

McKool Smith

## United States

# Fast-track enforcement of IP rights using Customs and the International Trade Commission

---

Most corporate counsel are well acquainted with the costs and benefits of district court litigation to enforce IP rights. Many, however, are less well versed in the administrative alternatives available to stop infringing imported goods at the border. While administrative procedures do not provide for monetary damages, they do offer relief that is faster and more reliable than district court litigation.

### Customs – starting a race at the finish line

In the case of federally registered trademarks and copyrights, a rights owner can go straight to US Customs and have it exclude infringing items. Compared to district court litigation this is like starting a race at the finish line. For \$190 and the time it takes to fill in a form, an IP owner can record a trademark or copyright with Customs. This recordation is good for as long as the mark is used.

Once recorded, Customs will seize any counterfeit goods relating to the trademark or copyright. In addition, Customs will detain articles that are “confusingly similar” to recorded marks. If Customs determines that certain imported goods are confusingly similar to a recorded mark, it will detain such goods for 30 days. During this 30-day period the importer must either remove the mark or establish that it was imported with permission. Failing that, the goods will be seized and forfeited (Section 133.22(f)). This occurs without the trademark or copyright owner having to take any formal action.

Of course, Customs does not have the resources to inspect every imported article physically and compare it to every recorded trademark or copyright. Accordingly, the rights owner has to play a proactive role in the enforcement process. The first step is to monitor the marketplace for possible infringement. If infringing products are found, the rights owner should gather as much information as possible, particularly the name of

the importer. With the name of the importer, a commercial data service (eg, PIERIS) can usually be used to determine the port of entry.

Once the rights owner has completed its investigation, it should contact Customs. Customs maintains an IP Rights Helpdesk during business hours that can pass a rights owner’s information to the correct office. Alternatively, the rights owner can contact an attorney in Customs’ IP Rights and Restricted Merchandise Branch. Provided that it can give Customs enough specific information to focus its efforts, the rights owner can expect meaningful assistance. This process is easier, cheaper and quicker than full-blown litigation. There is, however, one limitation. Customs will not act to block the importation of goods that infringe a US patent on the basis of a recordation. Instead, it will exclude goods that infringe a patent only if an exclusion order is issued by the US International Trade Commission (ITC).

### Section 337 investigations before the ITC: a fast sprint

If using Customs to enforce IP rights is like starting a race at the finish line, then going to the ITC is more like a sprint. The ITC conducts Section 337 investigations (named for the section of the act that provides for such actions) into allegations of unfair trade practices. While there are many types of potential unfair trade practice, about 90 per cent of Section 337 investigations concern patent infringement.

A patent-based Section 337 investigation is generally similar to district court patent litigation. As with a district court lawsuit, it is an adversarial proceeding where both parties serve discovery and participate in the hearing. All defences that are available to a district court patent defendant can be asserted by an ITC respondent. There are, however, a few key differences.

One major difference is the win rate. A long-term study showed that Section 337 complainants have a win

rate of 58 per cent – higher than district court plaintiffs. Further, such complaints move fast: the parties typically take part in an evidentiary hearing, analogous to a trial, in about eight months and a final judgment is entered in 15 months or less. A third difference is that injunctive-style relief is essentially automatic. This typically takes the form of both an exclusion order to Customs to bar infringing imports at the border and a cease and desist order, similar to a district court injunction. It is the speed and complexity of Section 337 investigations that lead to the comparison to a sprint. A Section 337 proceeding is like district court litigation compressed into half the time.

Apart from these advantages applicable to all Section 337 investigations, there are five specific scenarios where a patent owner should give particular consideration to the ITC.

#### **To counter a declaratory judgment action**

One source reports that 14 per cent of patent cases are declaratory judgment actions brought by the accused infringer. This number is probably higher in the wake of the Supreme Court's ruling in *MedImmune* and the Federal Circuit's extension thereof in *SanDisk Corp v STMicroelectronics*, both of which make it easier than ever for an infringer to bring a declaratory judgment action against a patent owner.

Declaratory judgment actions put the patent owner in an inconvenient and unfavourable forum. Further, the patentee no longer has the advantage of being the plaintiff. Research has shown that a plaintiff-patentee has a significant statistical edge in jury trials relative to a declaratory judgment defendant-patentee. Filing at the ITC will move the case to a fast-moving, patent-friendly venue and restore the patentee's role as the complaining party. Further, after the ITC case is filed, the declaratory judgment plaintiff may wish to stay the district court action. The law provides that a party which is both an ITC respondent and a party to a district court action concerning the same issues has a right to stay the district court action rather than fight an expensive war on two fronts. If the declaratory judgment action is stayed and the Section 337 action is successful, the infringing goods will be excluded while the declaratory judgment action is resumed. A Section 337 complaint will thus effectively counter a declaratory judgment action.

#### **If the litigation target makes only a sale for importation**

Section 337 jurisdiction is slightly broader than the general infringement statute that provides jurisdiction in the district courts. In the district courts, importation of an

infringing article is actionable. However, ITC jurisdiction reaches one step farther to a sale for importation. This increases the number of potential respondents. Often the intended target of litigation is a direct competitor that makes a component part in Asia, then ships it to an Asian manufacturer for assembly into a finished product that is imported into the United States. This scenario occurs frequently in the semiconductor industry.

A patent holder cannot reach the component maker in the district court as it is not the importer, but it can reach it at the ITC on the basis of the sale for importation. This can be critical where the actual importer is a customer or potential customer that you do not want to name as a defendant.

#### **To avoid Section 271(g) defences**

Making a product overseas by a method that would infringe if practised in the United States is actionable both in the district courts and at the ITC. However, in the district courts the defendant may avail itself of the Section 271(g) defences. Under Section 271(g), an imported product, despite being made by a patented process, will not be considered infringing if "it is materially changed by subsequent processes" or "it becomes a trivial and non-essential component of another product". These defences are not available at the ITC.

This arose as the legislation that established Section 271(g) provided that "the amendments made by this subtitle shall not deprive a patent owner of any remedies available under Section 337 of the Tariff Act of 1930, or under any other provision of law" (Pub L 100-418, §9006(c)). Both the ITC and the Federal Circuit (in *dicta*) held that this shows a congressional intent not to limit the scope of Section 337. This may be of significance in the importation of chemical or pharmaceutical compositions made, in part, by a patented process. Thus, where a patent has method of manufacture claims, the ITC may be a favourable forum.

#### **To capture numerous defendants in a single action**

Sometimes a patentee faces a situation where there are multiple infringers that act in separate jurisdictions. Because no single jurisdiction has sufficient contacts with each infringer, the patentee must bring multiple district court suits. In the alternative, one can bring a single ITC action naming all infringers. This can be used in conjunction with the sale for importation jurisdiction, discussed above, to bring a single 'megasuit' naming all foreign suppliers and all domestic distributors, regardless of location. In one recent Section 337 action involving nitrile rubber gloves, the patentee named 50 parties as respondents,

many of them located overseas. This nationwide jurisdiction can be particularly useful if neither the patent owner nor the intended target is located in a patent-friendly jurisdiction.

#### **To nip infringement in the bud**

Where the patent owner is filing suit early in the product cycle of the infringing good, it makes sense to file at the ITC. The ITC does not award monetary damages for infringement, but this is of little importance early in the product cycle as there is a small royalty base.

Moreover, a Section 337 action is the fastest way to obtain injunctive-style relief. If a patent owner can quickly block the product from the market, it can prevent the infringer from establishing a relationship with potential new customers.

#### **Comment**

These administrative remedies are under-utilised. In the year ending March 31 2007, 2,812 patent cases were filed in the district courts; in the same time period only 34 Section 337 cases were filed at the ITC. This is roughly one per cent of the total. It is difficult to believe that none of the remaining 99 per cent of the cases fell within any of the categories above. Patent owners and their counsel should weigh the costs and benefits of a district court action versus a Section 337 investigation in every case involving imported goods. In view of its speed, remedy and pro-patent orientation, it provides an attractive forum for patentees.

An IP owner looking for the fast-track enforcement of trademark, copyright or patent rights should always consider Customs and the ITC as administrative alternatives to litigation.

*Michael G McManus is a principal in McKool Smith's Washington DC office. He was formerly an attorney with US Customs. He holds a master's degree in chemistry and is registered to practise before the US Patent and Trademark Office. He has experience litigating patent disputes before the International Trade Commission and in the district courts.*

#### **Michael G McManus**

*Principal*

*Tel +1 202 370 8301*

*Email mmcmanus@mckoolsmith.com*

**McKool Smith**

*United States*



*Rodney Sweetland has over 17 years' experience in litigating IP and commercial disputes and is also a principal in the Washington DC office of McKool Smith. He has experience litigating patent disputes before the International Trade Commission and in the district courts.*

#### **Rodney R Sweetland III**

*Principal*

*Tel +1 202 370 8300*

*Email rsweetland@mckoolsmith.com*

**McKool Smith**

*United States*

