US International Trade Commission

Reducing the disruption

As the number of section 337 investigations continues to rise, Morris, Manning & Martin's **Jonathan Link** advises on how to reduce their disruption to business

Business in the modern world is a universal proposition with supply chains often wrapping around the globe. In many cases, companies obtain components and manufacture the product outside the US, before importing the final product into the US for sale to consumers. This arrangement makes financial sense in the business world. However, it does put those companies at greater risk of intellectual property investigations at the US International Trade Commission (ITC) under section 337 of the Tariff Act of 1930. If an investigation results in an exclusion order being issued, a business may not be able to import infringing components or products into the US. Because of this potential disruption, businesses should have strategies in place to help reduce those risks.

ITC investigations and exclusion orders

The process for an investigation and/or exclusion order begins with the filing of an initial complaint, requesting that the ITC investigates the importation of products that allegedly infringe the complainant's intellectual property rights. If the investigation is instituted, the respondents - manufacturers and/or importers of the accused products - then litigate with the complainant in a hearing before an administrative law judge (ALJ). The ALJ issues an initial determination, which is then ruled on by the ITC commissioners in a final determination. If the final determination concludes that valid intellectual property rights are violated, the ITC will issue an exclusion order. US Customs and Boarder Protection (customs) will then enforce the exclusion order by preventing the infringing products from being imported into the US. These investigations are commonly called 337 investigations. While any type of intellectual property may be involved, the vast majority involve patents. In 2019, 110 of the 127 investigations under Section 337 solely involved patents, while 119 of 130 investigations in 2018 solely involved patents.1

Over the last few years, 337 investigations at the ITC have increased. In 2019, there were 127 active 337 investigations, an over 40% increase since 2015, when there were 88.² Complaints involving communications and telecommunications products were most common, with 21 filed in 2019 and 30 filed in 2018.³ Pharmaceutical and medical devices followed with 14 new complaints in 2019 and 15 in 2018, along with automotive, manufacturing and transportation products with 14 new complaints in 2018.⁴

With an increase of 337 complaints being filed, companies need to plan ahead for the possible interruption of its business. In 2019, 68% of 337 investigation decisions resulted in the ITC finding a violation.⁵ This is in line with trends since 2015, where 62% – 88% of

investigations found a violation.

Based on these statistics, businesses have an increased risk of everyday operations grinding to a screeching halt. Further, key players along the supply chain can feel the pain of lost income and an unclear future. Businesses need to prepare themselves and take steps to avoid an unfavourable outcome. By evaluating these possibilities, especially during the early stages of product development, a business may be able to get a head start on avoiding an ITC 337 exclusion order. The speed of an ITC 337 investigation, which averages 14 months from beginning to end, makes it particularly important that a company consider these issues as soon as possible.⁶

Alternate suppliers

In an effort to mitigate risk, businesses should first determine whether alternative suppliers can be used. If a business has multiple suppliers for critical components, it can reduce the risk of an ITC exclusion order disrupting the supply chain. If a component must be sole-sourced, identifying potential back-up suppliers ahead of time can also be advantageous. This may shorten lead times needed to rework the end consumer product.

Obtaining a US-based supplier may be particularly beneficial. An ITC exclusion order results in customs stopping a product from being imported into the US. However, if the product, or the accused component of the product, is manufactured in the US, customs has no power to prevent that from being purchased. Therefore, moving manufacturing to the US may also help avoid an exclusion order.

Potential redesigns

While exploring alternative suppliers, businesses should also look at potential redesigns for a product. Identifying these redesigns may assist in determining what alternative suppliers can be used. In addition, if a product or component is named in a 337 complaint, a business can decide whether these previously identified redesigns can be implemented cheaply and/or quickly while still being effective in the market.

A business should also look at options for redesigning a product immediately upon being served with a 337 complaint. If one of the previously identified redesigns is not workable (or accused), new designs should be explored to determine if the allegations in the complaint can be addressed.

Indemnification from suppliers

Another key consideration for any company is to ensure it is indemnified and defended at the ITC, as well as any parallel district court proceedings, by its suppliers. This can be particularly useful where the infringing technology is a component. The mobile device and computing business is an example of an area where indemnification may be of particular importance. These end products are often sourced and manufactured outside the US. Chips are purchased and sent to be assembled in the end product, before being imported into the US for sale to consumers. However, these chips and their functions are often the subject of 337 investigations. In the ITC, the party doing the importing of the product must be named.⁷ For example, when a complaint is filed against chips that implement 4G wireless technology, the handset manufacturers that incorporate the chips into their products prior to importation are also named in the complaint. These companies, often referred to as a customer respondent, may find themselves in the middle of an ITC investigation that has little to do with technology that they developed. Therefore, indemnification may be particularly important for customer respondents.

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Where possible, businesses should seek some say over any final settlement. For example, if the settlement requires the chip maker to cease making the chip, a business could request a transition period that could include paying to use the infringing chips for a span of time, so as to allow a transition to non-infringing alternatives. This can prevent or minimise the disruption to customers or current contracts.

Attacking the validity of the patents

Basic patent litigation strategy, such as aggressively fighting infringement and validity, is also important. In 2019, 44% of all new 337 investigations involved five or more patents.⁸ By vigorously defending itself, a business can reduce the scope of an eventual exclusion order. Implementing a redesign to avoid one patent is likely to be far easier than redesigning to avoid six patents.

Filing a petition for *inter partes* review (IPR) at the US Patent and Trademark Office (USPTO) is another potential strategy. IPR proceedings are also very fast, and may result in the IPR being completed around the same time as an ITC investigation.

US Customs and Border protection

A business also needs to ensure that an exclusion order is carried out correctly. Customs and its Intellectual Property Rights Branch (IPRB) work to carry out the exclusion order by looking at documents from the 337 investigation, including the asserted patents, the ITC's initial and final determinations, and the actual exclusion order to determine enforcement and instructions to customs agents.

Therefore, it is critical to work with customs to ensure that instructions to implement the exclusion order are appropriate. This can involve meeting with customs, and even local customs agents (with IPRB's approval), to educate them on the proper scope of the exclusion order and ensure that only appropriate products are included.

A business can obtain a ruling letter under 19 the Code of Federal Regulations' section 210.177 from customs to confirm that proper design-arounds are not included within the scope of enforcement of the exclusion order. This procedure, which is *ex parte*, allows a respondent to submit written information to the IPRB evidencing why the new product should not be included in the exclusion order. In some instances, the IPRB will handle this request without allowing the complainant to respond. Once it has received and evaluated all this information, the IPRB will issue its determination in the form of the customs ruling letter.

Using all these tools

While the various options above may be implemented solely, there is no reason that all of the tools listed cannot be used in tandem where relevant and applicable. One case study is Arista, a computer networking company which opened in 2008 as a competitor of Cisco. As Arista grew, Cisco filed two 337 complaints alleging infringement of 12 patents by key Arista products. Arista took an aggressive approach during the investigation, and was able to obtain findings of no violation for seven of the patents. Simultaneously, Arista was also redesigning its products. Because of this, Arista was able to avoid an exclusion order on four of the Cisco patents. This left an ITC ruling and exclusion order for one patent.

However, during the 337 investigation, Arista also filed IPRs against the Cisco patents. The PTAB at the USPTO ruled that the last patent was invalid. After the invalidity was affirmed by the US Court of Appeals for the Federal Circuit, the ITC suspended its order with respect to that patent.

Using an aggressive and multi-pronged strategy, Arista was able to reduce the disruption of a 337 investigation. Arista's tactics demonstrates how a business can be proactive and utilise multiple strategies to avoid an exclusion order.

Summary

ITC investigations are on the rise, and exclusions orders are ever-present. By planning ahead and being mindful of their decisions, companies can take significant and crucial steps to reduce the risk of an exclusion order disrupting their business.

Footnotes

- https://www.usitc.gov/intellectual_property/337_statistics_types_unfair_ acts_alleged_active.htm
- https://www.usitc.gov/intellectual_property/337_statistics_number_new_ completed_and_active.htm.
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