Section 337: A Thoroughly International IP Statute

Over the past seven years, there has been a dramatic increase in Section 337 investigations, both those brought by U.S. based complainants and by non-U.S. based complainants. While the total number of complaints instituted annually doubled from seventeen to thirty-five in the period 2000-2007, non-U.S. based complainants increased their share during this period from zero to twenty-eight percent, with a high of thirty-three percent in 2005 when twenty-nine new complaints were instituted.

At the same time that Section 337 is gaining popularity as an effective remedy against foreign-based intellectual property violations, non-U.S. based complainants are also recognizing the benefits available under the statute, reflecting that Section 337 is a truly international IP statute. Interestingly, these complaints are being filed by companies from around the globe, including The Netherlands, France, Sweden, Italy, Germany, Japan, Korea, Singapore, Taiwan and Hong Kong.

This is not unexpected, both from an informational viewpoint and a substantive one. Informationally, companies from these areas have been the primary targets of Section 337 investigations since the statute's revitalization in 1975 when proceedings became adversary in nature, subject to due process considerations and began to be held before an administrative law judge. Thus, over the years, foreign companies, as well as their governments, became familiar with Section 337.

Substantively, the amendments to the statute in 1988 made it easier for non-U.S. based entities to take advantage of the statute, a result perhaps not anticipated. Prior to 1988, complainants had to establish in every investigation that there existed a domestic industry that was being injured or threatened with injury by unfair imports.

Traditionally, the domestic nature of the complainant was demonstrated by its plants and equipment in the United States utilized to produce, for instance, the patented item. Injury was demonstrated, as in other contexts, by the loss of sales or profits, reduced employment and declining prices. Taken together, these elements of the statute required a substantial presence in the United States.

The 1988 amendments, however, removed the injury requirement for federally recognized intellectual property rights violations, e.g., patents, trademarks and copyrights, and, furthermore, substantially relaxed the domestic industry requirement for such cases. Specifically, in addition to the notion of bricks and mortar and employees constituting evidence of a domestic industry, Congress added "engineering, research and development or licensing" in the United States as satisfying that criterion for these types of cases.

Suddenly, companies that were not producing the patented item in the United States, but rather overseas, could avail themselves of Section 337 to stop imports of infringing goods similarly manufactured abroad. In one classic case, the complainant and respondent operated out of the same industrial park in Taiwan! With engineering, research and development and licensing becoming the new touchstones for establishing a domestic industry, it did not take long for non-U.S. based companies to recognize that they, too, could use Section 337 to protect their U.S. intellectual property rights against "foreign" infringers.

The result is that, in the three most recent years, an average of thirty percent of the ever-growing filings under Section 337 were initiated by non-U.S. based entities. In terms of success, there is no discernible difference between the results achieved by non-U.S. based companies compared to overall results. If you cumulate settlements and violations, both indications of favorable results for complainants, non-U.S. based complainants have a seventy-four percent record of success, while the percentage for all cases is seventy-two. Moreover, when compared to success rates in federal district court, the ITC provides a very favorable forum for U.S. IP rights holders wherever they are based.

A new era for Section 337 was spawned by the 1988 amendments to the statute. These changes coincided, perhaps not intentionally, with the increasing movement of U.S. production overseas and an increased emphasis, in this country, on the very things that the statute recognizes as establishing domesticity: engineering, research and development and licensing. As statutes go, Section 337 and practice under it are certainly a sign of the times.

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