

March 9, 2016

TIME FOR ANOTHER LOOK AT GENERAL EXCLUSION ORDERS?

By: David Scannell, Lynn Levine and Brian Busey

One of the most attractive attributes of Section 337 proceedings from a complainant's perspective is the ITC's unique exclusionary remedies against infringing imports. Specifically, the ITC has the power to issue exclusion orders directing U.S. Customs and Border Protection to block the importation of products that infringe U.S. patents. Nevertheless, as the ITC's reputation as a forum for adjudicating patent disputes involving complex computer and telecommunication technologies has grown, there has been a tendency to view *general* exclusion orders (GEOs) – which bar infringing imports *regardless* of their source – as a remedy that is rarely attainable. The statistics on GEOs, however, tell a different story. Forty percent of the exclusion orders issued by the Commission since the beginning of 2010 have been GEOs, and GEOs have been recommended by the Judges in three investigations currently pending before the Commission. Also, a majority of the GEOs issued since 2010 have been obtained without a hearing after the non-settling respondents defaulted. Thus, this may be a good time for prospective complainants to consider whether they are confronting circumstances (particularly widespread infringement by multiple importers or manufacturers of goods involving relatively uncomplicated technology) where pursuit of a GEO may be worthwhile.

Background

A GEO is a powerful remedy. If the Commission determines that a GEO is an appropriate remedy for a violation of Section 337, all infringing products are excluded from entering the United States regardless of the identity of the importer or manufacturer. Thus, GEOs reach infringing imports of entities that were not named as respondents in the investigation and that may not even have been importing the product at the time the order issued. By contrast, if the Commission issues a limited exclusion order (LEO), only articles that are imported by named respondents who are found to have violated Section 337 will be excluded. Generally, issuance of a GEO is most likely where the infringing imports are not technologically complex and there are many current or potential infringers.

To obtain a GEO, the complainant must not only prove that a violation of Section 337 has occurred, but must also satisfy one of two criteria in Section 337(d)(2) – it must demonstrate that either (a) “a general exclusion from entry of articles is necessary to prevent circumvention of an exclusion order limited to products of named persons” or (b) “there is a pattern of violation of this section and it is difficult to identify the source of infringing products.” 19 U.S.C.A. § 1337(d)(2). This standard was added to the statute in 1994. Prior to that time, the Commission had articulated a standard for GEOs

in *Certain Airless Paint Spray Pumps and Components Thereof*, Inv. No. 337-TA-90 (“*Spray Pumps*”) that required a complainant to show “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 U.S. market with infringing articles.” *Spray Pumps*, Comm’n Opinion (Nov. 24, 1981) at 18.

The *Spray Pumps* standard was utilized by the Commission even after the statute was amended in 1994, but since 2009 the Commission has directed parties to focus on the statutory standard for GEOs rather than on the factors listed in the *Spray Pumps* opinion. “While the Commission has in the past considered analysis based on the *Spray Pumps* factors when evaluating whether the statutory criteria are satisfied, we now focus principally on the statutory language itself in light of recent Federal Circuit decisions.” *Certain Ground Fault Circuit Interrupters*, Inv. No. 337-TA-615, Comm’n Op. (Mar. 26, 2009) at 25.

As a practical matter, when assessing the likelihood of obtaining a GEO, prospective complainants should still consider whether they can present the type of information identified in *Spray Pumps*, which may be used to prove a widespread pattern of unauthorized use and business conditions from which it may reasonably be inferred that additional foreign manufacturers may attempt to enter the U.S. market with infringing articles. The following types of information, listed in *Spray Pumps*, are often deemed relevant to the statutory standard for GEOs and continue to be relied upon by complainants in support of their GEO requests:

- (1) a Commission determination of unauthorized importation into 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;
- (3) other evidence which demonstrates a history of unauthorized use of the patented invention;
- (4) an established demand for the patented product in the U.S. market and conditions of the world market;
- (5) the availability of marketing and distribution networks in the United States for potential foreign manufacturers;
- (6) the cost to foreign entrepreneurs of building a facility capable of producing the patented article;
- (7) the number of foreign manufacturers whose facilities could be retooled to produce the patented article; and
- (8) the cost to foreign manufacturers of retooling their facility to produce the patented articles.

See *Spray Pumps*, Comm’n Opinion at 18-19.

Data on GEOs and LEOs Issued Since 2010

Although still less common than LEOs, GEOs have accounted for a significant proportion of the exclusion orders issued by the Commission since the beginning of 2010. Since 2010, the Commission has issued 17 GEOs and 25 LEOs. Thus, GEOs have accounted for 40 percent of the exclusion orders issued by the Commission during the last six years.

In each of the last three calendar years, only two GEOs were issued, but GEOs have already been recommended by the Administrative Law Judge in three investigations now awaiting final decisions by the Commission – *Certain Personal Transporters, Components Thereof, and Manuals Therefor*, Inv. No. 337-TA- 935; *Certain Footwear Products*, Inv. No. 337-TA- 936; and *Certain Ink Cartridges and Components Thereof*, Inv. No. 337-TA- 946. Seven additional investigations are pending in which the complainants have requested GEOs. Interestingly, since the start of 2010, of the 24 investigations where GEOs were originally requested in the complaint and a violation was found, 17 (or approximately 70 percent) resulted in the issuance of GEOs. In three of the seven remaining complaints where GEOs had originally been requested and a violation was found, by the end of the investigation the complainant was no longer requesting a GEO. Of the 17 GEOs issued since 2010, all but two were patent-based.

Mechanism for Obtaining a GEO Without an Evidentiary Hearing

In the majority of investigations where GEOs have issued in recent years, the existence of a violation has been established *without* an evidentiary hearing. Of the 17 GEOs issued since 2010, 11 issued without a hearing after the non-settling respondents defaulted. Similarly, in two of the three investigations currently pending before the Commission where the Judges have recommended issuance of a GEO, the Judge found the complainant had proven a violation of Section 337 without the need for an evidentiary hearing.

Section 337 and the Commission’s Rules contain several provisions relating to defaults, which are useful to review to gain an understanding of the process for obtaining a GEO where the non-settling respondents have defaulted. Section 337(g) and Commission Rule 210.16 provide that a respondent will be found in default if it fails to respond to the complaint and Notice of Investigation and fails to show cause why it should not be found in default. A respondent may also be found in default under Rule 201.16(a)(2) as a sanction for failing to cooperate in discovery.

The proof required to obtain a GEO where respondents have defaulted is quite different from the proof required if only LEOs against individual defaulters are sought. When a particular respondent is found to have defaulted, “the facts alleged in the complaint will be presumed to be true” and, upon request, the complainant is entitled to an LEO against the accused imports of that respondent unless there are public interest considerations that warrant denial of such relief. Section 337(g)(1). In contrast, with regard to GEOs, Section 337(g)(2) provides that when all non-settling respondents have defaulted, a complainant may request issuance of a GEO on the basis of the existing record, and the Commission may grant a GEO if the violation is “established by substantial, reliable, and probative evidence” and the statutory requirements for a GEO

– discussed above – have been satisfied. *See also* Commission Rule 210.16(c)(2). Although a complainant cannot simply rely upon respondents’ defaults to establish its case, adverse inferences arising from defaults may be used to fill in some missing information that complainant could not reasonably obtain absent discovery from respondents (such as specifics relating to infringement of process patents that cannot be readily established by testing of the imported products).

While substantial cost savings should be realized if a complainant is able to dispense with the evidentiary hearing, prospective complainants should be cognizant of costs that will be incurred even if all respondents default. There are a series of procedural steps involving discovery requests, motions practice, and orders to show cause directed to the non-participating respondents that must be followed to obtain default findings and adverse inferences based on defaults at the ITC. Also, when a GEO is requested by complainant, a staff attorney from the Office of Unfair Import Investigations (OUII) will normally be assigned to participate as a party to the investigation. As an independent party, OUII has the right to probe complainant’s proof. Thus, it is common for OUII to serve written discovery on the complainant in investigations where there are no active respondents. OUII has also taken depositions in some default investigations, most often on the issue of domestic industry. It is unusual for OUII to press for an evidentiary hearing in an investigation where there are no participating respondents, but OUII is not prohibited from doing so. Moreover, OUII is free to challenge aspects of complainant’s factual showing and legal theories and has done so in past default investigations. As a practical matter, the participation of the OUII attorney in a default investigation may be helpful to a complainant seeking to establish a violation on the papers because the OUII attorney will normally advise complainant’s counsel in advance of the hearing if it believes that complainant’s *prima facie* case is deficient in some respect. In such instances, complainant may be able to cure weaknesses in its case and avoid an unnecessary evidentiary hearing.

Circumstances In Which GEOs Should Be Considered

GEOs are often attractive and obtainable by IP rights holders where there are multiple unrelated infringers, and the identity of some of those infringers may not be known. These are the types of cases where a complainant is most likely to be able to satisfy the statutory requirement for a GEO – i.e., that “there is a pattern of violation of [Section 337] and it is difficult to identify the source of infringing products.” Section 337 (d)(2)(B). Because Section 337 proceedings are *in rem* proceedings that focus upon imported articles, personal jurisdiction over the manufacturer or importer is not required. The filing of a single Section 337 complaint seeking entry of a GEO provides the patent holder (or other type of IP rights holder) a way to avoid filing numerous suits to stop current and future importations of infringing goods. In cases involving relatively less complex technology and/or relatively inexpensive goods, remedying widespread infringement from imports while avoiding the cost of multiple costly district court actions may be particularly important to rights holders.

The last three GEOs issued by the Commission involved loom kits for making bracelets (Inv. No. 337-TA 923), ink cartridges for printers (Inv. No. 337-TA-918), and cases for

smart phones (Inv. No. 337-TA-867). The three pending investigations where GEOs have been recommended by the Judges involved ink cartridges, sneakers, and motorized personal transporters (Inv. Nos. 946, 936, and 935, respectively). In each of these investigations, the complainant presented evidence to show that a LEO could be easily circumvented (for example, because a named Respondent could easily shut down and restart its infringing operation under a different name, as was alleged in the 918 investigation), or that it was difficult to identify the source of infringing products (because, for example, the products did not identify their manufacturer, as was the case in the 923 investigation), or both.

Conclusion

Complainants requesting GEOs in recent years have experienced considerable success in obtaining such relief from the Commission, most often without having to go through an evidentiary hearing. GEOs may be of particular interest to patent and other rights holders facing widespread infringement from multiple importers or manufacturers on products involving relatively uncomplicated technologies and/or relatively lower cost. In considering whether to bring a complaint before the Commission where at least some respondents seem likely to default, prospective complainants should be cognizant of the procedural steps unique to Section 337 practice that must be followed to secure default findings and concomitant adverse inferences based on defaults, as well as the substantive requirements for obtaining a GEO. Because a showing of violation by “substantial, reliable, and probative evidence” is a prerequisite for a GEO even in cases where respondents default, complainants that plan to seek a GEO should, as much as possible, assemble their proof on each element of a violation *and* the factors required for issuance of a GEO before filing their complaints.