Litigating at the ITC: caught in a grey zone

Despite its advantages, the average number of investigations instituted before the US International Trade Commission has almost halved since 2011. The agency now faces two significant obstacles to becoming a more prominent trademark litigation forum

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Last year the International Trade Commission (ITC) celebrated its centennial. For almost 100 years, Section 337 of the Tariff Act 1930 has allowed domestic manufacturers to enforce their IP rights against infringing imports before the ITC – an independent, quasi-judicial federal agency comprising six commissioners who oversee five administrative law judges. The US president can veto remedial orders issued by the ITC for policy reasons within a 60-day presidential review period. In 2005 the president delegated this authority to the Office of the US Trade Representative. The ITC's goal is to regulate the effect of imports on US industries and curtail unfair trade practices, including trademark and patent infringement pursuant to 19 US Code §1337.

To identify and prosecute potential infringement, Section 337 mandates that the ITC proceed through investigations. Before 2011 the commission entrusted the Office of Unfair Import Investigations (OUII) – along with one of the six administrative law judges assigned to the case – to perform such investigations and represent the public interest. However, due to budgetary reductions in 2011, the OUII has since participated only in cases where its expertise is of significant added value.

Advantages of ITC proceedings

As a bipartisan, quasi-judicial body, the ITC's rules and procedures can differ considerably from those that practitioners are accustomed to seeing in federal court litigation. Due to its status as an administrative agency, proceedings before the ITC are not subject to the Federal Rules of Civil Procedure or the Federal Rules of Evidence. The ITC also differs from federal courts in that it can exercise *in rem* jurisdiction over allegedly infringing imports. To enforce its decisions, it can grant *in rem* remedies (so-called 'exclusion orders'), which attach to the infringing articles. The exclusion orders can be general or limited; the former allows Customs to seize infringing articles regardless of the name of the importer, while the latter allows it to bar the import of articles from the named respondent only (19 USC §1337(d)(1); 19 USC §1337(d)(2) (2012); see *Kyocera Wireless Corp v Int'l Trade Comm'n*, 545 F3d 1340, 1356-58 (Fed Cir 2008)). *In rem* jurisdiction has proven to be particularly useful in the era of increasing globalisation, as foreign companies importing goods into the US market have become more familiar with the reach of the federal courts' *in personam* jurisdiction. As a result, between 1995 and 2010 the number of Section 337 cases instituted before the ITC rose sharply.

One well-known advantage of litigating before the ITC is the speed at which it concludes its determinations. By statute, it must conclude an investigation within 12 months (18 months if the case is particularly complicated) and on average, investigations are completed within 16 months. On the one hand, the fast-track nature of proceedings makes the ITC an attractive forum for trademark protection, especially considering that district court cases can take several years to complete the trial phase. On the other hand, it requires considerable efforts from counsel as trial preparation times are condensed. For example, discovery responses are due in 10 days, rather than the 30 days allowed in district court, and a party can move for summary determination up to 60 days before the administrative law judge's evidentiary hearing.

Assessing infringement

Domestic industry requirement

Investigations of infringements of registered trademarks are regulated under 19 US Code §1337(a)(1)(C), which sets forth a two-prong test (the so-called 'domestic industry' requirement). The first part of the test (ie, the technical prong) focuses on the use of the trademark. While use is a key aspect of trademark protection in most jurisdictions,

PICTURE: SEBASTIAN JAKOB/SHUTTERSTOCK.COM few value it as highly as the United States. Therefore, the first step of an investigation is based on verifying that the trademark is effectively in use. The second part of the test has roots in the trade nature of the ITC. It evaluates the domestic industry in which the trademark would operate and determines whether sufficient significant US activities would be affected by the infringing import to warrant an exclusion order. The statute identifies three types of investment that constitute a domestic industry:

- a significant investment in plant or equipment;
- significant employment of labour or capital; or
- substantial investment in its exploitation, including engineering, R&D and licensing.

The trademark must satisfy both prongs of the test for the ITC to determine that Section 337 of the Tariff Act has been violated.

Injury requirement

In addition to registered trademarks, the ITC allows for infringement litigation based on common law trademarks pursuant to 19 US Code §1337(a)(1)(A). Protection of a common law trademark falls within the category of non-statutory unfair competition practices and, therefore, within the purview of the ITC which is responsible for preventing acts of unfair trade. However, in the absence of federal or state registration, the enforcement of IP rights in common law trademarks imposes a higher burden. In addition to the domestic requirement illustrated above, complainants must prove that the import of the infringing articles severely threatens or injures an industry in the United States (19 USC §1337(a)(1)(A)(i)). This is also known as the 'injury' requirement. Aspects such as market penetration and the volume of imports are key evaluations in the ITC's decision as to whether an injury to a domestic industry has occurred. The complainant must also prove that a nexus exists between the import of the respondent's articles and the injury to the domestic industry in which the complainant operates.

Despite these advantages, the average number of investigations instituted before the ITC between 2011 and 2017 has almost halved.

Defining 'articles'

The US Court of Appeals for the Federal Circuit decision in *ClearCorrect v ITC* (2014-1527, 2015 WL 6875205 (Fed Cir November 10 2015)) may help to shine a light on this alarming drop. In this critical case, the court upheld an appeal against the ITC's final decision in its *Digital Models* investigation.

Digital Models

Complainant Align Technology, Inc had sought to protect seven patents on a system repositioning teeth through custom-made aligners. Section 337 of the Tariff Act prohibits the import and sale of articles that infringe valid and enforceable US patents or trademarks. Therefore, the controversial aspect of the case was that Align's claims had been directed to intangible products (eg, methods of creating dental appliances, digital data sets and digital treatment plans). The ITC had to determine the scope of the word 'article' and decide whether this included intangible property.

Using dictionary entries, it analysed the plain meaning of the term 'article' and concluded that, although "an article was understood to include something material", the term was also "understood to embrace a broader meaning that describes something that is traded in commerce" (see *In re Certain Digital Models, Digital Data, & Treatment Plans for Use in Making Incremental Dental Positioning Adjustment Appliances, the Appliances Made Therefrom, and Methods of Making the Same* Inv 337-TA-833, USITC Pub 2013-18437, at 39). Further, the ITC argued that "articles" appears together with "importation" and "sale"; therefore, its meaning could be determined only in light of its juxtaposition with these terms (*id*, at 41). It noted that bringing an article into the United States constitutes an import, irrespective of the means through which it has entered the market, provided that it has been bought and sold in the country (*id*, at 41-42).

The most likely rationale behind this broad interpretation was to respond to the outdated Tariff Act, which did not afford adequate protection to patent and trademark owners dealing with infringements using advanced technology. The last major revision of the Tariff Act took place in 1988, before the Internet was publicly available. These days, rights holders can suffer infringement at the hands of someone who simply downloads the three-dimensional model of their product from the Internet, prints it and sells it on the market. Such action could not have been envisioned when Congress adopted the most recent significant changes to the act.

> **"The fast-track nature of proceedings makes the ITC an attractive forum for trademark protection**

On the one hand, the ITC could have attempted to broaden the scope of the term 'article' under Section 337 in order to keep up with technological advances and to give rights holders recourse before the commission.

On the other hand, the ITC's interpretation was problematic. First, under the Tariff Act, Customs has jurisdiction to seize goods only (ie, physical goods arriving at a port of entry). Should the ITC issue an exclusion order on intangible property, Customs would arguably lack the legal authority to enforce the order. Second, how the ITC would commence an investigation without its *in rem* jurisdiction is unclear, because it could exercise only *in personam* jurisdiction over intangible property.

ClearCorrect

The broadened scope of the ITC's jurisdiction was short lived. On November 10 2015 a three-judge panel at the US Court of Appeals for the Federal Circuit reversed the *Digital Models* decision and ruled that the ITC had no jurisdiction over electronic transmissions. Therefore, the ITC could not block digital information even if it infringed valid US patents or trademarks. In reaching this decision, the court analysed a plethora of dictionary entries regarding the plain meaning of the word 'article' on the basis of editions contemporaneous to the entry into force of the Tariff Act. The study revealed that all relevant dictionaries pointed to the term 'articles' comprising a corporeal element.

Further, the court disagreed with the ITC's reasoning that the term must be considered in light of its context (ie, that "articles" appears in proximity of "sale" and "importation", therefore encompassing all imported articles irrespective of the ways in which they are introduced into the market). The court explained that Section 337 of the Tariff Act provides only one remedy for violations – the exclusion order – and that such action could affect tangible property only. In addition, it noted that the language of the statute is irreconcilable with the idea of digital information because terms such as 'attempted entry' and 'port of entry' do not apply to intangible property, indicating that Congress had no intention for the word 'article' to include intangibles (*ClearCorrect*, *supra* at 3, at 22-23). Finally, the court referred to the Harmonised Tariff Schedule of the United States which provides a 95-page list of specific dutiable and non-dutiable goods, all of which are material things (*id*, at 26). Despite a lengthy dissent from Judge Newman, the court reversed the *Digital Models* decision and ruled that the ITC had no jurisdiction over non-tangible goods.

On January 27 2016 the ITC and Align both petitioned the Federal Circuit for *en banc* review of the decision. In *ClearCorrect Operating LLC v ITC* (2014-1527, January 28 2016, at 8) the ITC argued that the court of appeal's interpretation of the word 'article' was too limited. It explained that while 'articles' can mean material things, this is not the only ordinary meaning. It also noted that if the court refused to review its interpretation, it would basically extend an open invitation to foreign entities to circumvent the ITC's authority under Section 337 of the Tariff Act.

On March 31 2016 – despite another lengthy dissent from Newman – the panel majority confirmed the court of appeal's decision and rejected the request for *en banc* review. As a result, the present interpretation of 'articles' under Section 337 does not encompass electronic transmissions and, therefore, the ITC has no jurisdiction over digital infringements of US patents and trademarks.

Future clarification

While the denial of *en banc* review concludes this phase of the investigation, the issue may be readdressed in future. Newman's strong dissents have set the stage for a request for Supreme Court review. Indeed, the ITC and the petitioner may be compelled to file petitions for *certiorari* in the Supreme Court. Redefining the term 'article' would broaden the scope of the Tariff Act and the ITC's jurisdiction. In addition, Align clearly has a specific interest in the case.

Ultimately, a Supreme Court review would help to settle the issue of whether the Tariff Act is sufficiently flexible to deal with the digital age and would clarify the scope of the ITC's jurisdiction.

In the absence of a reversal of the Federal Circuit decision by the Supreme Court, legislative intervention would be required to expand the ITC's jurisdictional boundaries. Congress would have to address:

- whether the Tariff Act needs revision in order to deal with modern technology; and
- whether the ITC is the most appropriate forum to protect US patent and trademark owners from digital infringement.

Congress could address these issues by clarifying the ITC's rule-making authority. To date, it remains unclear whether the commission can promulgate substantive rules. Various scholars have explained that while rule-making authority is common in administrative bodies, the ITC is yet to employ it (see "Regulating Digital Trade", Sapna Kumar, *Florida Law Review*, Vol 67, Issue 6, p 49 and Proposed Rule Requiring Country-of-Origin Marking of Imported Steel Wire Rope, 45 Fed Reg 12835, 12835-12836 (February 27 1980)). Section 1335 of the Tariff Act empowers the ITC to adopt any reasonable regulation that it deems necessary to carry out its functions. However, it is unclear whether this power also applies to substantive rules.

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Direct enforcement is another grey area affecting the ITC's effectiveness. The commission can issue exclusion and cease and desist orders. Yet while it can directly institute formal enforcement proceedings to amend or revoke an earlier order, it cannot directly enforce its orders. In fact, from a judicial perspective, the ITC must bring a civil action before a federal district court to secure judicial enforcement of its orders (19 CFR § 210.75(b)(4)(ii) (2015)). From a practical standpoint, the exclusion orders are enforced by the Customs Intellectual Property Rights Branch in conjunction with the Centres for Excellence and Expertise. Parties must discuss with these bodies to determine the scope and assist in the identification of the infringing products. Therefore, the ITC relies on judicial and other administrative bodies to carry out its determinations.

Conclusion

The ITC has the potential to become far more prominent for adjudicating IP-related infringement actions thanks to the expeditiousness of its proceedings. However, it is caught in a grey area on two levels. First, from a jurisdictional standpoint, the limitation imposed by the Federal Circuit on its jurisdiction with respect to digital infringements prevents the ITC from adopting a stronger role in IP rights enforcement, as technological advancement, commerce and IP protection continue to move towards full digitalisation. Second, a lack of effective enforcement and rule-making authority reduces the ITC's attractiveness as a forum for IP disputes in comparison to district court litigation. **WTR**

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