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ITC Increasing Efficiency of Exclusion Order Proceedings

From the Experts

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For companies with domestic patents or other IP rights (IPR), the broad and powerful remedies available through Section 337 investigations before the U.S. International Trade Commission (ITC) have kept the small, quasi-judicial agency a top choice for protecting those rights. Specifically, with injunctions being more difficult to obtain in district court as a result of *eBay v. MercExchange*, the ITC's authority to issue exclusion orders enforced by U.S. Customs and Border Protection (CBP) makes the ITC an attractive venue for IPR holders concerned about imports of infringing products. But as the ITC has risen in popularity, many companies have experienced difficulty navigating the often opaque and confusing web of venues, procedures and regulations that govern enforcement of the very exclusion orders they obtained from the ITC. In particular, the attractive breadth of exclusion orders—which can be directed to any infringing product, whether considered by the ITC or not—led to difficulty obtaining efficient, transparent and reviewable determinations regarding the scope of those orders.

Now some relief is available. On February 23, the commission announced a pilot program that takes a major step toward addressing these issues by providing companies with more efficient, reviewable determinations on the scope of exclusion orders. The program seeks to address many of the concerns that complainants, importers, industry leaders and practitioners have expressed about the current procedures for determining whether particular imported products are covered by an exclusion order. And it promises to do so under set timelines, offering as little disruption to legitimate trade as possible. The pilot program, therefore, provides a valuable tool for navigating a previously murky area of border enforcement.



Exclusion Orders in a Nutshell

Exclusion orders issued by the ITC come in two types and are among the most powerful remedies available to companies seeking to enforce their IPR. Limited exclusion orders cover only parties named as respondents and found in violation of Section 337 in the underlying ITC investigation. Once issued, they prevent the named respondents and their affiliates from importing infringing products into the United States. General exclusion orders issue when, for example, importers have engaged in a pattern of violation of Section 337. They are broader and prevent all entities, whether named as a respondent in the underlying investigation or not, from importing infringing products. By covering parties not named in the ITC investigation, general exclusion orders have the potential to cover all importers.

In addition to unnamed importers, ITC exclusion orders are equally powerful against infringing products not specifically considered by the commission. Written to cover all “products that infringe” the IPR at issue, exclusion orders

do not reference the specific products or models actually considered in the underlying ITC investigation. This practice prevents importers from circumventing exclusion orders by changing product names or model numbers and allows CBP to exclude infringing products not considered in the underlying ITC investigation. By way of example, consider the ITC's recent investigation into infringing coaxial cable connectors. The commission found a violation of Section 337 based on infringement by a particular respondent's cable connectors. Notwithstanding this narrow infringement finding, the resulting general exclusion order covered all infringing imported coaxial cable connectors, whether or not manufactured and/or imported by a named respondent.

The obvious downside, however, is that CBP—charged with enforcement—must determine whether imported products infringe the IPR at issue, often with limited guidance from the ITC. This has led to considerable difficulty in efficient and consistent enforcement.

Troubles with Enforcement

Prior to the pilot program, interested parties had three primary methods for determining whether products were covered by an exclusion order:

1. Complainants could bring an enforcement proceeding at the commission to apply an existing order against redesigned imported products;
2. Respondents could seek an advisory opinion at the ITC; and
3. Respondents could seek a ruling from CBP.

These proceedings, however, proved ineffective and inadequate for a variety of reasons. Enforcement proceedings are available only to complainants and can take as long (and cost nearly the same amount in legal fees) as a full ITC investigation. Advisory opinions, on the other hand, were viewed by many respondents as unpredictable and inadequate because they lacked specific timetables for a final determination and are not appealable. As a result, respondents often turned to the third option, seeking a CBP “ruling” under 19 C.F.R. § 177. But the CBP ruling process, which was created to address less fact-intensive issues such as customs classification, proved an ill fit for making complex IPR infringement determinations. Rulings were made on an *ex parte* basis and without formal receipt of evidence, without a hearing and, in most cases, without notice to the adverse party. CBP rulings also suffer from a lack of clarity regarding the timeline for issuance and, like advisory opinions, are not appealable except in limited circumstances, and then only to the Court of International Trade.

Those concerns led President Barack Obama’s administration to ask the U.S. Intellectual Property Enforcement Coordinator (IPEC), an office within the Executive Office of the President, to set up an interagency working group to receive public comments and seek to address the issues surrounding enforcement of ITC exclusion orders. In response to the request for comments, high-tech companies, practitioners and trade organizations expressed concerns about the lack of transparency and certainty.

The ITC Answers the Call

While the IPEC interagency group has not yet taken action, the ITC’s pilot program addresses major concerns of those who commented to the interagency group and provides three specific advantages over the previous options. First, the ITC made clear that entities now can seek product-specific determinations through modification

proceedings; i.e., proceedings to determine whether an exclusion order should be modified to cover, or exempt, newly designed products. This represents a significant change in practice regarding modification proceedings, which rarely have been used to make such determinations. Under the pilot program, parties to a completed investigation, as well as entities that were not a party in a previous ITC investigation, but are nonetheless subject to a general exclusion order, can initiate modification proceedings. Allowing all entities to employ modification proceedings to resolve such redesign questions gives interested parties the option of seeking an appealable proceeding, protected by the Administrative Procedures Act (APA), to resolve questions of scope.

Second, the pilot program provides three specific sets of timelines for the ITC to issue a final determination in both modification and advisory opinion proceedings. Within each timeline—the selection of which will depend on the level of fact-finding that is necessary—a recommendation will be provided to the commission to adopt (in whole or in part) or to replace with its own independent determination. Purely legal issues will be heard and presented to the ITC by the Office of the General Counsel, with the commission issuing its final determination approximately 60-90 days after the proceeding is initiated. For determinations involving minimal fact-finding, the ITC’s office of unfair import investigations will conduct the proceeding and provide its recommendation, with the commission’s final determination issuing approximately 90-180 days after initiation. Finally, for determinations that require extensive fact-finding, the commission may refer the matter to one of the ITC’s administrative law judges for development of a full record and issuance of an initial determination, with the commission’s final decision normally issuing approximately 6-9 months after initiation.

Third, by encouraging entities to use the ITC’s procedures for seeking scope determinations, the pilot program ensures that decisions will be made with participation from both interested parties, on the record and, if appropriate, in front of a fact-finder who has tools available to receive and weigh evidence. The pilot program, therefore, addresses the lack of transparency and the *ex parte* nature of CBP ruling requests and provides a timeline for the determination that was previously missing from enforcement and advisory opinion proceedings. Companies that may

consider bringing an action at the ITC, or that may be subject to an ITC exclusion order, should be aware of these developments. By implementing the pilot program, the ITC is positioning itself as the go-to venue to resolve disputes over the scope of its exclusion orders. Interested parties now have time-limited, APA-protected, reviewable paths to determine whether products fall within their boundaries.

For corporate counsel concerned with the importation of products into the United States, understanding the changes the pilot program has made to the enforcement environment is critical. It is equally important for corporate counsel to continue to monitor the enforcement landscape to learn of changes to the new program, as well as any changes made to other enforcement procedures. (For example, CBP has indicated that it, too, may promulgate a rule allowing parties to seek *inter partes* proceedings before CBP to resolve disputes that involve the scope of ITC exclusion orders.) Knowledge of these developments will be instrumental in advising a business of the effects of an exclusion order on both IPR holders and importers.

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