

## IP Enforcement: Domestic and Foreign Litigants in the ITC and U.S. District Courts

Matthew N. Bathon<sup>1</sup>

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### I. INTRODUCTION

Intellectual property litigators frequently consider the International Trade Commission (“ITC”) to be a patent infringement forum. In addition to patents, however, the ITC also handles a variety of other intellectual property disputes including trademark,

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<sup>1</sup> Matthew N. Bathon Steptoe & Johnson LLP, 1330 Connecticut Ave. NW  
Washington, DC 20036, mbathon@steptoe.com

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copyright, and trade dress infringement as well as trade secret misappropriation. Section 337 (19 U.S.C. § 1337) permits the ITC to investigate “unfair methods of competition and unfair acts,” which the Commission broadly defines as including all forms of intellectual property rights and much more. Recent years have seen a marked increase in the number of Asia-based companies accused of violating Section 337 and suing at the ITC to protect their US intellectual property rights.

## II. DIFFERENCES BETWEEN THE ITC AND DISTRICT COURT

There are a number of substantive and procedural differences between ITC and district court practice. For example, a complainant in an ITC investigation must satisfy the “domestic industry” requirement, which requires that a domestic industry either exist in the United States with respect to articles covered by the asserted intellectual property or that such an industry is in the process of being established. A domestic industry exists in the United States with respect to the articles covered by the intellectual property if the complainant has made: (a) significant investment in plant and equipment; (b) significant employment of labor or capital; or (c) substantial investment in its exploitation, including engineering, research and development, or licensing.<sup>2</sup>

The pleading requirements also differ between the ITC and district court. In district court, notice pleading is generally all that is required. An ITC complaint, however, must allege specific facts regarding the alleged unfair act. Additionally, complainants often confer with the Commission’s Office of Unfair Import Investigations (“OUII”) before filing a complaint at the ITC to ensure the complaint meets the standards set by the Commission for instituting an investigation. Within thirty days of filing the complaint, the Commission reviews the complaint and makes a decision on whether to institute the investigation. The requirements for the complaint and the named respondent’s response are set forth in 19 C.F.R. §§ 210.12 and 210.13, respectively.<sup>3</sup>

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<sup>2</sup> 19 U.S.C. § 1337 (a)(3)

<sup>3</sup> 19 C.F.R. §§ 210.12, 210.13

Jurisdiction at the ITC also differs from federal district court. For example, the ITC has nationwide subpoena power; it is not limited to a certain distance from the ITC. Moreover, a violation of Section 337 can be established through the importation of a product into the United States, the sale of a product for importation, or the sale of a product within the United States after importation.<sup>4</sup> The ITC has *in rem* jurisdiction over articles imported into the United States.<sup>5</sup> An actual or imminent importation must be established for the Commission to have subject matter jurisdiction, but all that must be proven is the importation of a single article. The purpose of the importation (*e.g.*, for testing or as a free sample) is irrelevant.<sup>6</sup> Thus, the complainant in an investigation does not have to show *in personam* jurisdiction over the respondent as required in district court. Subject matter jurisdiction is typically established through the verified factual allegations in the complaint that the respondent has committed one or more unfair acts.<sup>7</sup> *In personam*, or personal jurisdiction, may be shown through the respondent's participation in the investigation.<sup>8</sup>

Another significant difference between the ITC and district court is that the OUII may designate a staff attorney to be a participant in the investigation. A staff attorney is not designated to be a participant in every investigation, however. If a staff attorney appears in the case, she participates fully in the investigation and represents the public interest as an objective third party with respect to the issues presented in the investigation. The staff attorney may also propound discovery on both the complainant and respondent.

Discovery in the ITC also differs from discovery in a district court. For example, in district court, parties are limited to 25

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<sup>4</sup>See generally 19 U.S.C. § 1337 (discussing the Section 337 process and means by which to establish a violation).

<sup>5</sup>*Certain Laser Imageable Lithographic Printing Plates*, Inv. No. 337-TA-636, Comm'n Op., USTIC Pub. 4204, (Nov. 30, 2009) 2010 WL 5176686, at \*21.

<sup>6</sup>*Id.*

<sup>7</sup>*Certain Electronic Devices, Including Mobile Phones and Tablet Computers, and Components Thereof*, Inv. No. 337-TA-847, (Sept. 23, 2013) (preliminary), 2013 WL 5822559, at \*10.

<sup>8</sup>*Id.*

interrogatories under the Federal Rules of Civil Procedure.<sup>9</sup> In the ITC, however, each party is typically permitted to serve up to 175 interrogatories. The time for responding to discovery requests in the ITC is 10 calendar days as opposed to 30 calendar days in district court.

For certain unfair acts, including violations of statutory intellectual property rights (such as patent, trademark, or copyright infringement) the complainant must prove that the respondent committed the unfair act, but does not need to prove that it was damaged or injured by the unfair act. For other unfair acts under 19 U.S.C. § 1337(a)(1)(A), such as trade dress infringement, however, the complainant must also show that the unfair act has or is likely to substantially injure the complainant's domestic industry. The Commission has considered a broad range of indicia in determining whether unfair acts have substantially injured the complainant's domestic industry.<sup>10</sup> *See e.g., Certain Digital Multimeters, and Products with Multimeter Functionality*, Inv. No. 337-TA-588, Order No. 22 at \*16 (Jan. 14, 2008) ("*Digital Multimeters*") (enumerating a number of indicators used to determine if unfair acts have caused injury to domestic industry)). For example, the Commission has considered the respondent's volume of imports and penetration into the market; the complainant's lost sales; underselling by the respondent; the complainant's declining production, profitability, and sales; and harm to goodwill and reputation.<sup>11</sup> The injury requirement can also be met "[w]hen an assessment of the market in the presence of the accused imported products demonstrates relevant conditions or circumstances from which probable future injury can be inferred."<sup>12</sup> These circumstances may include: "foreign cost advantages and production capacity"; "the ability of the imported product to undersell the domestic product"; or "substantial foreign manufacturing capacity combined with the respondent's intention to

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<sup>9</sup> Fed. R. Civ. P. 33

<sup>10</sup> *See e.g., Certain Digital Multimeters, and Products with Multimeter Functionality*, Inv. No. 337-TA-588, Order No. 22 (Jan. 14, 2008), 2008 WL 332382 at \*16 [hereinafter, *Digital Multimeters*] (providing an example of factors considered in determining whether interference with domestic industry has occurred). ).

<sup>11</sup> *Id.* at 6-8.

<sup>12</sup> *Id.* at 8 (internal citations omitted)

penetrate the United States market.”<sup>13</sup> For a future injury, the threatened injury must be “substantive and clearly foreseen,” and the complainant must show a causal connection between the respondent’s unfair act and the alleged future injury.<sup>14</sup>

While money damages are the typical remedy in district court, potential remedies at the ITC are limited to an exclusion order (which instructs U.S. Customs and Border Protection (“CBP”) to exclude products found to infringe or otherwise violate Section 337 and/or a cease and desist order, which forbids the respondent or any affiliates from domestic activities leading to a violation of Section 337. If the ITC finds that a respondent has violated Section 337 and orders a remedy, the President, acting through the U.S. Trade Representative, reviews the remedy, which may be disapproved for policy reasons during the sixty-day Presidential review period. During the Presidential review period, the respondent may continue to import articles covered by the exclusion order. Those imports may be covered by a bond requirement as determined by the Commission. The purpose of the bond is to protect the complainant from any injury.<sup>15</sup> Presidential disapproval has occurred in certain instances, but it is very rare. In 2013, the U.S. Trade Representative, acting for the President, disapproved an ITC remedy due to overarching federal policies related to standards essential patents; it was the first disapproval since the Reagan Administration.<sup>16</sup>

The presiding Administrative Law Judge (“ALJ”) makes an initial determination in the investigation as to whether a violation of Section 337 has been found and issues a recommended determination as to any potential remedy. The Commission can then adopt, modify, or reverse the ALJ’s determination. A final ITC determination is appealable to the U.S. Court of Appeals for the Federal Circuit, as are district court judgments. Any party adversely affected by an ITC final determination may ask the Federal Circuit to review the determination within 60 days of the final determination from the Commission. Some of the differences

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<sup>13</sup> *Id.*

<sup>14</sup> *Id.*

<sup>15</sup> 19 U.S.C. § 1337(j)(3)

<sup>16</sup> *See* Certain Electronic Devices Including Wireless Communication Devices, Portable Music and Data Processing Devices, and Tablet Computers, Inv. No. 337-TA-79, Comm’n Op. (Jun. 4, 2013).

between ITC and district court proceedings are set forth in the following chart:

	SECTION 337 ITC INVESTIGATION	DISTRICT COURT PATENT LITIGATION
Parties	Complainant(s), Respondent(s) and the OUII	Plaintiff(s) and Defendant(s)
Judge	Administrative Law Judge (ALJ)	Article III judge, or magistrate judge (with consent of parties)
Jurisdiction	In rem jurisdiction over products imported into the US that are accused of infringing US IP rights	Court must have personal jurisdiction over the Defendant(s) and subject matter jurisdiction over the action
Counterclaims	Available, but Respondent must immediately transfer to district court	Available
Applicable Procedural Rules	Commission Rules of Practice and Procedure and ALJ's Ground Rules.	Federal Rules of Civil Procedure, Local Rules and judge's Standing Orders
Domestic Industry	Complainants must demonstrate domestic exploitation of the asserted patent or patents	Not required
Typical Time to Respond to Discovery	Ten days	30 days.
Typical Time to Respond to Motions	Ten days (or fewer)	Varies; typically two-to-four weeks
Claim Interpretation (Markman hearing)	Varies. Claim construction can be in ALJ decision after hearing	Varies, often held by presiding judge, typically before expert discovery, summary judgment, and trial
Evidentiary Trial or Hearing	Held before an ALJ	Held before a judge and jury (if requested by party)
Typical Time Frame to Resolution	15-to-18 months	Two-to-three years
Remedies	Exclusion order and/or cease and desist order	Damages, if eBay Inc. elements are met, Injunction
Trial Decision	ID by ALJ. Reviewed by the Commission	Jury verdict or written decision / findings of fact by judge
Appeals	Federal Circuit	Federal Circuit
Stay Pending Patent Reexamination at USPTO	Highly Unlikely	Likely

### III. ADVANTAGES OF THE ITC

The ITC can be a very attractive forum for intellectual property owners and presents certain advantages over federal district court.

#### A. Jurisdiction over Foreign Entities

Often, the manufacturers and suppliers of infringing merchandise are foreign and not subject to personal jurisdiction in the United States. While a district court must have *in personam* jurisdiction over the parties, the ITC has *in rem* jurisdiction over the imported products. Thus, the ITC allows intellectual property owners to name, for example, a Chinese manufacturer, a Korean

distributor, a Mexican wholesaler, and a U.S. retailer – all in the same complaint – without the need to establish personal jurisdiction over any of them. Intellectual property owners dealing with sophisticated infringement operations can realize significant advantages (both substantively and from a cost perspective) at the ITC by having all relevant players adjudicated in the same case. And, the ITC will handle service of the complaint on each of the named respondents.

Recent years have seen a marked increase in the proportion of China-based respondents named in ITC investigations. Specifically, from 1993-2002, Taiwan represented approximately 40% of Asia-based ITC respondents, Japan 39%, and China 11%. From 2003-2013, however, China-based respondents represented 38% of named Asia-based respondents, while the combined proportion of Asia-based respondents from Taiwan and Japan fell to 40%.

### ***B. Speed of Litigation at the ITC***

The ITC is a fast litigation forum – on par, if not exceeding, average timeframes of the fastest “rocket docket” district courts. The speed with which ITC investigations proceed, the tight discovery deadlines, and the relatively few extensions that are granted can provide well-prepared complainants with a significant initial advantage over the respondents. Additionally, the intense time pressures and extensive discovery can foster settlements, even in the most seemingly intractable disputes.

Once the Commission determines to institute an investigation, a Notice of Institution of Investigation (“Notice”) is issued and the complaint is served on each named respondent. The Notice governs the scope of the investigation. While the Notice typically includes all of the allegations set forth in the complaint, the Commission need not institute on every allegation presented by the complainant. Respondents have 20 days to respond to the complaint. On the day after the Notice is published in the Federal Register, the parties may begin propounding discovery.

The case schedule in the ITC is based on a “target date,” which is typically between 14 and 16 months. The target date is the date by which the Commission will issue its Final Determination. All dates in the case schedule hinge on the target date, a date that is rarely moved. A case with a 16-month target date, for example, will compress all fact and expert discovery, dispositive motions, and all pre-hearing tasks (which are very similar to pre-trial tasks) into an eight-to-nine-month timeframe. The ALJ will also hold a hearing, much like a bench trial, during that time. The ALJ will then have two-to-three months to issue an Initial Determination and then the Commission will have four months to review the ALJ’s Initial Determination. While the target date may be 16 months, all discovery and the hearing will take place in roughly half that time.

### ***C. Foreign Discovery***

At the ITC, discovery of foreign respondents is available without the need to proceed through the Hague Convention. Foreign respondents, for example, are required to respond to written discovery just as an entity located in the United States would. In the ITC, depositions may also be taken of the foreign respondents. While such discovery may be difficult, if not impossible to obtain through a district court proceeding, it is done routinely at the ITC.<sup>17</sup>

### ***D. Legal and Evidentiary Considerations***

#### **1. Delay in Enforcement Should Not Bar the Claims**

The relief available in Section 337 investigations is prospective in nature.<sup>18</sup> Thus, the equitable defense of laches, which is often asserted in district court, is not available in the ITC. As long as the “unfair act” that forms the basis for the investigation is ongoing and is determined to constitute a violation of Section 337, the Commission is likely to issue some type of ruling enjoining that

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<sup>17</sup> Depositions in Japan must be conducted at the U.S. Embassy or Consulate. Depositions of Chinese nationals may have to be conducted in Hong Kong.

<sup>18</sup> See 19 U.S.C. § 1337(d)-(f).

activity – without regard to how long the unfair acts have been ongoing.

## 2. Evidentiary Considerations

The Federal Rules of Evidence do not control the admission of evidence in an administrative proceeding. Generally, the ALJs will allow the admission of relevant and reliable evidence. For example, reliable hearsay is generally allowed at the ITC, and the ALJ will determine what weight to give the evidence based, *inter alia*, on its perceived reliability. Additionally, there is often a relaxed standard for authenticating documents in an ITC investigation. For example, each document may not need to be authenticated by a witness, and often documents are deemed authentic unless the party challenging the authenticity can offer proof that the document has been forged or is otherwise not what it purports to be.

## ***E. Remedies***

As noted, another important distinction between the ITC and district court is the fact that money damages are not available at the ITC. The ITC, however, can issue orders excluding products from being imported into the United States through general and limited exclusions orders. Cease and desist orders can also be issued to prevent the sale of infringing products that have already been imported into the United States. Exclusion orders are enforced by CBP, whereas cease and desist orders are enforced by the ITC.

The Commission has broad discretion in selecting the form, scope, and extent of the remedy in ITC investigations.<sup>19</sup> The Commission's authority extends to the prohibition of all acts reasonably related to the importation of infringing products.<sup>20</sup> Exclusion orders are not typically limited to the specific models of accused devices found by the Commission to infringe. The

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<sup>19</sup> See *Hyundai Elecs. Indus. Co. v. Int'l Trade Comm'n*, 899 F.2d 1204, 1208-09 (Fed. Cir. 1990).

<sup>20</sup> *Id.* at 1209, *citing* *Viscofan, S.A. v. Int'l Trade Comm'n*, 787 F.2d 544, 548 (Fed. Cir. 1986).

Commission can direct the exclusion order to all infringing products within the scope of the investigation, as set forth in the Notice.

Since 2008, limited exclusion orders may only be issued to the respondents specifically named in the complaint.<sup>21</sup> General exclusion orders however, can extend to infringing articles of non-named respondents. As discussed in *Kyocera*, the Commission has authority to issue a general exclusion order against products of non-respondents if the “heightened requirements of Section 337(d)(2)(A) or (d)(2)(B) are met.”<sup>22</sup> To obtain a general exclusion order, a party must show that a general exclusion is necessary to prevent the circumvention of an exclusion order limited to products of named persons, or that there is a pattern of violation and it is difficult to identify the source of the infringing products.<sup>23</sup>

Cease and desist orders may be issued in lieu of or in addition to exclusion orders.<sup>24</sup> . “The Commission’s purpose in issuing cease and desist orders in patent cases has been to afford complete relief to complainants when infringing goods are already present in the United States, and thus cannot be reached by issuance of an exclusion order.”<sup>25</sup> . The Commission issues cease and desist orders against respondents that maintain “commercially significant” inventory of the infringing products in the United States.<sup>26</sup> What is required to satisfy the “commercially significant” requirement is based on the particular facts presented. Respondents that are found to be in default by failing to adequately participate in the investigation are presumed to maintain commercially significant inventory of the infringing products in the United States.<sup>27</sup> . Of course, the statute does not require that a commercially significant inventory must exist.<sup>28</sup> The Commission has entered cease and

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<sup>21</sup> *Kyocera Wireless Corp v. Int’l Trade Comm’n*, 545 F.3d 1340 (Fed. Cir. 2008).

<sup>22</sup> *Id.* at 1537

<sup>23</sup> 19 U.S.C. § 1337(d)(2).

<sup>24</sup> Certain Multiple Mode Outdoor Grills and Parts Thereof, Inv. No. 337-TA-895, Recommended Determination at 7 (Nov. 3, 2014) (hereinafter *Outdoor Grills*).

<sup>25</sup> Certain Digital Televisions and Certain Products Containing Same and Methods of Using Same, Inv. No. 337-TA-617, Comm’n. Op at 12-13 (Apr. 23, 2009) Inv. No. 337-TA-617, Comm’n. Op at 12-13 (Apr. 23, 2009).

<sup>26</sup> *Outdoor Grills*, *supra* note 24, at 7.

<sup>27</sup> *Digital Multimeters*, *supra* note 10, at \*22.

<sup>28</sup> 19 U.S.C. § 1337(f).

desist orders where no commercially significant inventory was shown.<sup>29</sup> In *Certain Handbags, Luggage, Accessories and Packaging Thereof*, Inv. No. 337-TA-754, the ITC issued a general exclusion order (“GEO”) that enjoined anyone – not just the named respondents – from importing products into the United States that infringed the Louis Vuitton trademarks at issue in the case.<sup>30</sup> The Commission informed CBP that Louis Vuitton’s marks were susceptible to being infringed in a number of different ways, not necessarily only through the particular instances of infringement at issue in the investigations. The GEO in that investigation states,

For the purpose of assisting the U.S. Bureau of Customs and Border Protection in the enforcement of this Order, and without in any way limiting the scope of the Order, the Commission notes that there may be numerous ways to manipulate the trademarks at issue so as to create infringements. In an effort to provide some guidance to the U.S. Bureau of Customs and Border Protection in the enforcement of this Order, the Commission has attached to this Order copies of photographs featuring different infringements of [the trademarks at issue].<sup>31</sup>

The value of a GEO, like the one referenced above, is significant for intellectual property owners not only to stop new infringements from being imported, but as a deterrent to current infringers facing an enforcement proceeding.

In matters where money damages are important, district court cases can be filed in addition to filing a complaint with the ITC. Indeed, complainants routinely file parallel actions before the ITC and district court. In most cases, as long as the allegations are the same in the ITC and district court, the district court case will be stayed pending resolution of the ITC investigation if requested by

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<sup>29</sup> See, e.g., *Certain Digital Models, Digital Data, and Treatment Plans for Use in Making Incremental Dental Positioning Adjustment Appliances, the Appliances Made Therefrom, and Methods of Making the Same*, Inv. No. 337-TA-833, Comm’n Op. at 147 (Apr. 10, 2014)

<sup>30</sup> See *Certain Handbags, Luggage, Accessories and Packaging Thereof*, Inv. No. 337-TA-754.

<sup>31</sup> Check.

the respondent/defendant.<sup>32</sup> The stay is mandatory if requested by the respondent, as long as the statutory requirements are otherwise met.<sup>33</sup> The record before the ITC can be used in connection with the district court case. For example, discovery can be cross-designated between cases to avoid duplication between the ITC and district court. Additionally, if the district court adopts the findings of the ITC, the time required and certain costs for the district court case may be reduced.

#### IV. CONCLUSION

The ITC can be an advantageous forum for intellectual property owners that face significant infringement problems originating in foreign jurisdictions, and are the most likely to benefit from using the ITC as an enforcement forum. If successful, powerful exclusion orders can provide ongoing protection and strong deterrent value for years to come.

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<sup>32</sup> See 28 U.S.C. § 1659(a)

<sup>33</sup> *Id.*