhibits are prepared. A hearing may last from a few days to several weeks and is similar to a U.S. federal district court bench trial, except for the more liberal evidentiary standards, especially with respect to hearsay. The parties, including the OUII attorney, are provided an opportunity to cross-examine witnesses as in a typical U.S. federal district court trial. Decisions made by the judges and the Commission must have a sound basis both in fact and law.

Following completion of the hearing, the parties are allowed a short period of time, up to one month, to prepare final briefs and detailed findings of fact and conclusions of law for consideration by the ALJ. Some of the ALJs schedule closing arguments after the briefs have been submitted. ALJs have approximately sixty days within which to consider the briefs of the parties and the evidence presented at the hearing, and to prepare an initial determination consisting of findings of fact, conclusions of law and an opinion for submission to the Commission.

The ALJs' determinations address whether there is a violation of Section 337, including the establishment of an unfair act, importation and the existence of a domestic industry. In investigations that do not involve patents, registered trademarks, copyrights and mask works, the ALJs also determine whether the domestic industry has been injured. In each investigation, the ALJ will also issue a recommended determination on the issues of the appropriate remedy and amount of bond to be imposed on imports during the Presidential review period.

G. Commission and Appellate Review

Parties may appeal the ALJ's determination by filing a petition for review with the Commission. Failure to file a petition waives any future right of appeal. The Commission may grant or deny petitions and also may review the initial determination on its own motion. In the event the Commission decides to review the determination, it will specify the scope of review and the issues that will be considered and will make provisions for the filing of briefs and for oral arguments, if deemed appropriate. Oral arguments before the Commission are, however, uncommon.

If the Commission finds a violation of Section 337, its determination is forwarded to the President with the record upon which it is based. The President has sixty days to disapprove, but not alter, the determination, for policy reasons

only, in which case the Commission's action will have no force or effect. This has rarely happened in the history of the statute. If the President approves the determination or takes no action, the Commission's determination becomes final. In addition, if the Commission determines that goods are to be excluded from entry, or if a cease and desist order is to be imposed, it must determine the amount of the bond under which imports may enter the U.S. during the 60-day period for Presidential consideration of Commission orders.

Appeal of a final determination of the Commission may be taken to the CAFC within sixty days from the date the Commission's determination becomes final. Historically, the Commission has had a high rate of success on appeal. It should be noted that, only with respect to patents, Commission decisions are not entitled to collateral estoppel because Congress invested the federal courts with final authority over disputes involving patents. The Commission's record, however, may be used in a subsequent federal district court proceeding, and federal district court judges have shown deference to findings in Section 337 determinations in related cases.

H. Remedies

When the Commission finds a violation of the statute, it has the authority to impose several remedies. The first and most common remedy is the exclusion of articles from entry into the U.S. This remedy applies only to goods imported after the date the Commission's order becomes final and does not apply to importations prior to the investigation or during the course of the investigation. Exclusion orders can either be limited to persons specifically found to be in violation of Section 337 (limited exclusion order) or, under certain circumstances, against all importers of the accused product even though they were not party to the investigation (general exclusion order). This reflects the "in rem" nature of relief under Section 337. The Commission has the authority to order seizure and forfeiture of goods subject to an exclusion order if an owner or importer attempts to import the goods following a written warning that any further attempt to enter the goods will lead to those penalties. Such orders are enforced by Customs. Monetary damages are unavailable in a Section 337 investigation; these must be sought in federal district court in a separate action. Moreover, while a federal district court action, e.g., for patent infringement, may be filed concurrently with a Section 337 complaint, that action must be stayed by the court at the request of the respondent/defendant pending the outcome of the Section 337 investigation.

The second remedy available from the Commission is a cease and desist order that can be issued in lieu of, or in addition to, an exclusion order. Cease and desist orders only apply within the United States, are directed to a specific respondent and require a change in some action or conduct found to be unlawful. These orders, under certain circumstances, may apply to goods in inventory that

were imported prior to the Commission's determination that a Section 337 violation exists. The Commission has ordered companies to cease selling products in inventory which infringe the intellectual property rights in issue, to cease specific marketing practices, as well as to cease certain types of anti-competitive conduct.

The Commission also has authority to issue an exclusion order and/or a cease and desist order against any respondent who defaults under a procedure similar to that employed by federal district courts.

I. Commission Enforcement of Its Remedies

The Commission has the authority to bring a civil action seeking a monetary penalty if a respondent fails to comply with a cease and desist order. The maximum amount of the fine may be the greater of either \$100,000 for each day the proscribed activities or imports occur or twice the domestic value of the imported items. Since obtaining this authority in 1979, the Commission has not hesitated to exercise its power under this provision to impose substantial civil penalties for failure to comply with a cease and desist order. For example, in one case, the Commission imposed a civil penalty in the amount of \$2,600,000 for a violation of its cease and desist order. Ultimately, the Commission vacated the order imposing the civil penalty based on a settlement agreement between the parties. In another case the Commission imposed a civil penalty of \$2,320,000 after taking into consideration certain aggravating factors, including bad faith in attempting to circumvent the cease and desist order and destruction of documents. The ability to impose monetary sanctions serves as a powerful tool for the Commission to ensure compliance with its orders.

The Commission also may issue consent orders in investigations in which the parties settle. In such orders the respondent agrees to refrain from certain conduct, and the Commission maintains authority to enforce the agreement. The Commission's authority to impose civil fines for violation of a consent order was upheld by the CAFC in a case in which the Commission imposed a civil fine of \$1,550,000.

J. Preliminary Relief and Public Interest Considerations

The Commission has authority to exclude articles from entry on a preliminary basis during the pendency of an investigation. The temporary exclusion order ("TEO") is imposed only after a determination by the Commission that there is reason to believe there is a violation of Section 337. The requirements for obtaining a TEO are identical to the four factors for obtaining a preliminary injunction in federal district court. One notable feature, however, is that the decision on entry of a TEO must, in accordance with the statute, be issued within ninety days after initiation of the investigation. The Commission can

grant a sixty-day extension in more complicated cases, but it must publish in the Federal Register its reasons for designating the investigation as more complicated. As is the case with preliminary injunctions, TEOs have not been pursued frequently because the Commission imposes a high standard of proof before it will temporarily halt the importation of goods, except under bond, during an investigation. Moreover, to discourage frivolous requests, the Commission can require complainants to post a bond as a prerequisite to receiving temporary relief. The Commission may also issue temporary cease and desist orders under these provisions.

In the event the Commission finds a violation of Section 337 or is prepared to enter preliminary relief, it must consider the impact of relief upon the public interest before it imposes a remedy. In making this determination, the Commission is required to consider various factors, including the effect of the remedy on the public health and welfare, competitive conditions in the U.S., the production of competitive articles in the U.S. and U.S. consumers. These are vestiges of Section 337's origins as a trade statute, which have not played an important role in recent investigations. In fact, since the injury requirement was eliminated in the 1988 Amendments from patent and other statutory-based intellectual property investigations, Section 337 has become part of the mainstream enforcement mechanisms for addressing intellectual property violations involving imported goods.

II. OVERVIEW OF THE ROLE OF CUSTOMS IN INTELLECTUAL PROPERTY MATTERS

A. Introduction

The role of Customs in regard to intellectual property rights is primarily one of enforcement. However, Customs' role varies to some degree depending on the particular kind of right enforced. Customs plays a much more active role in regard to enforcement of trademark and copyright rights than in regard to patent rights.⁵ Below we describe Customs' role in regard to patent infringement, and then proceed to a discussion of Customs' role in regard to infringement of trademarks (including tradenames) and copyrights.

B. Customs Patent Infringement Enforcement

Customs' role in regard to patent infringement enforcement is limited to enforcing the exclusion orders issued by the ITC. Although Customs is charged with enforcing the ITC orders, Customs itself has stated that "Customs is without legal authority to determine patent infringement".⁶ However, as discussed below, a necessary part of enforcement is a determination of whether imported merchandise falls within the terms of an exclusion order. Therefore, although Customs purports to have only an enforcement role, Customs officials exercise

some degree of discretion in patent infringement enforcement, depending on the nature of the merchandise involved.

Customs describes its primary actions in regard to enforcement of Section 337 as follows:

Upon receipt of orders from the ITC, an "Exclusion Order Notice" is released to the field through the Office of Field Operations ... via the U.S. Customs Bulletin Board ... and will provide details relative to the enforcement of a particular order.

The strategic operational analysis staff (SOAS) will update cargo and/or summary selectivity criteria to include exclusion order information.

Where goods determined to be subject to an exclusion order are presented to Customs, field officers must exclude the goods from entry into the United States and permit export.⁷

Thus, the key action by Customs to exclude goods from entry under an exclusion order is publication in Customs' Intellectual Property Rights Search ("IPRS") of notice of the Exclusion Order. These notices refer to the ITC investigation number, list the goods excluded, very briefly describe the goods excluded (usually in the same terms as the list of goods excluded), identify the patent owner, and state the effective and expiration dates. These notices do not identify the respondents, even in the case of limited exclusion orders.

Customs does not note the date of issuance in the IPRS notices and, therefore, the actual date of publication is not certain. However, our review of current postings of notices of exclusion orders in the IPRS suggests that Customs may not post exclusion orders until at least after termination of the 60-day Presidential Review period.

C. Bonds

Section 337 provides that goods to be excluded under an Exclusion Order shall, until the Order becomes final, be entitled to entry under bond. This bond is to be "in an amount determined by the [ITC] to be sufficient to protect the complainant from any injury."⁸ In determining the amount of this bond, the USITC is directed to determine "to the extent possible, the amount which would offset any competitive advantage resulting from the unfair method of competition or unfair act enjoyed by persons benefiting from the importation of the article."⁹

In view of the foregoing, the bond to be filed for entries of excluded goods during the Presidential review period is generally based on the price differential of the domestic product and the infringed imported product. The bond amounts set in past exclusion orders have varied widely, with most being set at 100 percent of entered value¹⁰. Customs, to which the law grants authority regarding prescription of the bond, requires filing of the bond by the importer, but the ITC contemplates that the respondent shall file the bond¹¹. As a practical matter, however, the importer would be responsible for ensuring that a bond is filed, in that the importer is responsible for ensuring compliance with entry requirements. The terms of the bond are specified in the Customs Regulations.¹²

D. Certification by Importers

In recent exclusion orders, the ITC has mandated that the importer certify to Customs that imported products are not excluded from entry under the Exclusion Order.¹³ The certification language in the exclusion orders usually provides that Customs, as it deems necessary, may require that "persons seeking to import [the good subject to the exclusion order] shall certify that they are familiar with the terms of [the] Order, that they have made appropriate inquiry, and thereupon state that, to the best of their knowledge and belief, the products being imported are not excluded from entry under . . . [the] Order."¹⁴

Customs has discretion as to whether to require a certification from an importer. Because Customs' notices in its IPRS of exclusion orders do not refer to the certification requirement, it is uncertain whether Customs actually requires such certification on a case-by-case basis.

The United States Court of International Trade ("CIT") recently issued a decision regarding certifications provided for by the ITC in an Exclusion Order: *Eaton Corp. v. U.S.*, CIT Slip Opinion 05-121 (September 9, 2005).¹⁵ The *Eaton Corp.* case dealt with a limited Exclusion Order against the importation of certain automated mechanical transmission systems ("AMTs") for medium-duty and heavy-duty trucks.¹⁶ The Exclusion Order provided for a certification such as that quoted above.

Customs did require a certification for importations of AMTs and initially provided for a certification that imported goods were not AMTs that infringe the patent claim involved (i.e., although the imported merchandise might be AMTs, it was not infringing). The Section 337 respondents attempted to redesign the AMTs and imported them, using the certification to claim that they did not infringe on the patents involved.

Subsequently, Customs modified the requirement to call for a certification that imported goods were not AMTs, without reference to whether they were infringing AMTs. The Section 337 respondents contested Customs' modified

certification and Customs and the respondents settled the matter by returning to the original language, without the participation of the Section 337 complainant.

In its decision in *Eaton Corp.*, the CIT implicitly criticized Customs and the respondents for modifying the certification without the complainant having an opportunity to be heard. After the trial commenced, the ITC, in response to a Customs inquiry, had advised that the certification provision in the Exclusion Order was not intended to apply to imports of redesigned AMTs. The CIT enjoined Customs from permitting entry of such AMTs.

The CIT also, in the *Eaton Corp.* decision, recognized the "paramount authority" of the ITC in regard to Section 337 and concluded that "[u]ntil such time as the ITC issues the advisory opinion requested by the respondents before it, however, the court cannot find as a matter of public fact herein that they are no longer in violation of an Eaton Corporation patent and thereby entitled to an unencumbered balancing of their claimed hardship."¹⁷

The *Eaton Corp.* case is a good illustration of the problems of not permitting the patent holder to fully participate in a case involving Customs' enforcement of a Section 337 order. Assuming that *Eaton Corp.* is affirmed, it confirms Customs' position that Customs has no authority to determine patent infringement and that the ITC has "paramount authority" over that issue.

E. Customs Administrative Rulings Regarding Whether Imported Merchandise Is Covered by an Exclusion Order

As stated above, Customs takes the position that it only enforces, and does not interpret, Section 337 exclusion orders issued by the ITC as a result of a finding of patent infringement. In recent years, however, Customs has taken a more active role in determining whether goods to be imported fall within an exclusion order. Customs issues such rulings pursuant to its administrative ruling procedures, under which importers and other interested parties may file a request for a ruling with respect to the applicability of Customs and related laws to a specific set of facts.¹⁸

Below we summarize several representative Customs' rulings pertaining to enforcement of Section 337 exclusion orders. In Headquarters Rulings ("HQ") 470783,¹⁹ 470784,²⁰ and 470875²¹ (April 10, 2001), Customs held that the "redesign" of semiconductor devices did not make them excludable under Exclusion Order 337-TA-395 (*EPROMs*). Customs reviewed product samples and documentation of the ruling requesters and determined that because the claim of the patent considered was "especially broad[,] even though the patent referred to the use of high voltage, disabling the high voltage means for accessing the manufacture and device identification codes did not eliminate probable patent infringement.

In HQ 475295 (February 20, 2004),²² Customs held that the Exclusion Order in Investigation No. 337-TA-365 (*Audible Alarm Devices for Divers*) was applicable to a company determined to be an affiliate of the respondent on the basis of allegations by the complainant, and a review of the web site of one of the companies.

In HQ 474939 (January 6, 2004),²³ Customs held, in regard to the Exclusion Order in Investigation No. 337-TA-406 (*Lens-Fitted Film Packages*), that a sample single use camera was a lens-fitted film package, but on the basis of a patent claim-by-patent claim analysis, was not within the scope of any of the claims and, therefore, was not within the scope of the Exclusion Order. Significantly, Customs has issued twenty-one rulings regarding the applicability of this Exclusion Order to newly constructed cameras (not including refurbished single-use cameras), of which eighteen rulings held the Exclusion Order inapplicable and three held the Exclusion Order applicable.

The preceding rulings relate to prospective transactions (i.e., those in which the importation has not yet occurred). Importers may contest completed Customs transactions by filing a protest under 19 U.S.C. § 1514 within 180 days of notice of the action protested. This mechanism is used in regard to the entry of merchandise, and the 180-day period is the period beginning with Customs' notice of liquidation of a Customs entry. However, the protest procedure is not available to contest the exclusion of goods pursuant to a determination appealable under Section 337.²⁴ Notwithstanding the inapplicability of the 19 U.S.C. § 1514²⁵ protest procedure to Section 337 determinations, Customs has, without analysis of the applicability of 19 U.S.C. § 1514, issued protest decisions regarding the exclusion of goods under Section 337.²⁶

F. Customs Penalty Action in Patent Enforcement Cases

Customs' primary penalty statute is 19 U.S.C. § 1592.²⁷ Under this statute, any person who, by fraud, gross negligence, or negligence enters or introduces, or attempts to enter or introduce, any merchandise into the commerce of the United States by means of data, information, written or oral statement, or act that is material and false, or any omission that is material, is subject to varying degrees of penalties. For fraud, the maximum penalty is up to the domestic value of the imported merchandise, for gross negligence the maximum penalty is up to the lesser of the domestic value of the merchandise or four times the duties, taxes, and fees of which the United States is deprived, and for negligence the maximum penalty is up to the lesser of the domestic value of the merchandise or two times the duties, taxes, and fees of which the United States is deprived. In the case of gross negligence and negligence, if the violation does not affect the assessment of duties, the maximum penalties are, respectively 20 and 40 percent of the dutiable value of the imported merchandise.

Basically, for purposes of 19 U.S.C. § 1592, fraud encompasses situations in which the action of the person subject to the penalty is voluntary and intentional. Gross negligence encompasses situations in which the action of the person subject to the penalty is with actual knowledge or wanton disregard. Negligence is the failure of the person subject to the penalty to exercise reasonable care.²⁸

We are not aware of any penalty actions by Customs under 19 U.S.C. § 1592 relating to patent enforcement. However, we note that Customs has indicated that it believes Section 1592 could be applicable to an importer of merchandise subject to an exclusion order who cannot establish that it used reasonable care to assure compliance with the exclusion order.²⁹

Although we are aware of no Customs penalty determinations under 19 U.S.C. § 1592 relating to Section 337, Customs has issued a penalty determination in regard to merchandise subject to a Section 337 exclusion order under another Customs penalty statute, 19 U.S.C. § 1595(a).³⁰ Pursuant to Section 1595a, persons who direct, assist, or are in any way concerned with the introduction, or attempted introduction, into the United States of an article contrary to law are subject to penalties up to the value of the merchandise introduced or attempted to be introduced. Section 1595a also provides for seizure and forfeiture of merchandise introduced, or attempted to be introduced, into the United States if certain conditions are present.

In HQ 655205 (August 5, 1988),³¹ Customs applied this statute to the importation of certain lamps subject to the Exclusion Order in USITC Investigation No., 337-TA-225 (*Multi-level Touch Control Lighting Switches*). Customs denied any mitigation of the penalty and noted that penalties under 19 U.S.C. § 1595a do not require a finding of culpability and that publication in the Federal Register of Exclusion Orders is public notice of the importer. Customs limited the penalty amount in this case to the deposit made by the importer at the time of entry to obtain release of the merchandise.

G. Trademarks and Tradenames

Generally, U.S. law prohibits the importation of merchandise bearing a mark infringing on a trademark registered with the U.S. Patent and Trademark Office ("U.S. PTO") and recorded with Customs.³² U.S. law also prohibits the importation of merchandise bearing a name that copies or simulates the name of a U.S. manufacturer or trader or a the name of a foreign manufacturer or trader of a country providing reciprocal protection to U.S. manufacturers or traders. Only trademarks that have been registered with the U.S. PTO are eligible for recordation with Customs. Tradenames must have been used for at least six months to identify a manufacturer or trader before being recorded with Customs.

H. Customs Recordation of Trademarks and Tradenames

Applications for Customs recordation of trademarks must include a certified status copy, five copies of the U.S. PTO certificate of registration, and information addressing the criteria for "gray market" protection (see below).³³ Customs has developed an electronic template for trademark recordation and now provides for electronic filing of trademark recordations.³⁴ Customs' review of trademark recordation applications is pro forma in most cases, and almost all applications are approved.

Procedures for recordation of tradenames are similar to those for recordation of trademarks, with the following exceptions.³⁵ Instead of proof of U.S. PTO registration, a statement of the owner, partners, or principal corporate officers, and statements by at least two other knowledgeable persons, is required in regard to use of the tradename. Notice of the proposed tradename recordation is published in the Federal Register to give interested parties the opportunity to oppose the recordation and, after consideration of any comments, notice of final approval or disapproval is also published in the Federal Register. Because Customs does not rely on U.S. PTO registration in regard to tradename recordation, the review of tradename recordations is more substantive than that of trademark recordations. That review includes disapproval of names used as trademarks, whether or not they are registered with the U.S. PTO.

Upon approval of an application for Customs trademark or tradename recordation, the applicant is notified and notice of the recordation is published in Customs' IPRS. As of December 20, 2005, there were 29,575 recordations in the IPRS database, of which 19,708 were trademark recordations and 58 were tradename recordations.³⁶

I. Customs Trademark and Tradename Enforcement

As stated above, U.S. law prohibits the importation of merchandise infringing on a trademark registered with the U.S. PTO and recorded with Customs, or a tradename recorded with Customs. It should be noted that the Customs regulations implementing the enforcement of this prohibition distinguish between "counterfeit" and "copying or simulating" trademarks.³⁷ The enforcement procedures applicable to copying or simulating trademarks are also applicable to tradenames.

J. Counterfeit (Identical or Indistinguishable Trademarks)

Counterfeit trademarks are identical to, or indistinguishable from, a registered trademark.³⁸ Although Customs regulations define counterfeit trademarks in terms of registered trademarks (i.e., recordation with Customs is not necessarily required), Customs states that it focuses enforcement efforts on

trademarks that have been recorded with Customs.³⁹ In the absence of written consent by the trademark owner, goods bearing a counterfeit trademark must be forfeited by Customs. Goods bearing a counterfeit trademark that have been forfeited by Customs must be destroyed or, under certain conditions, may be delivered to a designated Federal, State, or local government agency, given to an appropriate charitable agency, or sold at auction.⁴⁰

K. Confusingly Similar (Copying or Simulating) Trademarks

Confusingly similar, or copying or simulating, trademarks are marks that so resemble a registered and recorded trademark as to be likely to cause the public to confuse the copying or simulating mark with the recorded trademark.⁴¹ Goods that bear a copying or simulating trademark are subject to denial of entry and detention by Customs. The importer of goods detained by Customs because of a copy or simulating trademark has thirty days from the date of notice of detention to remove the objectionable mark or obtain written consent for importation from the trademark owner. As stated above, tradenames are subject to the enforcement procedures applicable to copying or simulating trademarks.

L. Gray Market Goods

Customs has developed special rules regarding "gray market" goods, after a series of court decisions considering trademark treatment of such goods.⁴² Gray market goods are goods bearing a genuine trademark identical with or substantially indistinguishable from a registered and recorded trademark. Customs provides protection only to what it calls "restricted gray market articles." Customs defines restricted gray market articles as foreign-manufactured goods bearing a genuine trademark identical to a registered and recorded trademark owned by a U.S. citizen or corporation, imported without authorization of the U.S. owner. The importer of restricted gray market goods that are detained by Customs has 30 days from the date of notice of detention to contest the applicability of gray market protection or to obtain written consent for importation from the trademark owner.

An often-contentious issue for Customs regarding the importation of gray market goods is the relationship of the U.S. owner of the trademark and the foreign manufacturer of the imported good. Customs restricts importation of gray market goods only if the U.S. trademark owner does not own the foreign trademark abroad and there is no common ownership or control between the U.S. and foreign trademark owner. That is, "restricted gray market goods," to which Customs extends trademark protection, are goods bearing a genuine trademark applied by: (1) an independent licensee; or (2) a foreign owner other than the U.S. owner, a parent or subsidiary of the U.S. owner, or a party subject to common ownership or control with the U.S. owner.

The "*Lever*-rule" is an exception to the denial of gray market trademark protection to related companies.⁴³ Under the *Lever*-rule, gray market goods bearing a genuine trademark that Customs would otherwise permit to be imported because the U.S. trademark owner and the foreign trademark owner are subject to common ownership or control are denied entry if the imported goods are physically and materially different from goods bearing the genuine trademark authorized for importation and sale in the U.S. However, goods otherwise subject to the *Lever*-rule may escape detention and denial of entry by Customs if the goods or their packaging are labeled to indicate that the goods are not authorized for importation by the U.S. trademark owner and the goods are physically and materially different from the authorized product.

M. Forfeiture and Penalty Procedures

If the importer does not remove the objectionable mark or obtain consent within this thirty-day period, or otherwise obtain relief from detention of the imported goods, Customs initiates forfeiture proceedings and may issue administrative penalties. These proceedings include notice from Customs, and the opportunity for the importer to petition for relief, and a supplemental petition for relief.⁴⁴ In these petitions, the importer may make its arguments that the mark on the imported good is not infringing and for mitigation of any penalties assessed. At any time in the procedure, Customs may cancel the seizure and any penalties on the basis that there was no violation.⁴⁵

Customs' forfeiture and penalty actions vary according to whether the imported good bears a counterfeit trademark, copying or simulating trademark or tradename, or restricted gray market trademark. Customs' treatment also varies according to whether the U.S. trademark owner has recorded the trademark with Customs and when, and whether, the importer has obtained consent for use of the mark from the trademark owner.⁴⁶

According to Customs' guidelines, forfeiture of goods bearing a counterfeit trademark should not be remitted unless consent for importation is obtained from the trademark owner prior to forfeiture. If consent of the trademark owner is obtained after seizure but prior to forfeiture, forfeiture may be mitigated, subject to certain costs and a hold-harmless agreement. In addition to forfeiture, if the U.S. trademark owner recorded the trademark with Customs, Customs issues a fine equal to the value of the goods for a first violation, or twice the value of the goods for subsequent violations. If the U.S. trademark owner has not recorded the trademark with Customs, no fine is issued (although forfeiture is not remitted). If the importer establishes that it had consent to the importation from the U.S. trademark owner at the time of importation, no seizure or fine is applicable.

Customs guidelines provide that the forfeiture of goods bearing a trademark or tradename that copies or simulates a registered and recorded

trademark or recorded tradename should be remitted subject to standard mitigation guidelines (payment of a fine of 10% to 30% of dutiable value for the first violation) and exportation to the country of origin or removal or obliteration of the offending trademark or tradename. If the importer obtains consent for importation from the U.S. owner after importation but during detention, forfeiture may be mitigated, subject to certain costs and a hold-harmless agreement. If the U.S. trademark owner has not recorded the trademark with Customs, the guidelines provide that the goods should not have been seized. If the importer establishes that it had consent for importation from the U.S. trademark or tradename owner at the time of importation, no seizure or fine is applicable.

In regard to gray market goods, Customs' guidelines provide that only goods bearing restricted gray market trademarks recorded with Customs are to be seized. The guidelines provide for remission of forfeiture of such goods, subject to payment of a fine of 10% of dutiable value for the first violation, execution of a hold-harmless agreement, and export to the country of original exportation.

N. Copyrights

Generally, U.S. law prohibits the importation of merchandise bearing a false notice of copyright and of piratical copies of works that have been registered with the U.S. Copyright Office under the U.S. Copyright Act.⁴⁷ Customs' procedures for enforcing this prohibition are similar to the trademark recordation and enforcement procedures, although they differ in that the copyright procedures include adversarial proceedings between the copyright owner and the alleged infringer.

O. Customs Recordation of Copyrights

Application for Customs recordation of copyrights must include a certificate of copyright registration issued by the U.S. Copyright Office and, if appropriate, a certified copy of any assignment, license, or other ownership document recorded in the U.S. Copyright Office.⁴⁸ As with trademark recordation, Customs has developed an electronic template for copyright recordation and now provides for electronic filing of copyright recordations.⁴⁹ As is the case with trademark recordation, because Customs depends on copyright registration with the U.S. Copyright Office, Customs' review of copyright recordations is usually pro forma.

Upon approval of an application for Customs copyright recordation, the applicant is notified and notice of the recordation is published in Customs' IPRS system. As of December 20, 2005, of the 29,575 total recordations in the IPRS database, 9,734 were copyright recordations.⁵⁰

P. Customs Copyright Enforcement

The Customs Regulations provide enforcement procedures against the importation of "piratical" articles, defined as infringing copies or phonorecords that are unlawfully made (without authorization of the copyright owner).⁵¹ The Customs Regulations distinguish between merchandise that is clearly piratical and merchandise that is possibly piratical of registered copyrights. The determination that a good is clearly piratical or possibly piratical is within the discretion of the Customs officer at the port of importation.

If the Customs officer at the port of importation determines that an imported good is clearly an infringing copy or phonorecord of a copyright work recorded with Customs, Customs seizes the imported goods and institutes forfeiture proceedings, which include prompt notice to the importer and the opportunity for the importer to petition for relief and to file a supplemental petition for relief.⁵² Within 30 days of the date of notice of the seizure, Customs gives notice of the seizure to the copyright owner, who may obtain a sample of the imported good upon filing a bond to hold Customs harmless from any loss or damages occurring as a result of furnishing the sample.

If the Customs officer at the port of importation determines that an imported good may infringe on a registered and recorded copyright (i.e., if infringement is not clear, but the Customs officer has reason to believe or suspect infringement), Customs Regulations require delivery of the good to be withheld.⁵³ In such a case, Customs notifies the importer that delivery is being withheld and offers the importer the opportunity to file a statement denying infringement. If the importer does not file such a statement within thirty days, Customs treats the importation as clearly infringing and subject to seizure and forfeiture under the procedures described above.

If the importer of a good for which delivery was withheld as possibly infringing on a registered and recorded copyright timely files a statement denying infringement, within thirty days of Customs' receipt of the statement Customs gives notice to the copyright owner. The copyright owner then has thirty days from the date of the notice by Customs to file a written demand for exclusion from entry of the detained good and a bond to hold the importer or owner of the good harmless from any loss or damage resulting from the detention in the event that the good is determined not to be infringing. The copyright owner may also request a sample of the good, but must file a bond conditioned to hold harmless Customs and the importer and owner of the imported good.

If the copyright owner fails to timely file the demand for exclusion and the specified bond, Customs releases the detained merchandise. If the copyright owner does file the demand for exclusion and bond, Customs notifies both parties (the copyright owner and the importer) of their right to submit evidence, legal

briefs, and other pertinent material in regard to the matter. The parties are required to exchange submissions and have up to thirty days to respond to the arguments of the other party. All materials are forwarded to the Customs Headquarters Intellectual Property Rights Branch for decision. Customs regulations provide that the burden of proof in these adversarial proceedings is on the copyright owner.

If Customs Headquarters determines that the detained article is not an infringing copy, the detained merchandise is released and the copyright owner's bond is transmitted to the importer.⁵⁴ If Customs Headquarters determines that the detained article is infringing, Customs seizes the imported goods and institutes forfeiture proceedings, as described above in regard to clearly infringing goods.

Q. Forfeiture and Penalty Procedures

Analogous to the distinction between counterfeit or copying or simulating trademarks or tradenames, Customs' forfeiture and penalty actions vary according to whether the imported good is clearly piratical or is possibly piratical.⁵⁵

According to Customs' guidelines, forfeiture of clearly piratical copies of a U.S. registered copyright, regardless of whether the copyright is recorded with Customs, should not be remitted unless consent for importation is obtained from the copyright owner prior to forfeiture. If consent of the copyright owner is obtained after seizure but prior to forfeiture, forfeiture may be mitigated, subject to certain costs and a hold-harmless agreement.

In regard to possibly piratical copies of a U.S. registered copyright, the Customs guidelines provide that, as a matter of policy, such goods should not be seized if the copyright has not been recorded with Customs. Otherwise, in regard to possibly piratical copies of a U.S. registered and recorded copyright, the Customs guidelines provide that articles found in the above-described adversarial procedures to be infringing shall be treated the same as clearly piratical copies (see above) and articles found in the adversarial procedures not to be infringing shall be released.

III. U.S. GOVERNMENT AGENCIES

1. Personnel

a. ITC Personnel

As of September 30, 2004, the personnel of the ITC consisted of 6 Commissioners and 338.5 other permanent employees.⁵⁶ These 338.5

employees worked in twenty different offices within the agency.⁵⁷ Four of these twenty offices are involved in Section 337 investigations: (1) Office of the Commissioners; (2) Office of the ALJs; (3) OUII; and (4) OGC. We now describe these four offices.

(1) Office of the Commissioners

The ITC is headed by six Commissioners who are nominated by the President and confirmed by the U.S. Senate.⁵⁸ No more than three Commissioners may be of any one political party. Currently, three Republicans and three Democrats serve as Commissioners.

The Commissioners serve overlapping terms of nine years each, with a new term beginning every eighteen months. The Chairman and Vice Chairman are designated by the President from among the current Commissioners for two-year terms. The Chairman and Vice Chairman must be from different political parties, and the Chairman cannot be from the same political party as the preceding Chairman.

The Commissioners that are appointed to the ITC typically have legal or economic background and experience. Several Commissioners previously served as staff attorneys or economists on congressional committees or sub-committees that have oversight over international trade issues. Others were academicians at universities or executives in the business sector. Very few of the Commissioners have had significant prior experience in intellectual property matters.

(2) Office of the ALJs

There are four ALJs.⁵⁹ The ALJs function as independent, impartial triers of fact in each Section 337 investigation that is assigned to them. They are responsible for ultimately issuing an Initial Determination as to whether there is a violation of the statute. The ALJs issue, as a general practice, protective orders in each investigation, as well as ground rules, which along with the Commission's regulations,⁶⁰ sets forth the rules governing the investigation.⁶¹ The ALJs also issue a procedural schedule.⁶²

The ALJs hear and decide motions regarding substantive issues, as well as discovery disputes, and hold hearings to resolve these matters. The ALJs receive pretrial briefs from the parties, hold a prehearing conference and then conduct a trial on the merits of the parties' claims and defenses. After the trial, ALJs receive post-hearing briefs from the parties. After considering the evidentiary record and the arguments of the parties, ALJs then issue an Initial Determination with extensive findings of fact, legal analysis and conclusions of law as to whether there has been a violation of Section 337 by reason of unfair acts or unfair methods of competition regarding the imported goods at issue.

Each ALJ has one attorney-advisor (who serves as a law clerk to the ALJ) and one secretary. In addition, there is one attorney-advisor who assists all the ALJs on an as needed basis.

The ALJs who serve at the Commission are selected from the pool of approximately 1,400 ALJs in the continental United States, Hawaii, and Puerto Rico. That is, the ALJs are required to be members of the roster of federal ALJs from which federal agencies select candidates for service within a particular agency. Twenty-nine (29) Federal Government agencies have ALJs.⁶³ The four ALJs currently on the Commission have come from serving as an ALJ at different Federal Government agencies. For example, Judge Luckern served as an ALJ at the Social Security Administrative before serving as an ALJ at the Commission; Judge Harris served as an ALJ at the Department of Labor; Judge Bullock served as an ALJ at the Environmental Protection Agency; and Judge Barton served as an ALJ at the Department of Justice.

To become an ALJ, one must be an attorney-at-law and have a minimum of seven years administrative law and/or trial experience involving formal administrative hearing proceedings before local, State, or Federal administrative agencies, courts, or other administrative bodies. In addition, one must have two years of qualifying experience at a level of difficulty and responsibility characteristic of at least senior level GS-13, or one-year characteristic of at least GS-14 or GS-15 Federal Government attorneys actively involved in administrative law and/or litigation work. Notably, one need not be a registered patent attorney for assignment to the ITC for Section 337 investigations, nor have experience in intellectual property matters. However, it has been the case over the past twenty years that some of the ALJs that have been assigned to the ITC have extensive experience in intellectual property and/or unfair competition matters, as well as some technical background and experience.

(3) OUII

When a Section 337 complaint is filed, members of this office review the complaint for compliance with the Commission rules and recommend to the Commission whether to institute the investigation. Once the investigation is initiated, members of the OUII act as a formal independent party representing the public interest in Section 337 investigations. After an exclusion order and/or cease and desist order and/or consent order is issued, members of the OUII monitor compliance with certain reporting and other requirements of exclusion, cease and desist and consent orders entered in Section 337 investigations, investigating possible violations of such orders, and initiating or participating in Commission enforcement proceedings.

The OUII currently has nineteen employees. There is one director, one staff assistant, two supervisory attorneys, fourteen staff attorneys, and one paralegal specialist.

The staff attorneys in the OUII are individually assigned to a particular Section 337 investigation. One of the supervisory attorneys from the OUII will oversee that staff attorney. During the course of a Section 337 investigation, staff attorneys in the OUII fully participate in the investigation by engaging in the following activities: (a) draft and file motions, responses to motions, discovery requests (on both complainants and respondents) and briefs; (b) participate in depositions, all hearings, and the trial; (c) examine and cross-examine witnesses at depositions and trials; (d) present oral argument at trials; (e) conduct legal research on intellectual property issues and general litigation issues, and (f) travel to domestic and international locations to participate in depositions and conduct plant inspections. The ITC staff is required to take a position on the merits in the prehearing and post-hearing briefs as to whether there is a violation of Section 337.

The staff attorney attorneys in the OUII also assist and advise companies with respect to potential Section 337 investigations. This includes providing information about Section 337, the ITC rules of practice and procedure, and reviewing draft complaints and providing comments to the potential complainants.

To develop their skills, staff attorneys in the OUII participate annually in the intensive National Institute of Trial Advocacy litigation seminar.

The OUII seeks attorneys with backgrounds that include significant litigation experience and/or technical or scientific experience and expertise in intellectual property law, acquired through work experience and/or post-law school education. Accordingly, some staff attorneys are registered patent attorneys and have extensive experience in intellectual property matters. However, there is no requirement that they be registered patent attorneys or have intellectual property experience.

(4) OGC

When a Section 337 complaint is filed, members of this office review the complaint for compliance with Commission rules and recommend to the Commission whether to institute the investigation.

When a Section 337 investigation is ongoing, members of the OGC enforce subpoenas issued by the ALJ in federal district court.

When a Section case is appealed from the ALJ to the Commission, members of the OGC provide legal expertise, advice, and support to the Commissioners. Furthermore, they defend the Commission's decisions on appeals at the CAFC.

The OGC currently has thirty-seven employees. The office is headed by one general counsel, five assistant general counsels, and two senior counsels, who provide technical supervision and guidance to attorneys with less experience.

In addition, the office has twenty-three attorney-advisors. These are the individuals that act as legal advisors to the Commissioners. When the ITC institutes a Section 337 investigation, an attorney-advisor is assigned to the case and will monitor all developments. That attorney-advisor will also be responsible for analyzing the Initial Determination by the ALJ, and for any petitions by the complainants or respondents requesting review by the Commission of the Initial Determination. The attorney-advisor will draft an analysis of the challenges to the ALJ's Initial Determination, and recommendations to the Commissioners regarding disposition of those challenges, and to what extent the Commission should adopt the factual findings and legal conclusions set forth in the Initial Determination.

Because of the technical nature of Section 337 investigations, the Commission often looks to hire attorney-advisors with experience or education in engineering, particularly in electrical engineering.⁶⁴ Accordingly, some attorney-advisors are patent attorneys and have extensive experience in intellectual property matters. However, attorney-advisors are not required to be registered patent attorneys or have intellectual property experience.

The remaining personnel in this office include three paralegal specialists, a staff assistant, a law librarian, and a librarian.

b. Customs Personnel

There are three offices in Customs with primary responsibility for border enforcement of intellectual property rights. The first is in the Office of Regulations

and Rulings ("OR&R"), the Customs legal office responsible for the development, implementation and evaluation of Customs-wide programs, policies and procedures pertaining to regulations and rulings affecting Customs' border security and trade facilitation activities and for providing informed compliance information to the international trade community. The office within OR&R responsible for IPR enforcement is the Intellectual Property Rights Branch. This branch is entirely dedicated to the administration and enforcement of intellectual property rights.

The Intellectual Property Rights Branch consists of the branch chief, six staff attorneys, two paralegals, and a staff assistant/secretary. The branch chief, who is an attorney, is responsible for supervision of branch personnel and review of the branch's publications (e.g., administrative rulings, directives, draft regulations and legislation, recordations and notices to be published in the IPRS). Staff attorneys are responsible for drafting the branch's publications and for advising the public and Customs officers by telephone or electronic mail, regarding intellectual property rights issues. The branch chief and staff attorneys travel frequently to engage in intellectual property rights training of Customs officers and to participate in various forums involving intellectual property rights.

The basic qualification for the branch chief and staff attorneys is graduation from an accredited law school in the United States and admission into a State bar. No special intellectual property rights training is required, although a recent trend has been to hire attorneys from the ITC or the U.S. PTO, if such attorneys are available. Most training and development of the branch chief and staff attorneys is in the nature of on-the-job-training.

The paralegals are responsible for upkeep of the IPRS as well as for relatively simple functions, such as responding to Freedom of Information Act requests. Training and qualifications for paralegals include successful completion of paralegal courses. Their training and qualifications for their Intellectual Property Rights Branch functions have been acquired by "doing" (i.e., they have learned through on-the-job-training). The staff assistant has no special intellectual property rights training. His function is to process cases, answer the telephone, and perform standard secretarial/receptionist duties.

The second office within Customs dedicated to intellectual property rights enforcement is in the Los Angeles Office of Strategic Trade. The office is responsible for following importing trends, providing selectivity and targeting criteria, and compiling statistics in regard to intellectual property rights violations and seizures. In that office, there are three persons dedicated to intellectual property rights, consisting of Customs inspectors and Customs import specialists, who although not formally trained in intellectual property issues, have considerable experience with the issue.⁶⁵

A third office dedicated to enforcement of intellectual property rights is the National Intellectual Property Rights Coordination Center ("IPR Center"). This office is a jointly staffed office between the U.S. Immigration and Customs Enforcement of the Department of Homeland Security (the Office of Investigations of Customs, before the Homeland Security Department reorganization) and the Federal Bureau of Investigations ("FBI").

Responsibilities of the IPR Center include coordinating U.S. domestic and international law enforcement activities involving intellectual property rights issues, serving as a collection point for intelligence from private industry, disseminating intellectual property rights intelligence for investigative and tactical use, and enhancing investigative, intelligence and interdiction capabilities.

We have not been able to obtain precise information as to personnel and training in regard to this office. However, a recent U.S. Government Accountability Office ("GAO") report⁶⁶ on intellectual property enforcement examines the staffing and effectiveness of the IPR Center. According to this report, in July 2004, the staff assigned to the IPR Center was ten employees, with no FBI agents working there and fewer Department of Homeland Security agents than authorized. The report also noted that the IPR Center was not widely used by industry.⁶⁷

In addition to offices and personnel dedicated to intellectual property rights enforcement, many other Customs offices and personnel play a role in enforcement of these rights, as a part of their normal border enforcement duties. The Office of Field Operations in Customs is responsible for inspection of imported goods and vehicles entering the United States, as well as certain export enforcement activities. The Office of Field Operations has about 25,000 employees, including more than 19,000 Customs officers and agriculture specialists. Field officers for the Office of Field Operations often communicate with trademark and copyright owners regarding possibly infringing importations, under the regulatory procedures described in the introduction.

Customs' Laboratory and Scientific Services in the Office of Information and Technology has a headquarters office and seven field laboratories throughout the United States. These offices often examine information for copyright, patent and trademark infringement. As noted above, Customs rulings relating to whether a particular imported article is within a Section 337 exclusion order have often referred to the inspection and recommendations of this office.

2. Budget

a. ITC Budget

The ITC submits its budget to the President annually for transmittal to Congress. Because the ITC is a quasi-judicial, nonpartisan, independent agency, the ITC budget is not subject to control by the Office of Management, but instead, is submitted directly to Congress. The ITC's annual budget during FY 2004 amounted to \$58,742,244.⁶⁸ Of this amount, \$9,822,879 (16.9%) was allocated for Section 337 investigations.⁶⁹

The ITC's budget for Section 337 investigations has increased dramatically in recent years. It has increased from \$5,083,776 in FY 2000⁷⁰ to \$5,328,333 in FY 2001⁷¹ to \$7,368,340 in FY 2002⁷² to \$8,506,888 in FY 2003⁷³ to \$9,822,879 in FY 2004.⁷⁴ The increase from FY 2000 to FY 2004 is a ninety-three (93) percent increase, and reflects the large increase in the number of Section 337 investigations in recent years.

Salaries and personnel benefits are the largest item in the ITC budget, accounting for over seventy percent of the budget. Other obligations in the ITC's budget include the following: (1) travel and transportation; (2) rental and communication services; (3) other services; (4) printing and reproduction; (5) equipment, supplies, and material; and (6) land and structures.⁷⁵

b. Customs Budget

The Fiscal Year 2006 budget for all Customs operations is \$7.1 billion.⁷⁶ The Customs budget does not specify the share of the budget relating to border enforcement measures against those goods which infringe intellectual property rights. However, based on the total Customs personnel of approximately 40,000,⁷⁷ we estimate that the Fiscal Year 2006 Customs budget includes approximately \$1,775,000 for the expenses of the Intellectual Property Rights Branch in the OR&R, and approximately \$575,000 for the expenses of personnel in the Los Angeles Office of Strategic Trade dedicated to intellectual property rights enforcement.⁷⁸ Based on the Fiscal Year 2006 budget for all Immigration and Customs Enforcement ("ICE")⁷⁹ operations of \$3.9 billion and total ICE personnel of approximately 20,000, we estimate that the Fiscal Year 2006 ICE budget includes approximately \$1,950,000 for ICE resources assigned to the IPR Center, assuming that the staffing reported in GAO Report GAO-05-788T (June 14, 2005) remains constant.

3. Training

As noted above in the introduction, Customs' primary training tool is the IPRS publication of all trademarks, tradenames and copyrights recorded with

Customs. Analogously, the publication in the IPRS of ITC orders is Customs' primary means of giving notice of ITC orders. The IPRS describes the products and other information to be used in discovering suspect goods.

Customs also has published directives, posted on its web site and issued to Customs officers, concerning issues such as detention and seizure authority and personal use exemptions related to intellectual property rights enforcement, as well as exclusion orders and trademark and tradename violations generally.⁸⁰

As noted above, Customs issued an Informed Compliance Publication on its enforcement of intellectual property rights in August of 2001.⁸¹ This document, primarily for use by the importing public but also useful for Customs officers, summarizes Customs' role in intellectual property rights enforcement. It was formerly available on the Customs web site, although it has since been removed. We understand that it may be currently undergoing review for publication of a revised version.

As stated above, Customs attorneys from the Intellectual Property Rights Branch have provided training to Customs officers in the form of courses taught at the Federal Law Enforcement Training Center in Glenco, Georgia, and other fora. In addition, Intellectual Property Rights Branch attorneys, as well as specialists in Customs intellectual property rights enforcement in the Los Angeles Strategic Trade Center, give advice to Customs field officers by telephone and electronic mail.

4. Applicable Fees

There are no fees for filing an ITC case. Nor are there any fees imposed by Customs either to enforce intellectual property rights or to issue notice of ITC orders under Section 337. There are, however, fees associated with the ITC's investigations and decisions. These fees are as follows:

Trademark and Tradename: Customs charges a recordation fee of \$190 for each class of goods of each trademark to be recorded (e.g., the fee for three trademarks with one class of goods each would be \$570; the fee for one trademark with three classes of goods would also be \$570). The fee for renewal of the recordation of a trademark, payable within three months after the date of expiration of the twenty-year trademark registration by the U.S. PTO, is \$80 for each class of goods of each trademark recordation to be renewed.⁸²

Copyright: Customs charges a recordation fee of \$190 for each copyright to be recorded, and a fee of \$80 per copyright for each renewal of copyright recordation or change in ownership or name.⁸³

5. Period of Validity of ITC Exclusion Orders

Exclusion orders issued in non-patent cases last for however long the registered trademark/copyright is maintained. There are currently thirty such exclusion orders outstanding. Some of these exclusion orders have been in effect for decades. For example, the exclusion order issued in *Certain Novelty Glasses*, Inv. 337-TA-55, has been in effect since 1979.⁸⁴

In contrast, in patent cases, exclusion orders only last for the life of the patent. The exclusion order no longer has any effect upon the expiration of the patent.

6. The Restraining Effect of the ITC

Although the number of complaints filed at the ITC is far less than the number of patent infringement actions filed in federal district courts, a far higher percentage of the ITC cases are decided on the merits after a hearing. It should be noted that the number of complaints being filed at the ITC has been increasing as Section 337 is becoming better known to companies and intellectual property attorneys.

The fact that there are far less patent cases filed at the ITC than in federal district courts does not mean, however, that the ITC is not an effective forum in which companies can enforce their intellectual property rights. Instead, it is a reflection of the fact that in order to have standing to bring a Section 337 complaint, there must be an importation of the allegedly infringing merchandise and sufficient exploitation of the intellectual property right within the United States. Many patent infringement lawsuits filed in federal district courts involve two (or more) U.S. domestic companies in which there is no importation of the allegedly infringing merchandise.

An analysis of the data reveals that the ITC is an extremely effective forum in which to enforce intellectual property rights. Excluding cases in process, nearly one-third (twenty-four) of the seventy-six (76) cases instituted since January 1, 2001, have resulted in the ITC issuing an order excluding products from the United States.⁸⁵ This fact, combined with the requirement that cases be decided at the ITC much more quickly (generally within thirteen to fourteen months) than are patent cases in federal courts, makes the ITC a very attractive forum for companies seeking to enforce their intellectual property rights against imported infringing goods. This experience and the track record of the ITC have created a clear restraining effect on imports of infringing goods. This applies to goods that have been the actual subject of a Section 337 investigation, as well as to goods that are being considered for exportation to the United States where the filing of a Section 337 complaint is threatened.

There have been no formal studies by the federal government, universities or private industry regarding this restraining effect upon imported infringing goods. However, this restraining effect is a matter of a generally held opinion among the international trade bar, experienced intellectual property attorneys, a number of U.S. companies that have used Section 337 to exclude imported infringing goods, as well as respondent companies whose goods have been subjected to exclusion or the threat of exclusion.

7. ITC Information Relating to Section 337 Complaints

Confidential business information is routinely afforded protection in Section 337 investigations. Therefore, a person who is not filing a complaint cannot legitimately acquire the confidential information of another party, unless that person successfully subscribes to a protective order, as set forth below.

When a Section 337 complaint is filed with the ITC, sensitive commercial information will be treated as confidential by the Commission, provided that it is (a) designated as confidential by the complainant; (b) accompanied by a request for confidential treatment; and (c) deemed by the Secretary of the Commission to contain confidential business information, as described in the Commission's rules governing the submission and definition of confidential business information.⁸⁶ Nearly all Section 337 complaints satisfy these requirements, and, as such, are deemed by the Secretary of the Commission to contain confidential business information.

Once the case is instituted, the ALJ, in one of his first actions, issues a protective order as a matter of course.⁸⁷ A protective order provides for the exchange by the parties of confidential business information in discovery, and describes in detail how documents containing confidential information are to be marked and how and by whom they are to be handled. A protective order permits a party's outside attorneys, expert consultants and other representatives to have access to confidential business information produced during an investigation – both by parties and by non-parties that supply confidential business information pursuant to a Commission subpoena. However, it does not permit a party's in-house attorneys and other in-house representatives to have access to such confidential business information.

In order for a party's outside attorneys and other representatives to actually receive the confidential business information, they must write a letter to the Secretary of the Commission agreeing to the following conditions: (a) to be bound by the terms of the protective order; (b) not to reveal confidential business information under the protective order to others; and (c) to use such confidential business information solely for purposes of the Section 337 investigation.⁸⁸

8. ITC's Decisions of Import Suspension

a. Exclusion Orders

The ITC does not issue exclusion orders first, and then have the parties litigate the case, because exclusion is such a significant penalty. In order for the ITC to issue an exclusion order, there must be a final determination of a violation of Section 337. Were the ITC to issue exclusion orders prior to any determination of a violation, companies could file Section 337 investigations – even if they lack merit – just to keep goods out of the U.S. while the case is ongoing. This would not comport with procedural and substantive due process under U.S. law.

It is worth noting that a company can exclude goods from entry into the U.S. upon the filing a Section 337 investigation. This requires the company to file a request and motion for a temporary exclusion order ("TEO"). However, a TEO is difficult to secure, as the standards to obtain such extraordinary relief is very high. Pursuant to 19 C.F.R. § 210.52(a), the ITC applies the standards the CAFC uses in determining whether to affirm lower court decisions granting preliminary injunctions. Accordingly, the factors considered by the Commission in determining whether to grant a TEO are as follows:

1. Complainant's probability of success on the merits;
2. Irreparable harm to the domestic industry in the absence of temporary relief;
3. The balance of harm tipping in complainant's favor if the requested temporary relief is grant; and
4. The effect, if any, that the issuance of the requested temporary relief would have on the public interest.⁸⁹

No one factor is dispositive, and "the . . . [Commission] . . . must weigh each factor against the other factors and against the form and magnitude of the relief requested."⁹⁰

While all four factors must be considered, the CAFC has made it clear that temporary relief should not issue if the patentee fails to prove either of the first two factors.⁹¹

b. Appeals

Final decisions of the ALJ in Section 337 investigations may be appealed to the Commission. Commission decisions, in turn, may be appealed to the CAFC. Commission determinations concerning the validity and enforceability of patents

are often appealed to the CAFC, as are its findings relating to the existence of a domestic industry.

The CAFC affirms the vast majority of ITC decisions. From 1997 through 2002, the CAFC affirmed the Commission two-thirds of the time – in twelve of eighteen cases. For the other six cases, the Commission was affirmed-in-part three times and reversed three times. The CAFC's high rate of affirming Commission Section 337 decisions is higher than the rate at which federal district court decisions are affirmed.

Commission findings of fact are reviewed by the CAFC under a "substantial evidence" standard, claim construction is reviewed under a *de novo* standard, and the Commission's interpretation of 19 U.S.C. § 1337 is entitled to so-called "Chevron deference," in which the Commission's interpretation will be upheld as long as it is reasonable.

Commission conclusions of law are reviewed by the CAFC under a de novo standard of review.

When the CAFC reverses the Commission, the CAFC remands the case back to the Commission for further proceedings.⁹²

c. Writs of Mandamus

While the Section 337 investigation is ongoing before the ALJ, a party can petition the CAFC for a writ of mandamus which would direct the ALJ to take, or refrain from taking, a certain action. Pursuant to the All Writs Act, the CAFC has the authority to "issue all writs necessary or appropriate in aid of [its] jurisdiction and agreeable to the usages and principles of law."⁹³

Writs of mandamus are rarely issued, however, because "[t]he remedy of mandamus is a drastic one, to be invoked only in extraordinary circumstances."⁹⁴ In order to obtain a writ of mandamus, the party "seeking a writ bears the burden of proving that it has no other means of attaining the relief desired and that the right to issuance of the writ is 'clear and indisputable.'"⁹⁵ As the U.S. Supreme Court has noted, however, "[w]here a matter is committed to discretion, it cannot be said that a litigant's right to a particular result is 'clear and indisputable.'"⁹⁶

Accordingly, it is very rare for the CAFC to issue a writ of mandamus in a Section 337 investigation. A writ of mandamus has never been issued ordering an ALJ, or the Commission, to terminate its investigation. Nor has a writ of mandamus ever been issued ordering the Commission to institute an investigation after it voted not to do so. On at least two occasions, however, when petitions for writs of mandamus have been filed in Section 337 investigations, the investigations have been stayed pending the resolution of the petition.⁹⁷

d. General Exclusion Orders⁹⁸

When seeking a general exclusion order, a complainant is usually required to prove both "a widespread pattern of unauthorized use of its patented invention and certain business conditions from which one might reasonably infer that foreign manufacturers other than the respondents to the investigation may attempt to enter the US market with infringing articles."⁹⁹

The factors that are relevant to proving a "widespread pattern of unauthorized use" include:

- (1) a Commission determination of unauthorized importation in 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; and
- (3) other evidence which demonstrates a history of unauthorized foreign use of the patented invention.¹⁰⁰

The "other evidence" may include: physical samples of the allegedly infringing goods; Customs invoices establishing importation; affidavits of former customers verifying loss of sales; or proof that future imports are likely to be infringing.¹⁰¹

Factors that are relevant to proving that "certain business conditions" exist include:

- (1) an established demand for the patented product in the U.S. market and conditions of the world market;
- (2) the availability of marketing and distribution networks in the United States for potential foreign manufacturers;
- (3) the cost to foreign entrepreneurs of building a facility capable of producing the patented article;
- (4) the number of foreign manufactures whose facilities could be retooled to produce the patented article; or
- (5) the cost to foreign manufacturers of retooling their facility to produce the patented articles.¹⁰²

It should be noted that evidence of the existence of an opportunity to infringe is not sufficient to warrant a general exclusion order.¹⁰³ Moreover, a showing that there is no need to infringe will support a respondent's contention that a general exclusion order is not needed to protect the domestic industry.¹⁰⁴

In issuing general exclusion orders, Commission opinions have generally relied on the factors listed in *Spray Pumps*, as well as other additional evidence. For example, in *Certain Foam Earplugs*, the complainants conducted scientific

tests on the foreign products, the results of which indicated that the products were made of the same materials as the patented domestic product.¹⁰⁵ The Commission issued a general exclusion order finding that Customs could easily detect infringing earplugs; that foreign producers could produce infringing earplugs with minimal investment; that one of the settled respondents was doing business with an importer who had offered to send samples of foam earplugs to the United States; and that future imports were likely to be infringing since the prior art did not possess properties that were critical to the success of the patented earplugs, thereby warranting a general exclusion order.¹⁰⁶

In that investigation, there was insufficient evidence to suggest a past widespread pattern of unauthorized use of complainant's earplugs.¹⁰⁷ However, available evidence strongly suggested that business conditions existed which would encourage foreign manufacturers other than the respondents to attempt to enter the U.S. market with infringing earplugs.¹⁰⁸ In addition, one respondent had a history of marketing earplugs under different corporate names.¹⁰⁹

In *Certain Kukui Nut Jewelry*, the complainants filed a complaint alleging violation of Section 337 due to unfair acts and unfair methods of competition in the importation and sale of certain kukui nut jewelry products and parts thereof.¹¹⁰ The Commission determined that foreign respondents falsely advertised their product as being authentic kukui nut jewelry, which was not possible because kukui nuts are indigenous to Hawaii.¹¹¹ The Commission also determined that some of the infringing products had no country of origin marking and where origin was marked, it was false.¹¹² Moreover, the Commission found that the respondents falsely represented themselves and their products.¹¹³

The Commission determined that a general exclusion order was warranted by the widespread pattern of importation and sale of the accused products.¹¹⁴ In addition, certain business conditions existed from which the Commission could infer that foreign manufacturers other than respondents might attempt to enter the U.S. market absent a general exclusion order because there was a substantial demand in the United States for the kukui nut jewelry as evidenced by the level of domestic sales and sales of imported like products.¹¹⁵ The general exclusion order directed "nut jewelry bearing misleading labels, or without proper foreign origin markings," to be excluded from importation into the United States.¹¹⁶

In *Certain Lens-Fitted Film Packages*, the Commission adopted the ALJ's recommendation to issue a general exclusion order.¹¹⁷ The Commission applied the criteria from Spray Pumps and determined that there had been a "widespread pattern of unauthorized use" of complainant's patents as evidenced by: imports or sales by twenty-six of the twenty-seven respondents; respondents' identification of over ten suppliers in China and Korea; and an additional sixteen companies believed to be selling the infringing article for which there was insufficient

importation information to name them as proposed respondents when the complaint was filed.¹¹⁸

Further, the Commission found that the "certain business conditions" existed based on the substantial sales and successful distribution in premium markets, demonstrating an established market in the United States for potential foreign infringers.¹¹⁹ In addition, the Commission determined that manufacturing facilities could be set up at minimal cost.¹²⁰

Most ITC general exclusion order determinations have followed the evidentiary standard set by *Spray Pumps*. Thus, complainants will need to show both a "pattern of widespread unauthorized use" of their patent(s), as well as "certain business conditions" that would lead the Commission to infer that foreign manufacturers may attempt to enter the United States market with infringing materials. Complainants have previously relied on a variety of evidence to meet the *Spray Pumps* standard, including proof of importation, proof of loss of sales and the ease with which foreign manufacturers have or may in the future manufacture infringing products for importation and sale in the United States.

e. Respondents in Section 337 Investigations

In the majority of Section 337 investigations, foreign manufacturers are named as respondents. Domestic parties are frequently named as respondents in Section 337 investigations, although they are generally importers and distributors and not manufacturers. In federal district court litigation, foreign manufacturers are also named as respondents (called defendants in federal district courts). To this end, it is important to note that over sixty percent of the Section 337 investigations filed between December 2003 and December 2005, involved parallel district court litigation.¹²¹

9. Customs' Determination of Whether Suspect Goods Infringe an Intellectual Property Right

The Overview of the Role of Customs in Intellectual Property Matters provides a narrative description of Customs procedures for discovery of possibly infringing imported goods and determination of infringement status after discovery. Below we outline the sequence of Customs procedures for the enforcement of intellectual property rights under Section 337 exclusion orders, as well as with respect to the recordation of trademarks and tradenames, and copyrights.

Section 337

ITC issues exclusion order notice to Customs

Customs gives notice of exclusion order to field officers through IPRS

Customs updates selectivity criteria to include exclusion order information

Customs inspectors identify goods possibly within exclusion order from selectivity criteria and entry information

Customs denies entry of suspected infringing goods and gives notice of denial of entry to the importer

Importer may contest detention by filing an administrative protest with Customs¹²²

If Customs denies the administrative protest, or if Customs does not act on the administrative protest within 30 days, the importer may contest Customs' decision in the Court of International Trade¹²³

Trademarks and Tradenames

Owner applies for Customs recordation of registered trademark or tradename

Customs approves recordation with notice to owner and addition to the IPRS

Customs inspectors identify goods possibly infringing on recorded trademarks or tradenames from IPRS notice¹²⁴

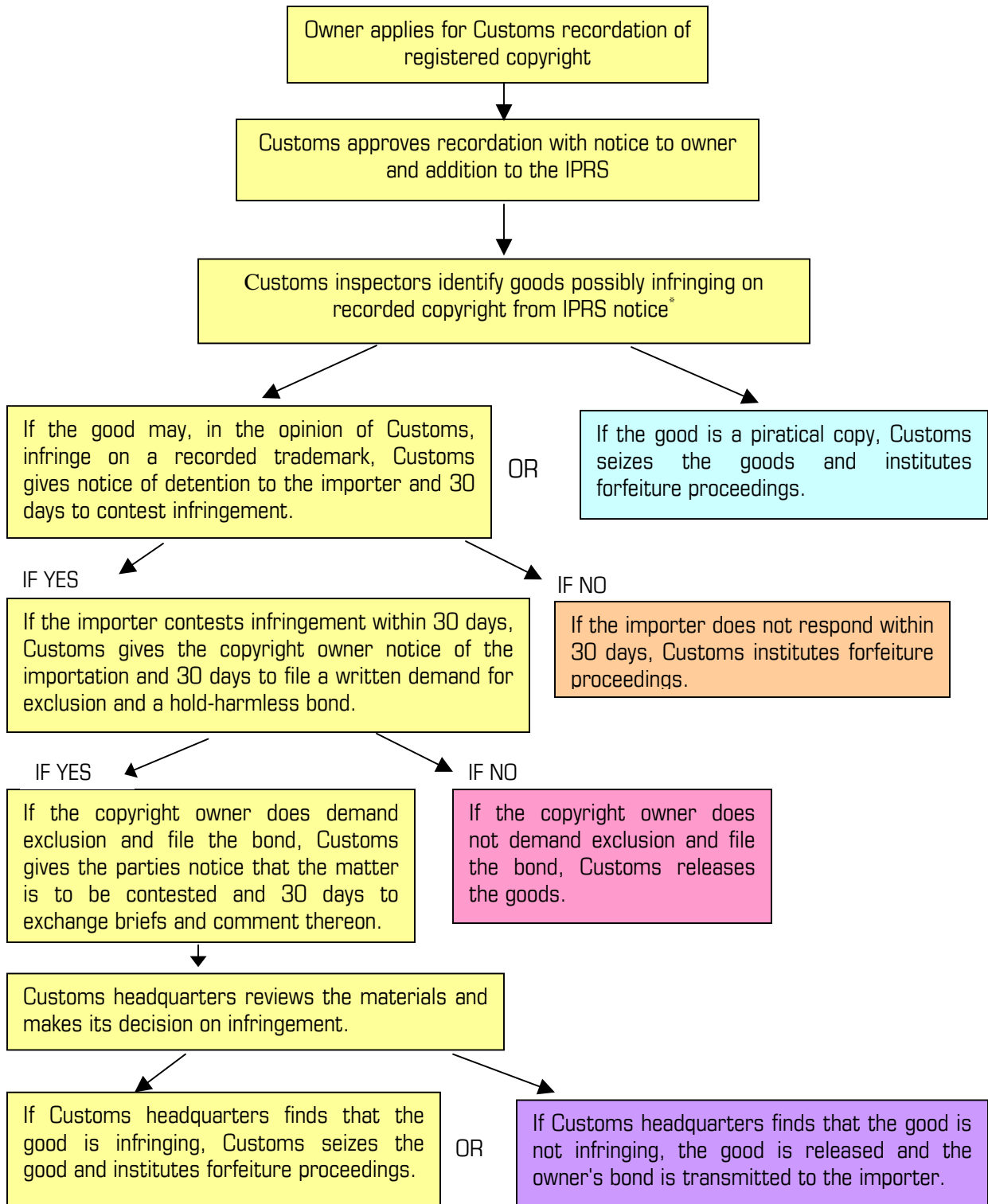
If the good bears a counterfeit trademark or tradename, Customs gives notice of detention to the importer and 30 days to obtain consent from the owner

If the good bears a mark confusingly similar to a recorded trademark or tradename, Customs gives notice of detention to the importer and 30 days to obtain consent from the owner or remove the offending mark

If the goods are gray market goods, Customs gives notice of detention to the importer and 30 days to contest the applicability of gray market protection or obtain consent from the owner

If, within the 30-day period above, the importer does not comply with the Customs notice, Customs begins forfeiture proceedings and may issue administrative penalties

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* As with trademarks and tradenames, Customs encourages owners to provide Customs with identification of possible infringements.

10. Customs' Enforcement Procedure After Finding Infringement

The introduction to this report provides a narrative description of Customs procedures after a finding of infringement. Below we outline these procedures for each of the intellectual property rights considered.

a. Section 337

- After determination of infringement by Customs in regard to a particular shipment and after Customs gives notice of the denial of entry to the importer, as stated above, the importer may either export the good or contest the denial of entry by administrative protest.
- If the importer chooses to export the good, it must do so within thirty days or the good will be disposed of under Customs supervision. A copy of the form letter used by Customs to give notice of this action is attached to Customs Directive 2310-006A (Dec. 16, 1999).
- If the importer chooses to contest the denial of entry, the good must be stored at the expense of the importer in a general order warehouse (i.e., a Customs bonded warehouse operated by or under Customs supervision).
- If the administrative protest is granted (i.e., if either the port or, if further review is requested, the Intellectual Property Rights Branch at Customs Headquarters, determines that the good is not infringing), the good is released to the importer.
- If the administrative protest is denied, the importer may export the good under Customs supervision or challenge the protest denial in the CIT.¹²⁵
- If the CIT upholds Customs' protest decision, the importer must export the good under Customs supervision (unless the CIT orders otherwise), or may appeal the CIT decision to the CAFC.
- If the CIT reverses Customs' protest decision, relief will be determined by the CIT's order. In the past, such relief has been an order by the CIT to release the non-infringing goods.¹²⁶
- If the Government chooses, it may appeal the CIT decision to the CAFC.

b. Trademarks and Tradenames; Copyrights

- As stated above, if the importer does not remove the objectionable mark (i.e., the mark resulting in Custom's detention of the good for

infringement), obtain consent of the trademark or tradename owner, or in the case of gray market goods, or establish that gray market protection is inapplicable, within the thirty-day period from notice of detention, Customs initiates forfeiture proceedings by giving the importer a notice of seizure.

- Similarly, in the case of a good that Customs has detained as infringing a registered and recorded copyright or trademark, if the importer does not establish non-infringement within the 30-day period from the notice of detention, Customs initiates forfeiture proceedings with a notice of seizure to the importer.
- The Fines, Penalties and Forfeiture Officer ("FP&F Officer") for the port of entry generally issues the notice of seizure, which must contain the facts of record, provisions of law alleged to have been violated, a description of the specific acts or omissions involved, description of the merchandise and circumstances of its entry, identity of each entry, total loss of revenue, loss of revenue attributed to each entry, and that the importer has thirty days to appeal the seizure.¹²⁷
- If the importer does not appeal the seizure by filing a petition for relief, within the thirty-day period, the FP&F officer administratively forfeits the good.¹²⁸
- If the importer files a petition for relief, which must contain a description of the property involved, the date and place of the seizure, the facts and circumstances justifying remission or mitigation, and proof of the petitioner's interest in the property,¹²⁹ Customs procedures are set forth in the table of administrative seizures in *Customs Administrative Enforcement Process: Fines, Penalties, Forfeitures and Liquidated Damages, An Informed Compliance Publication* at page 24 (February 2004).
- As stated above in the introduction, Customs guidelines provide that the forfeiture of goods bearing a counterfeit trademark or tradename of a registered trademark or tradename should not be remitted unless consent of the trademark owner is obtained prior to forfeiture, subject to certain costs and a hold-harmless agreement. Additionally, the importer is subject to a fine equal to the value of the goods for a first violation, if the trademark is recorded with Customs.
- Customs guidelines provide that the forfeiture of goods bearing a mark that copies or simulates a registered and recorded trademark should be remitted, subject to a mitigated fine of 10% to 30% of the value of the goods for a first violation and exportation to the country of origin or removal of the offending trademark or tradename.

- Customs guidelines provide that forfeiture of gray market goods should be remitted subject to payment of a fine of 10% of the value of the goods for a first violation, execution of a hold-harmless agreement, and export to the country of original exportation.
- Customs guidelines provide that forfeiture of clearly piratical copies of a U.S. registered copyright should not be remitted unless consent for importation is obtained from the copyright owner, subject to certain costs and a hold-harmless agreement.
- Customs guidelines provide that possibly piratical copies of a U.S. registered (but not recorded) copyright should not have been seized and should be released. If the U.S. copyright has been recorded with Customs and Customs determines the imported goods to be piratical under the adversarial procedures described in the introduction, forfeiture should not be remitted unless consent for importation is obtained from the copyright owner, subject to certain costs and a hold-harmless agreement.
- Customs disposes of goods forfeited due to infringement of a trademark or tradename, or copyright law, by: (1) destruction of goods violating the copyright law; (2) destruction of goods bearing a counterfeit trademark or tradename or, under certain conditions, delivery of such goods to a designated Federal, State, or local government agency, delivery to an appropriate charitable agency, or sale at auction; and (3) disposal of goods bearing a confusingly similar trademark or tradename in accordance with Customs' general procedures for disposal of forfeited goods, after removal or obliteration of the offending trademark or tradename.¹³⁰

11. Requirements for the ITC's Protection of Unregistered Intellectual Property Rights, Etc. (Unfair Use of Trade Secrets, Infringement of Unregistered Copyrights and Trademarks, Misrepresentation of the Place of Origin, False Labeling, Etc.)

a. ITC – Section 337

There is no requirement under Section 337 to demonstrate substantial injury or threat of substantial injury in investigations that involve patents, registered trademarks and copyrights, semiconductor maskworks and boat hull designs. Unlike such Section 337 investigations, those investigations involving unregistered trademarks and copyrights, antitrust claims, false advertising, passing off, misappropriation of trade secrets, and other cases of unfair competition in which the unfair act does not relate to federal statute-based intellectual property, proof of substantial injury or threat of substantial injury to an

existing domestic industry caused by unfairly competing imports must be proven to establish a violation of Section 337.¹³¹ With a notable exception, the injury is not to an industry in general, but to the company that owns and exploits the intellectual property rights, or that is the subject of the unfair competition. In antitrust-based cases, the complainant must demonstrate injury under the "per se" and "rule of reason" legal tests to the U.S. companies that supply the subject merchandise to the relevant product market.

In order to prove actual injury under Section 337, the ITC considers a number of factors. Generally speaking, the factors that are likely to lead to an actual injury determination by the Commission include the following:

1. Complainant's loss of sales and/or profits;
2. Complainant's loss of customers;
3. Price suppression and depression;
4. Declining employment, production, shipments and/or productivity resulting from accused imports, including plant closures;
5. Complainant's loss of potential sales;
6. Complainant's loss of royalties or potential income from licensees;
7. Respondent's significant production capacity; and
8. Significant degree of market penetration by accused imports.¹³²

In determining actual injury, any factors not reasonably attributable to the accused imports are identified and discounted, or accounted for, so that there is a rational nexus or connection between the claimed injury and the accused imports. Such factors include, but are not limited to, other domestic competition, inefficiency of complainant's management and sales policies, and shifts in market conditions and trends. There was a host of cases some time ago in which the Commission found injury, but determined that the injury was not caused by the accused product, and therefore, found no violation of Section 337. For example, in *Certain Vertical Milling Machines and Parts, Attachments and Accessories Thereto*, the Commission, after considering a number of variables, including underselling and decreased sales and employment, refused to find the requisite injury, citing changes in the industry and modifications in complainant's operations.¹³³

In determining threat of injury, the Commission considers foreign cost advantage and production capacity, the ability of the imported product to

undersell complainant's product, and substantial manufacturing capacity combined with the intention to penetrate the U.S. market. The legislative history of Section 337 indicates that "[w]here unfair methods and acts have resulted in conceivable loss of sales, a tendency to substantially injure such industry has been established."^{134, 135}

Injury can also be found under Section 337 when the accused imported products have the effect or tendency to prevent the establishment of a domestic industry either by frustrating the complainant's efforts to stabilize a new business or by frustrating the founding of such a business.¹³⁶ The standard for establishment of a new industry is whether the complainant has established a "readiness to commence production."¹³⁷

b. Customs - Trademarks and Copyrights

As noted above in the Overview of the Customs Role in Intellectual Property Matters, a condition precedent to Customs protection of trademarks and copyrights is registration of the trademark or copyright with the U.S. PTO or the Copyright Office. Customs gives no protection to unregistered trademarks or tradenames.

In addition, to be accorded full protection, Customs requires recordation of the registered trademark or copyright with Customs. Customs takes the position that its enforcement efforts must be focused on trademarks and copyrights that have been recorded with Customs (i.e., enforcement of the rights of a trademark or copyright owner who has not recorded the trademark or copyright with Customs is unlikely).¹³⁸

Tradenames are recorded, and accorded Customs protection, without prior registration. However, as noted below in the table of enforcement actions by Customs in the past five years, there are very few tradename recordations. Furthermore, also as noted above, Customs does not record trademarks for which registration is pending as tradenames.

In the event that Customs does discover and take action against unrecorded trademarks, as described above, a good bearing a counterfeit trademark is subject to forfeiture even if the trademark is not recorded with Customs, and a good bearing a trademark confusingly similar to a registered, but unrecorded, trademark should not be seized. Analogously, in regard to copyright enforcement, a good that piratically copies a registered copyright is subject to forfeiture, even if the copyright is not recorded with Customs, and a good that is possibly piratical of a registered, but unrecorded (with Customs) copyright should not be seized.

12. Double-Track System of the ITC and Customs Recordation

Filing a complaint under Section 337 with the ITC for trademark or copyright infringement is not mutually exclusive with Customs recordation of the trademark or copyright (i.e., the trademark or copyright owner may seek protection under both procedures concurrently). For example, Bose Corporation recorded its design trademark with Customs effective February 23, 2000.¹³⁹ Bose Corporation subsequently filed a Section 337 complaint alleging importation and sale after importation of certain radios and components infringing the same trademark.¹⁴⁰

In comparing the procedures, we note that recordation with Customs is much less expensive and may become effective more expeditiously. On the other hand, remedies under a Section 337 complaint are much more effective and the procedures for a Section 337 complaint are clearer and more like judicial procedures.

We agree with your supposition that the reason that Customs limits its role to enforcement of patent infringement (compared to its more active role in regard to trademarks and copyrights, as discussed in the Overview of the Role of Customs in Intellectual Property Matters) is that Customs lacks the specialized ability to determine patent infringement. As noted above, Customs also takes the position that it does not have legal authority for such determinations.¹⁴¹

13. Effects of Border Enforcement and Court Proceedings

In regard to the implementation of enforcement procedures by Customs (e.g., investigation, determination of infringement, continuation or cancellation of detention) while infringement litigation is pending, Customs proceeds with an investigation and makes a determination and continuation or cancellation of detention on the merits, provided that Customs was not a party to the litigation.¹⁴²

In regard to the question of whether a court judgment binds an ITC decision or the reverse, as stated in the introduction, ITC decisions are subject to review of the CAFC.¹⁴³ Thus, a review decision by the CAFC always binds the ITC. We are unaware of any GATT national treatment argument having been made or considered in this regard.

14. Export Restriction

We are not aware of any U.S. law that prohibits the exportation from the U.S. of goods that infringe the intellectual property rights of the destination country.¹⁴⁴ Customs does provide for recommended seizure, forfeiture, and penalty actions in regard to exportations involving trademark and copyright

violations.¹⁴⁵ The legal authorities cited by Customs for these actions are 18 U.S.C. § 2320 (trafficking in counterfeit goods),¹⁴⁶ 15 U.S.C. § 1125 (false or misleading mark or symbol),¹⁴⁷ 17 U.S.C. § 506 (infringement of copyright), and 17 U.S.C. § 509 (seizure and forfeiture of copyright infringing phonorecords and other articles).¹⁴⁸ However, Customs mitigation guidelines make it clear that these actions are applicable to U.S. registered and/or recorded (with Customs) trademarks, tradenames and copyrights (i.e., they do not enforce intellectual property rights of the destination country).

15. Recent Developments Regarding Border Enforcement (Movements to Amend the Border Enforcement System, Etc.)

See the discussion in Cooperation between ITC and Customs below, of the GAO report¹⁴⁹ on intellectual property enforcement and the National White Collar Crime Center report on issues, trends, and problems relating to intellectual property and white-collar crime.¹⁵⁰

The "STOP!" (Strategy Targeting Organized Piracy) program, joint effort by the Department of Commerce, Justice and Homeland Security, to fight trafficking in pirated and counterfeit goods, was announced in October 2004. The goals of, and feedback to, the STOP! program are described in the GAO report.¹⁵¹

Another recent development is the launching by Customs of a new audit, or post-entry verification program, to measure the sufficiency of intellectual property rights compliance controls of U.S. importing companies. According to a Customs official, this program is designed to identify business practices that increase vulnerability to intellectual property rights violations and to determine the scope of the audited company's intellectual property rights violations. Customs selects companies to audit based on a new statistical model for assessing intellectual property rights risks. As of June 2005, Customs had audited approximately twenty-four companies. Customs reported preliminary findings of violations among importers of electronics, toys, textiles, and recreational motorized cycles.¹⁵²

Another recent development of which you should be aware is that the patent survey service formerly performed by Customs, pursuant to former 19 C.F.R. § 12.39a, is no longer available. Under that procedure, when the owner of a U.S. registered patent believed that infringing imports were occurring, the owner could request Customs to survey imports for infringing merchandise. Customs would survey imports for a period of two, four, or six months, at the option of the patent owner, for a fee of \$1,000, \$1,500, or \$2,000, respectively, payable by the patent owner. The purpose of the patent survey procedure was to provide the patent owner with the names and addresses of importers of merchandise which appeared to infringe the patent.

On August 20, 2004, Customs issued a final rule in the Federal Register which eliminated the patent survey procedure.¹⁵³ Customs gave the following reasons for terminating the program: (1) the increase in the volume of entries and the change to the entry system to one of electronic reporting without paper invoices has severely impacted Customs' ability to adequately administer the program; (2) because the patented merchandise may not be identifiable in a tariff item covering only that item, searches under the program have been of questionable value; (3) the program is infrequently used (approximately ten requests a year), calling into question the value of the program; and (4) the program is not rooted in explicit statutory authority.

Finally, we referred in the introduction to the electronic recordation of trademarks and copyrights recently implemented by Customs. According to Customs sources, this procedure will put more of the burden of recordation on the trademark or copyright owner, and the Customs officials formerly responsible for recordation procedures will review recordation applications and have more time for enforcement.

16. Number of Cases That Became Subject to Border Enforcement Recently

a. ITC Data

From January 1, 2001, to December 31, 2005, there were 117 Section 337 complaints filed at the ITC. The ITC accepted the complaint, and instituted an investigation, in over ninety-five percent of these cases (112 of 117 cases).¹⁵⁴

Excluding cases in process, nearly one-third (24) of the seventy-six cases instituted from January 1, 2001, to January 1, 2006, resulted in the ITC issuing an order excluding products from the United States. In thirty-five of the seventy-six cases, the parties reached a settlement.¹⁵⁵

The only noteworthy recent case in terms of border enforcement is *Certain Lens-Fitted Film Packages*.¹⁵⁶ In that investigation, there has been highly active enforcement by Customs and the ITC has conducted enforcement proceedings. These have resulted in companies being fined for violating the exclusion order.

b. Customs Data

As stated above in the introduction, Customs' recordation of trademark and copyright registrations is almost always pro forma. Because a condition precedent to recordation with Customs is registration with the U.S. PTO or the U.S. Copyright Office, there is no issue of opposition to trademark and copyright recordations. Similarly, because Customs' notice or recordation role in regard to

Section 337 orders is limited to publication of the ITC's orders, there is no issue of opposition to Customs' notice of such orders.

In regard to tradenames, as stated above, Customs review of tradenames for recordation is more substantive than with the other recordations (i.e., because there is no requirement for registration with another agency and because Customs takes the position that words or designs used as trademarks shall not be recorded as tradenames). We are aware of no case in which opposition to recordation was filed with Customs. However, we have learned from Customs sources of one case in which tradename recordation was applied for and rejected because the applicant had filed an application to register the word involved as a trademark.

Below is a table of the yearly Customs recordations of trademarks, copyrights, tradenames, and Section 337 exclusion orders, as published in Customs IPRS, over the past five years, followed with total recordations in each category during that period.

	Trademarks	Copyrights	Tradenames	§ 337 E.O.s
2001	608	173	3	1
2002	1062	266	0	4
2003	971	152	2	3
2004	1131	146	3	2
2005*	989	166	2	1
Total	4761	903	10	11

* As of December 19, 2005.

As you are probably aware, Customs reports statistics regarding intellectual property right seizures by Customs.¹⁵⁷ Customs' statistics analyze seizures by commodities and major trading partners. The statistics include data for each of the years 2000 through 2004, and for the first half of 2005. Total intellectual property right seizures by Customs and dollar value per year from 2000 through 2004 were: 2000 – 3,244 seizures / \$45,327,526; 2001 – 3,586 seizures / \$57,438,680; 2002 – 5,793 seizures / \$98,990,341; 2003 – 6,500 seizures / \$84,019,227; and 2004 – 7,255 seizures / \$138,767,885. Total seizures and dollar values for the first half of 2005 declined substantially from the 2004 figures to 3,488 seizures valued at \$44,244,114.

17. Trend of Border Enforcement in Cases Subject to ITC Orders

We have reviewed all available Customs rulings concerning ITC Section 337 orders. By far, the most common border enforcement issue considered in these

rulings has been whether or not articles sought to be imported fall within the scope of an exclusion order. Most of these rulings (i.e., considering whether articles are within an exclusion order) involve the exclusion order in Inv. No. 337-TA-406 (*Certain Lens-Fitted Film Packages*).¹⁵⁸

Customs has issued rulings concerning whether an article is within a Section 337 exclusion order in regard to six other exclusion orders.¹⁵⁹ A noticeable trend in these Customs rulings is an apparent lessening in the deference paid to the ITC by Customs. That is, in the earlier rulings Customs refers to consultation with the ITC or simply states that the articles to be imported appear to be within the exclusion order. The more recent rulings on Lens-Fitted Film Packages usually involve having Customs' laboratory examine the articles to be imported and a comparison of the features of the imported article with the features in the patent(s) considered in the exclusion order.

Another issue that can require consideration by Customs in its role of border enforcement after issuance of a Section 337 exclusion order involves "redesigns" of the article subject to the exclusion order. That is, a respondent may attempt to modify or redesign the article so that it no longer infringes the patent that is the subject of the exclusion order.

We previously noted the recent CIT decision in *Eaton Corp. v. U.S.*, CIT Slip Opinion 05-121 (Sept. 9, 2005)¹⁶⁰ regarding certifications provided for by the ITC in an exclusion order. In that case, the respondent attempted a redesign of the excluded AMTs and sought to have Customs accept a certification to establish that the redesign was not within the exclusion order. As noted above, the CIT held that the certification could not be used for this purpose, after clarification from the ITC of its intent in regard to the certification. The CIT also recognized the paramount authority of the ITC in regard to Section 337 and stated that it could not conclude that the redesign was no longer in violation of the patent subject to the exclusion order until issuance of an advisory opinion by the ITC.

Earlier, in a series of rulings concerning Inv. No. 337-TA-395 (*Certain EPROM, EEPROM, Flash Memory, and Flash Microcontroller Semiconductor Devices and Products Containing Same*), Customs appears to have followed the procedure suggested by the CIT in the *Eaton Corp.* decision. That is, Customs did not rely on certifications by the manufacturer that the imported articles were redesigned and believed to be outside the scope of the order. Instead, Customs examined the imported articles in its laboratory and, after consideration of the patent involved, held that the imported articles were within the exclusion order.¹⁶¹

Finally, one other issue that Customs has found to be very difficult to deal with arising after issuance of the Section 337 exclusion order is the question of exhaustion of patent rights by first sale in the United States. In Inv. No. 337-TA-406 (*Certain Lens-Fitted Film Packages*), the ITC found certain imported

disposable cameras to have infringed the complainant's patent rights and issued a general exclusion order prohibiting importation of those cameras. The CAFC affirmed the ITC exclusion order for all of the disposable cameras except those which meet the so-called "permissible repair" exception.¹⁶² The "permissible repair" exception permitted refurbishment of used disposable cameras that were first sold in the U.S. with the authorization of the patent holder and for which the overseas processor satisfactorily established that the refurbishment consists only of eight specified simple operations.

This decision was followed with a number of Customs rulings and Court cases involving whether a particular disposable camera fell within the "permissible repair exception."¹⁶³ The controversy continues and, according to Customs sources, has resulted in the use of considerable Customs resources to attempt to resolve the issue.

18. Cooperation Between the ITC and Customs

Below we describe commentary, problems, and possible solutions regarding cooperation between ITC and Customs.

In the recent GAO report¹⁶⁴ on intellectual property enforcement, if an importer voluntarily follows the ITC order, the GAO reports that a Department of Homeland Security official stated that protecting U.S. registered trademarks and copyrights can be difficult because companies often fail to record their trademarks and copyrights with Customs. The official suggested a solution to this problem could be to amend the law to provide that when trademarks and copyrights are registered with the U.S. PTO or the Copyright Office, they are simultaneously recorded with Customs.

The GAO report also refers to the October 2004 "STOP!" program. According to the GAO report, one of the key goals of this initiative is to improve interagency coordination, with a goal of monthly staff-level meetings and senior official meetings about every six weeks. Additionally, the GAO report notes that industry representatives urge the agencies to do more to integrate their intellectual property rights enforcement systems. Finally, the GAO report notes that policy agency officials also note the importance of informal but regular communication among the agencies involved in intellectual property rights.¹⁶⁵ Thus, the GAO report found evidence of a lack of cooperation among the enforcing agencies and reports on an attempted solution (i.e., the periodic meetings referred to above).

In December 2004, the National White Collar Crime Center ("NW3C") completed a report titled "Intellectual Property and White-Collar Crime: Report of Issues, Trends, and Problems for Future Research."¹⁶⁶ This report also noted inadequate coordination as an obstacle to intellectual property rights enforcement.

Other enforcement obstacles noted were inadequate support and education, particularly at the state and local level. Possible solutions suggested in this report included a central database repository of intellectual property rights crimes and related criminal activity, with regularly updated information. As in the case of the GAO report, this report noted the value of informal meetings and networks of law enforcement personnel engaged in intellectual property rights enforcement.

ENDNOTES:

- ¹ Such investigations are referred to as Section 337 investigations because they are provided for by Section 337 of the Tariff Act of 1930 (now codified, as amended, at 19 U.S.C. § 1337). .
- ² The U.S. Tariff Commission's name was changed in 1974 to the ITC.
- ³ In addition to conducting Section 337 investigations, the ITC engages in the following other activities: (a) determines whether U.S. industries are materially injured, or threatened with material injury, by reason of imports that benefit from pricing at less than fair value or from subsidization; (b) makes recommendations to the President regarding relief for US industries seriously injured by increasing imports; (c) advises the President whether agricultural imports interfere with price-support programs of the U.S. Department of Agriculture; (d) conducts studies on trade and tariff issues and monitoring import levels; and (e) participates in the development of uniform statistical data on imports, exports, and domestic production and in the establishment of an international harmonized commodity code.
- ⁴ *See* ITC Timetable For Representative Section 337 Investigations.
- ⁵ *Customs Enforcement of Intellectual Property Rights*, an Informed Compliance Publication (Revised August 2001); not currently on Customs' website), 1. Customs' Informed Compliance Publications (ICPs) are published statements of "The Customs Service's position on or interpretation of the applicable laws or regulations . . ." *id.*, at ii. In this ICP, Customs distinguishes between its role in regard to trademark and copyright matters ("[Customs] has the legal authority to make infringement determinations regarding trademarks and copyrights" (*id.*, at 1); "U.S. Customs is empowered to make substantive decisions pertaining to trademark and copyright infringement" (*id.*, at 3)) and its role in regard to patent infringement ("[Customs] enforcement actions relating to patents are limited[;] Customs is without legal authority to determine patent infringement[;] [h]owever, Customs enforces exclusion orders issued by the [USITC] pursuant to [Section 337] [and] [t]hus, Customs has authority to exclude from entry goods infringing a patent pursuant to [a USITC] exclusion order" (*id.*, at 4)).
- ⁶ *Customs Enforcement of Intellectual Property Rights*, an Informed Compliance Publication, 4.
- ⁷ Customs Directive 2310-006A (December 16, 1999). The Office of Field Operations is an operational office within Customs Headquarters. The Customs Bulletin Board has been replaced by the "Intellectual Property Rights Search (IPRS)" a "searchable database containing public versions of [Customs'] intellectual property rights recordations" ("<http://iprs.cbp.gov>). Customs uses "selectivity" criteria to focus its enforcement efforts, e.g., if an Exclusion Order applies to a computer chip used in certain motherboards, Customs could include notice in its internal enforcement system that import specialists should examine the motherboards and an import specialist would "hold" a shipment of such motherboards for examination.
- ⁸ 19 U.S.C. § 1337(j)(3).
- ⁹ Committee on Finance, U.S. Senate, Report on H.R. 10710, Trade Reform Act of 1974, S. Rep. No. 1298, 93rd Cong, 2nd Sess., 198 (reprinted in 1974 U.S. Code Cong. & Ad. News 7186).
- ¹⁰ *See, e.g.*, ITC Investigation Nos. 337-TA-482, 337-TA-473, 337-TA-460, 337-TA-450, 337-TA-449, 337-TA-448, 337-TA-446, 337-TA-440, 337-TA-435, 337-TA-422, 337-TA-416, 337-TA-413, 337-TA-406, 337-TA-395, 337-TA-391, 337-TA-383.

11 *See* 19 C.F.R. Part 210.50(d), providing for forfeiture or return of "respondents' bonds" posted pursuant to 19 U.S.C. §1337(e)(1) or 1337(j)(3). Compare to 19 C.F.R. Part 12.39(b)(2)(i), ". . . To enter merchandise that is the subject of a Commission exclusion order, importers must: (i) File with the port director prior to entry a bond"

12 19 C.F.R. Part 113, Appendix B; *see also*, 19 C.F.R. Part 113.74 requiring that bonds to indemnify a complainant under Section 337 must contain the conditions of this bond, must be single entry bonds (i.e., such a bond must be filed with each entry and a "continuous entry" bond may not be used), and must be filed in accordance with the provisions of 19 C.F.R. Part 12.39(b)(2).

13 Recent Exclusion Orders providing for certifications are Investigation Nos. 337-TA-460 (*Sortation Systems*), 337-TA-450 (*Integrated Circuits*), 337-TA-449 (*Abrasive Products*), 337-TA-448 (*Oscillating Sprinklers*), 337-TA-435 (*Integrated Repeaters*), and 337-TA-395 (*EPROMs*).

14 *See* Inv. No. 337-TA-460 (*Sortation Systems*), Exclusion Order, paragraph 3.

15 *Eaton Corp.* is presently under appeal to the Court of Appeals for the Federal Circuit (CAFC), CAFC Court Nos. 05-1565, 06-1018).

16 Inv. No. 337-TA-503.

17 *Eaton Corp. v. U.S.*, CIT Slip Op. 05-121 at 26-27 (Sep. 9, 2005).

18 19 C.F.R. Part 177.1(a), (d)(1).

19 *See* Customs Headquarters Ruling HQ 470783.

20 *See* Customs Headquarters Ruling HQ 470784.

21 *See* Customs Headquarters Ruling HQ 470785.

22 *See* Customs Headquarters Ruling HQ 475295.

23 *See* Customs Headquarters Ruling HQ 474939.

24 19 U.S.C. § 1514(a)(4), providing for the finality of certain decisions by Customs, including the exclusion of merchandise from entry "except a determination appealable under section 1337 of [title 19]" and 19 U.S.C. § 1514(c)(1), providing for protest "of a decision made under subsection (a)."

25 *See* 19 U.S.C. § 1514.

26 *See, e.g.*, HQ 468837 (April 7, 2000) and HQ 469266 (August 8, 2000), the first of which allowed the protest against the exclusion of a single use camera under Investigation No. 337-TA-406, and the second of which allowed in part and denied in part the exclusion of a single use camera under Investigation No. 337-TA-406.

27 *See* 19 U.S.C. § 1592.

28 *Customs Administration Enforcement Process: Fines, Penalties, Forfeitures and Liquidated Damages*, An Informed Compliance Publication (February 2004), 27.

29 *Reasonable Care (A Checklist for Compliance)*, an Informed Compliance Publication (February 2004), at 11-12.

30 *See* 19 U.S.C. § 1595.

31 *See* Customs Headquarters Ruling HQ 655205.

32 19 U.S.C. § 1526; 15 U.S.C. § 1124.

33 19 C.F.R. Parts 133.3 & 133.2.
34 http://www.cbp.gov/xp/cgov/import/commercial_enforcement/ipr/iprr_intro.xml.
35 19 C.F.R. Parts 133.11 – 133.15.
36 *See also* table and discussion of border enforcement in past five years,
37 19 C.F.R. Parts 133.21-133.27.
38 19 C.F.R. Part 133.21.
39 *Customs Enforcement of Intellectual Property Rights*, an Informed Compliance Publication, 8.
40 19 C.F.R. Part 133.52(c).
41 19 C.F.R. Part 133.22.
42 19 C.F.R. Part 133.23.
43 19 C.F.R. Part 133.23(a)(3), 19 C.F.R. 133.2(e); *see Lever Bros. Co. v. U.S.*, 796 F. Supp. 1
(D. D.C. 1992), *aff'd* 981 F.2d 1330 (D.C. Cir. 1993).
44 19 C.F.R. Parts 162, 171.
45 19 C.F.R. Part 171.11(b).
46 *Mitigation Guidelines: Fines, Penalties, Forfeitures and Liquidated Damages*, an Informed Compliance
Publication (2004), 68-81. This publication includes matrices of recommended actions, citations,
and dispositions of importations involving trademark violations at pp. 74-76.
47 17 U.S.C. §§ 601 – 603 17 U.S.C. § 506(c).
48 19 C.F.R. Parts 133.31 – 133.37.
49 http://www.cbp.gov/xp/cgov/import/commercial_enforcement/ipr/iprr_intro.xml.
50 *See also* table and discussion of border enforcement in past five years.
51 19 C.F.R. Parts 133.42 – 133.46. In regard to false notice of copyright, Customs previously
enforced that provision (19 C.F.R. Part 133.41 (1986)). However, in 1987 Customs took the
position that it was not primarily responsible for enforcement of 17 U.S.C. 501(c), which imposes
criminal penalties for the fraudulent importation of an article bearing a false notice of copyright.
Accordingly, Customs removed 19 C.F.R. Part 133.41 from the Customs Regulations. Treasury
Decision 87-40, 52 Federal Register 9471 (March 25, 1987). *See also* 18 U.S.C. § 2318,
providing for criminal fines and imprisonment for willful copyright infringement where trafficking in
counterfeit labels for phonorecords or copies of motion pictures are involved, and 19 C.F.R. Part
133.42(f), providing for referral of such matters by Customs to the Department of Justice.
52 19 C.F.R. Parts 162, 171.
53 19 C.F.R. Part 133.43.
54 19 C.F.R. Part 133.44.
55 *Mitigation Guidelines: Fines, Penalties, Forfeitures and Liquidated Damages*, an Informed Compliance
Publication (2004), 68-81. This publication includes matrices of recommended actions, citations,
and dispositions of importations involving copyright violations at pp. 77-78.
56 *United States International Trade Commission: Year in Review – Fiscal Year 2004* at 31.

57 These offices are (1) Offices of the Commissioners, (2) Office of the General Counsel, (3) Office of the Administrative Law Judges; (4) Office of External Relations; (5) Office of the Director of Operations; (6) Office of Investigations; (7) Office of Industries; (8) Office of Economics; (9) Office of Tariff Affairs and Trade Agreements; (10) Office of Unfair Import Investigations; (11) Office of the Chief Information Officer; (12) Office of Information Services; (13) Office of Publishing; (14) Office of the Secretary; (15) Office of the Director of Administration; (16) Office of Finance; (17) Office of Facilities Management; (18) Office of Human Resources; (19) Office of Equal Employment Opportunity; and (20) Office of Inspector General. *United States International Trade Commission: Year in Review – Fiscal Year 2004* at 31. See attached ITC organizational chart.

58 The current Commissioners of the ITC are: Stephen Koplan (Chairman), Deanna Tanner Okun (Vice Chairman), Jennifer A. Hillman, Charlotte R. Lane, Daniel R. Pearson, and Shara L. Aranoff.

59 The four ALJs are: (1) Charles Edward Bullock, (2) Sidney Harris, (3) Paul J. Luckern, and (4) Robert L. Barton.

60 19 C.F.R. Part 201 & 19 C.F.R. Part 210.

61 See ground rules issued in a Section 337 investigation.

62 See Order setting forth a procedural schedule in a Section 337 investigation.

63 The position of ALJ, originally called hearing examiner, was created by the Administrative Procedure Act ("APA") of 1946, Public Law, 79-404. The APA insured fairness and due process in Federal agency rule making and adjudication proceedings. It provided those parties, whose affairs are controlled or regulated by agencies of the Federal Government, an opportunity for a formal hearing on the record before an impartial hearing officer.

64 See, e.g., Job Announcement Number DE-05-90 (Dec. 2, 2005).

65 This is an estimate based on our anecdotal knowledge of Customs and our dealings with this office. We are seeking more definitive information from several Customs sources and will supplement the report with this information if we are able to obtain it.

66 Intellectual Property: U.S. Efforts have Contributed to Strengthened Laws Overseas, but Significant Enforcement Challenges Remain; Testimony Before the Committee on Homeland Security and Government Affairs, Subcommittee on Oversight of Government Management, the Federal Workforce, and the District of Columbia, U.S. Senate (GAO-05-788T (June 14, 2005)).

67 Between January 2004 and May 2005, the FBI received only ten referrals to its field offices from the IPR Center. *Ibid.* at 15.

68 See *United States International Trade Commission Year in Review – Fiscal Year 2004* at 32.

69 *Id.*

70 See *United States International Trade Commission Year in Review – Fiscal Year 2000* at 32.

71 See *United States International Trade Commission Year in Review – Fiscal Year 2001* at 32.

72 See *United States International Trade Commission Year in Review – Fiscal Year 2002* at 32.

73 See *United States International Trade Commission Year in Review – Fiscal Year 2003* at 32.

74 See *United States International Trade Commission Year in Review – Fiscal Year 2004* at 32.

75 See ITC's budget for FY 2006.

76 Department of Homeland Security Appropriations Act, 2006, Public law 109-90; *see also* Customs press release of October 18, 2005. (http://www.cbp.gov/xp/cgov/newsroom/press_releases/0102005/10182005.xml).

77 Customs press release of July 16, 2003. (http://www.cbp.gov/xp/cgov/newsroom/commissioner/speeches_statements/archives/2003/jul162003.xml).

78 The budget figure for the Los Angeles Office of Strategic Trade is an estimate based on our anecdotal knowledge of Customs and our dealings with this office. We are seeking more definitive information from several Customs sources and will supplement the report with this information if we are able to obtain it.

79 ICE is basically the investigative arm of the Department of Homeland Security ("DHS"), and is the result of the merger into ICE of the functions, resources and jurisdictions of the border and security agencies merged into DHS. The former Office of Investigation, in the former U.S. Customs Service, is one of the investigative offices merged into ICE.

80 Customs Directive 2310-010A (Dec. 11, 2000) (Detention and Seizure Authority for Copyright and Trade Violations); Customs Directive 2310-008A (Apr. 7, 2000) (Trademark and Tradename Protection); Customs Directive 2310-011A (Jan. 24, 2000) (Personal Use Exemption: Unauthorized Trademarks); Customs Directive 2310-006A (Dec. 16, 1999) (Exclusion Orders).

81 *Customs Enforcement of Intellectual Property Rights*, an Informed Compliance Publication (Revised August 2001).

82 19 C.F.R. Parts 133.3(b), 133.7(a)(3). .

83 19 C.F.R. Parts 133.33(b), 133.35(b)(2), 133.36(b), 133.37(c)(3).

84 *See* USITC Pub. 991 (July 1979).

85 *See* Examples of orders excluding products from the United States.

86 *See* 19 C.F.R. § 201.6 and 19 C.F.R. § 210.5.

87 *See* a protective order issued in a Section 337 investigation.

88 *See* a letter in a Section 337 investigation.

89 *See Certain Hardware Logic Emulation Systems*, Inv. No. 337-TA-383 (Temporary Relief), Initial Determination at 5 (July 8, 1996) (citing *Sofamor Danek Group, Inc. v. Depuy Motech, Inc.*, 74 F.3d 1216 (Fed. Cir. 1996)).

90 *See Amazon.com, Inc. v. Barnesandnoble.com, Inc.*, 239 F.3d 1343, 1350 (Fed. Cir. 2001) (quoting *Hybritech, Inc. v. Abbott Labs.*, 849 F.2d 1446, 1451 (Fed. Cir. 1988)).

91 *See Amazon.com*, 239 F.3d at 1350 (stating that "[o]ur case law and logic both require that a movant cannot be granted a preliminary injunction unless it establishes both of the first two factors, i.e., likelihood of success on the merits and irreparable harm.").

92 *See, e.g., Genentech, Inc. v. Int'l Trade Comm'n*, 122 F.3d 1409 (Fed. Cir. 1997).

93 *See* 35 U.S.C. § 1651(a).

94 *In re Continental Tire, Inc.*, 81 F.3d 1089, 1091 (Fed. Cir. 1996) (quoting *Allied Chemical Corp. v. Daiflon, Inc.*, 449 U.S. 33, 34 (1980)) *see also Canadian Tarpoly Co. v. U.S. International Trade Commission*, 640 F.2d 1322, 1325 (Fed. Cir. 1981) ("Mandamus is an extraordinary remedy, available only in extraordinary circumstances and when no meaningful alternatives are available.").

95 *In re Continental*, 81 F.3d at 1090 (quoting *Allied Chemical*, 449 U.S. at 35).

96 *Allied Chemical*, 449 U.S. at 36 (citing *Will v. Calvert Fire Ins. Co.*, 437 U.S. 655, 666 (1978) (plurality opinion)).

97 *Certain EPROM, EEPROM, Flash Memory, and Flash Microcontroller Devices and Products Containing Same*, Inv. No. 337-TA-395 (Reconsideration Proceeding), Order No. 45 (March 19, 1999); *Certain Hardware Logic Emulation Systems and Components Thereof*, Inv. No. 337-TA-383, Order No. 61 (Dec. 17, 1996).

98 *See* 19 U.S.C. § 1337(d).

99 *Certain Airless Spray Pumps and Components Thereof*, Inv. No. 337-TA-90, Commission Opinion at 18 (1981) (emphasis added).

100 *Id.* at 19-19 (emphasis added).

101 *Id.* at 4 (citing *Certain Electric Slow Cookers*, Inv. No. 337-TA-42, USITC Pub. No. (1979)).

102 *Id.* at 18-19.

103 *Certain Condensers and Parts Thereof*, Inv. No. 337-TA-334, Commission Opinion (Remand) at 34 (1997).

104 *Id.*

105 Inv. No. 337-TA-184, Commission Opinion at 107 (1985).

106 *Id.* at 1-2.

107 *Id.* at 3

108 *Id.*

109 *Id.*

110 Inv. No. 337-TA-229, Views of the Commission at 1 (1986).

111 *Id.* at 8.

112 *Id.*

113 *Id.*

114 *Id.* at 18.

115 *Id.* at 19.

116 *Id.* at 19.

117 Inv. No. 337-TA-406, Commission Opinion at 2 (1999).

118 *Id.*

119 *Id.* at 10-11.

120 *Id.*

121 *See* "Recent Section 337 Investigations at the U.S. International Trade Commission That Have Parallel District Court Litigation."

122 *But see* 19 U.S.C. § 1514(a)(4), which excepts from protestable issues determinations appealable
under Section 337; as noted above, Customs has issued protest decisions against detentions under
Section 337 without commenting on this provision.

123 19 U.S.C. § 1499(c).

124 Customs encourages owners to provide Customs with identification of possible infringements; without
such information being provided to Customs, either at the port of suspected entry or Customs
headquarters, we understand Customs' discovery of infringing trademarks or tradenames is unlikely.

125 If the administrative protest is not acted upon by Customs within thirty days, the protest is deemed
denied and the importer may have access to the CIT on the basis of the deemed denial.

126 In *Jazz Photo Corporation v. United States*, Slip Op. 04-146 (Ct. Intl. Trade Nov. 17, 2004) the CIT
found non-infringement in regard to some of the goods for which the importer had filed an
administrative protest against denial of entry and ordered release of those goods. As noted above,
this decision was appealed to the CAFC (Court No. 05-1096 (Fed. Cir. Nov. 19, 2004)).

127 19 C.F.R. Parts 162.92(a), 162.31.

128 *Customs Administrative Enforcement Process: Fines, Penalties, Forfeitures and Liquidated Damages*,
An Informed Compliance Publication, flow chart at 24. (Feb. 2004),

129 *Customs Administrative Enforcement Process: Fines, Penalties, Forfeitures and Liquidated Damages*,
an Informed Compliance Publication at 18 (Feb. 2004).

130 19 C.F.R. Part 133.52.

131 *Compare* 19 U.S.C. § 1337(a)(1)(A) *with* 19 U.S.C. § 1337(a)(1)(B). The 1988 Amendments
eliminated the requirement to show proof of injury in patent cases.

132 *See, e.g., Certain Heavy-Duty Staple Gun Takers*, Inv. No. 337-TA-137, Initial Determination at 73
(Nov. 28, 1983); *Certain Drill Point Screws for Drywall Construction*, Inv. No. 337-TA-116, Initial
Determination at 18 (May 6, 1983); *Certain Spring Assemblies and Components Thereof, and
Methods for Their Manufacture*, Inv. No. 337-TA-88, Recommended Determination at 42-49 (Apr.
27, 1980).

133 Inv. No. 337-TA-133, Comm'n. Op. at 45-46 (Feb. 6, 1984).

134 *See Certain Electric Power Tools, Battery Cartridges and Battery Chargers*, Inv. No. 337-TA-284,
Initial Determination at 248-49 (June 2, 1982).

135 An example of a case in which the Commission found a violation of Section 337 based on threat of
injury was *Certain Multicellular Plastic Films*, Inv. No. 337-TA-54. Comm'n. Op. at 21-22 (June 12,
1979). In that case, the Commission agreed with the ALJ's conclusion that the importation of
respondent's products had the tendency to injure substantially the domestic industry, based on such
factors as: (1) complainant's patented product profits were flat in 1978, though the firm as a whole
was quite profitable; (2) some of the respondent's sales were diverted from complainant's dealers,
with more diversions expected; and (3) respondents possessed substantial foreign capacity for
production of this product, showing a capability to inflict future substantial injury.

136 *See, e.g., Electric Power Tools*, Inv. No. 337-TA-284, Initial Determination at 249-50 (June 2, 1982).

137 *Id.* at 244.

138 *Customs Enforcement of Intellectual Property Rights*, an Informed Compliance Publication at 8
(Revised August 2001).

139 Customs Recordation No. TMK 00-00083; U.S. PTO Registration No. 2,299,158.
140 Inv. No. 337-TA-476, 67 Fed. Reg. 53007 (Aug. 14, 2002).
141 *Customs Enforcement of Intellectual Property Rights*, an Informed Compliance Publication at 4.
142 *Import Restrictions and the United States Customs Service*, John F. Atwood, 36 Federal Bar Journal
145 145.
143 *See, e.g., Jazz Photo Corp. v. International Trade Commission*, 264 F.3d 1094 (Fed. Cir. 2001), in
which the Court affirmed the ITC decision in part (except in regard to permissible repair of the
reusable cameras under consideration).
144 *See* commentary on *Protecting Intellectual Property Rights Abroad: Resources for U.S. Exporters*,
published by the Trade Information Center of the Department of Commerce, regarding this issue
generally. ([http://www.ita.doc.gov/exportamerica/AskTheTIC/
qa_IPR.html](http://www.ita.doc.gov/exportamerica/AskTheTIC/qa_IPR.html).)
145 *Mitigation Guidelines: Fines, Penalties, Forfeitures and Liquidated Damages*, an Informed Compliance
Publication at 79-81 (2004).
146 *See* 18 U.S.C. § 2320.
147 *See* 15 U.S.C. § 1125.
148 *See* 17 U.S.C. § 509.
149 GAO-05-788T at 8 (June 14, 2005) (complete citation above at n 66).
150 U.S. Department of Justice Document No. 208135 at 30-34 (Dec. 2004).
151 GAO-05-788T at 12-14 (June 14, 2005) (complete citation above at n 66).
152 Statement of Daniel Baldwin, Acting Assistant Commissioner, U.S. Customs and Border Protection,
in Hearing before the Senate Committee on Homeland Security and Governmental Affairs, on "Finding
and Fighting Fakes: Reviewing the Strategy Targeting Organized Piracy" (June 14, 2005).
153 69 Fed. Reg. 52811 (Aug. 30, 2004).
154 The five cases filed in which the ITC decided not to institute an investigation in the past five years
were *Certain Musical Instrument Products and Packaging Thereof* (filed Dec. 4, 2004); *Certain Digital
Image Storage and Retrieval Devices* (filed May 24, 2004); *Certain Water Squirt Toys* (filed Jan. 7,
2004); *Certain Alendronate Salts and Products Containing Same* (filed Oct. 27, 2003); *Certain
Generic Version of Augmentin* (Aug. 9, 2002).
155 *See, generally*, ITC Outcomes (1999-2005).
156 Inv. No. 337-TA-406.
157 http://www.cbp.gov/xp/cgov/import/commercial_enforcement/ipr/seizure/.
158 HQ 475680 (June 15, 2004), and HQ 474939 (Jan. 1, 2004) are representative of these rulings.
159 HQ 475295 (Feb. 20, 2004) (*Certain Audible Alarm Devices for Divers*, Inv. No. 337-TA-365);
462025 (June 20, 1996) *Certain Miniature Plug-In Blade Fuses*, (Inv. No. 337-TA-365); HQ 711467
(Jan. 1, 1980) (*Roller Units*, Inv. No. 337-TA-44); HQ 710641/711461 (C.S.D. 80-154) and HQ
709495 (Oct. 23, 1978) *Certain Molded Golf Balls*, Inv. No. 337-TA-35); HQ 707786 (undated)
(*Certain Re-Closable Plastic Bags*, (Inv. No. 337-TA-22).
160 *Eaton Corp.* is under appeal to the CAFC (Court Nos. 05-1565, 06-1018).

- ¹⁶¹ HQ 470783, HQ 470784, HQ 470785 (all April 10, 2001).
- ¹⁶² *Jazz Photo Corp. v. International Trade Commission*, 264 F.3d 1094 (Fed. Cir. 2001).
- ¹⁶³ HQ 474182 (Nov. 6, 2003); HQ 472103 (June 5, 2002); *Fuji Photo Film Co. v. Jazz Photo Corp.*, 249 F. Supp. 2d 4354 (D. N.J. 2003); *Jazz Photo Corporation v. United States*, Slip Op. 04-146 (Ct. Intl. Trade Nov. 17, 2004), *appeal docketed*, No. 05-1096 (Fed. Cir. Nov. 19, 2004).
- ¹⁶⁴ GAO-05-788T at 8 (June 14, 2005) (complete citation above at fn 66).
- ¹⁶⁵ GAO-05-788T at 12-13, 15 (June 14, 2005) (complete citation above at fn 66).
- ¹⁶⁶ U.S. Department of Justice Document No. 208135 at 30-34 (Dec. 2004).