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## “SEVERAL HEALTHY STEPS AWAY”: NEW & IMPROVED PRODUCTS IN SECTION 337 INVESTIGATIONS

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### ABSTRACT

A business that imports “new and improved,” or redesigned, products into the United States should be aware of the procedures available to lessen the risk of violating standing orders of the United States International Trade Commission (“Commission”). In order to ensure that these products gain entry without violating an ITC order and accruing substantial penalties, it is imperative that the business know its options. Whether it requests a Customs ruling or uses a certification, or whether it petitions for an advisory opinion from the Commission, the business must be able to maneuver. This nuts-and-bolts guide provides examples and information on how to stay “several healthy steps away” from violating the Commission’s orders.

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## “SEVERAL HEALTHY STEPS AWAY”: NEW & IMPROVED PRODUCTS IN SECTION 337 INVESTIGATIONS

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### INTRODUCTION\*\*\*

Section 1337 of the Tariff Act of 1930,<sup>1</sup> as amended, (“Section 337”) prohibits the importation or domestic sale of imported articles that infringe a United States intellectual property (“IP”) right.<sup>2</sup> Among other things, Section 337 empowers the United States International Trade Commission (the “Commission” or “ITC”) to order United States Customs and Border Protection (“Customs” or “CBP”) to exclude from entry into the United States all articles that infringe a United States intellectual property right.<sup>3</sup>

The Commission directs Customs to exclude products found in violation of section 337 by issuing exclusion orders.<sup>4</sup> There are two kinds of exclusion orders:<sup>5</sup> general exclusion orders (“GEO”), which prohibit entry of infringing products

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<sup>1</sup> Tariff Act of 1930, ch. 497, sec. 337, 46 Stat. 590, 703–04 (codified as amended at 19 U.S.C. § 1337 (2006)).

<sup>2</sup> 19 U.S.C. § 1337.

<sup>3</sup> *Id.* § 1337(d); *see id.* § 1337(a)(1)(B)–(E) (indicating that eligible IP rights include patents, copyrights, trademarks, mask works, and designs under 17 U.S.C. §§ 1301–32).

<sup>4</sup> *Id.* § 1337(d)(2).

<sup>5</sup> *Id.* § 1337(d). Customs will exclude articles covered by the exclusion order from the United States, except during the Presidential Review period, during which time the articles are permitted entry under bond. *See* 19 U.S.C. § 1337(j). Once the Commission determines Section 337 has been violated, it transmits its determination to the President for review. *Id.* § 1337(j)(1)(B). The President may disapprove of the determination for policy reasons. *Id.* § 1337(j)(2). Disapproval renders the determination with “no force or effect.” *Id.* If no disapproval is made, the determination becomes final. *Id.* § 1337(j)(4). Exclusion orders and cease and desist orders become fully enforceable, and bond posted during the presidential review period may be forfeited to the complainant. *Id.* § 1337(j)(3).

regardless of source and regardless of whether an affected entity is named as a respondent on the complaint,<sup>6</sup> and limited exclusion orders (“LEO”), which prohibit entry of particular infringing products made by the named respondents.<sup>7</sup> The Commission can also issue cease and desist orders to prevent further activity inside the United States relating to the accused articles.<sup>8</sup> Cease and desist orders (“CDO”) focus on domestic commercial activities downstream from importation, such as distribution or transfer of domestic inventory of imported products.<sup>9</sup> The Commission’s authority to issue CDOs is based on *in personam* jurisdiction,<sup>10</sup> and only respondents found to have a significant domestic inventory of accused products may be subject to such orders.<sup>11</sup> The penalties for violating a CDO may be substantial.<sup>12</sup>

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<sup>6</sup> *Id.* § 1337(d)(2)(A).

<sup>7</sup> *Id.* § 1337(d)(1)–(2); see *Kyocera Wireless Corp. v. Int’l Trade Comm’n*, 545 F.3d 1340, 1354–58 (Fed. Cir. 2008).

<sup>8</sup> 19 U.S.C. § 1337(f). The Commission, not Customs, oversees enforcement of cease and desist orders. *Id.* § 1337(f)(2).

<sup>9</sup> *In re Certain Integrated Repeaters, Switches, Transceivers and Products Containing Same, USITC Pub. 3547, Comm’n Op. on Remedy, the Public Interest, and Bonding 27, Inv. No. 337-TA-435 (Oct. 2002)*, 2002 ITC LEXIS 615, at \*56 (“The Commission issues cease and desist orders where ‘commercially significant’ inventories of infringing products are present in the United State [sic], and complainants bear the burden of proving that respondent has such an inventory.”); DONALD K. DUVAL ET AL., UNFAIR COMPETITION AND THE ITC § 10:4 (2008 ed.) (“The Commission issues cease and desist orders when ‘commercially significant’ inventories of infringing products are present in the United States.”); see *In re Certain Lens-Fitted Film Packages, USITC Pub. 3219, Comm’n Op. 12–14, Inv. No. 337-TA-406 (Aug. 1999)*, 1999 ITC LEXIS 502, at \*26–29 (issuing a cease and desist order to twenty domestic respondents who were found to have significant amounts of infringing inventory in this country), *aff’d in part, rev’d in part, and remanded sub nom. Jazz Photo Corp. v. Int’l Trade Comm’n*, 264 F.3d 1094 (Fed. Cir. 2001).

<sup>10</sup> 19 U.S.C. § 1337(f) (indicating that civil penalties are authorized only by 19 U.S.C. § 1337(f), and extend only to violations of *in personam* orders, *i.e.*, cease and desist orders and consent orders); *In re Certain Lens-Fitted Film Packages, Comm’n Op. 11, Inv. No. 337-TA-406 (June 23, 2003)*, 2003 ITC LEXIS 807, at \*16 (“We have recognized that civil penalties are expressly authorized under 19 U.S.C. § 1337(f)(2) for violations of cease and desist orders only.”); *San Huan New Materials High Tech., Inc. v. Int’l Trade Comm’n*, 161 F.3d 1347, 1356–57 (Fed. Cir. 1998) (“The Commission’s long-standing interpretation of § 337(f)(2) has been that consent orders may be *enforced* through civil penalties; this interpretation is correct; and even if there were ambiguity, the Commission’s interpretation is reasonable and warrants appropriate deference.”) (emphasis added).

<sup>11</sup> See, *e.g.*, *In re Certain Lens-Fitted Film Packages, USITC Pub. 3219, Comm’n Op. 13, Inv. No. 337-TA-406 (Aug. 1999)*, 1999 ITC LEXIS 502, at \*27 (defaulting parties are “presumed to maintain significant inventories of infringing products” that are subject to cease and desist orders); see also *In re Certain Hardware Logic Emulation Systems and Components Thereof, USITC Pub. 3089, Op. on Remedy, the Public Interest, and Bonding 25, Inv. No. 337-TA-383 (Mar. 1998)*, 1998 ITC LEXIS 138, at \*51 (issuing cease and desist order prohibiting sale of electronic transmissions where necessary to effectuate purposes of the statute).

<sup>12</sup> See 19 U.S.C. § 1337(f)(2).

Any person who violates [a cease and desist order] issued by the Commission . . . shall forfeit and pay to the United States a civil penalty . . . of not more than the greater of \$100,000 or twice the domestic value of the articles entered or sold on such day in violation of the order.

*Id.*

In general, exclusion orders are crafted so that they cover only *infringing* articles.<sup>13</sup> Nothing in section 337 prevents a respondent from designing, developing, manufacturing, importing into or selling inside the United States a redesigned product, configured so that it falls outside the scope of the intellectual property right at issue.<sup>14</sup> In some instances, a noninfringing redesign can be obtained simply by switching to a noninfringing supplier.<sup>15</sup> In other cases, it may be better to reconfigure an existing product.<sup>16</sup>

On the other hand, redesigns risk falling within the scope of the Commission’s exclusion order, if the redesign ultimately fails to avoid infringement.<sup>17</sup> Herein lies the difficulty: importing redesigns is conduct that could violate the Commission’s orders if the Commission finds they infringe.<sup>18</sup> Thus, importing or distributing such products is essentially a gamble that the Commission will find the redesigns non-infringing – a possibly risky strategy. Violations of exclusion orders do not lead to

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<sup>13</sup> See *id.* § 1337(a)(1)(B)–(E) (defining importation or sale of articles infringing enumerated intellectual property rights as unfair acts); *id.* § 1337(d)(1) (requiring the Commission, upon finding a violation of Section 337, to order the exclusion of “the articles concerned”). In practice, the Commission generally issues limited exclusion orders, which cover the specific articles from specific sources found to be in violation of Section 337. *Id.*; see *id.* § 1337(d)(2) (permitting general exclusion only where necessary to prevent circumvention of limited exclusion order or where there is a pattern of Section 337 violation and sources of infringing products are difficult to identify). A more rigorous showing must be made by the IP right holder to obtain a general exclusion order. *Id.*

<sup>14</sup> See generally *id.* § 1337(a)(1) (defining unlawful activities regarding unfair practices in import trade, but not prohibiting a respondent from selling a redesigned product that falls outside the scope of an intellectual property right within the United States).

<sup>15</sup> See *In re Certain Fluidized Supporting Apparatus and Components Thereof*, Initial Determination, Inv. Nos. 337-TA-182, 337-TA-188 (June 16, 1984), 1984 WL 273788 (finding that respondent, hospital bed manufacturer, will not be harmed by granting of temporary exclusion order because they could obtain same or similar bed parts from a noninfringing supplier).

<sup>16</sup> See *Eaton Corp. v. United States*, 395 F. Supp. 2d 1314, 1326 (Ct. Int’l Trade 2005) (“The Commission implicitly rejected that request by directing respondents to request an advisory opinion if they want a Commission determination as to whether a newly designed AMTS does not infringe the patent at issue, and thus does not come within the scope of the Order.”).

<sup>17</sup> *In re Certain Reclosable Plastic Bags and Tubing*, USITC Pub. 2239, Initial Advisory Op. 1, Inv. No. 337-TA-266 (Nov. 1989), 1989 ITC LEXIS 392, at \*3–4 (former respondent “has the burden of establishing noninfringement, pursuant to its request for an advisory opinion.”); see also *In re Certain Multicellular Plastic Film*, USITC Pub. 987 at 23 (June 1979) (clarifying that “the burden of establishing noninfringement [is placed] upon would-be importers rather than to require complainant, the aggrieved party in this matter, to prove infringement.”).

<sup>18</sup> See *In re Certain Lens-Fitted Film Packages*, Comm’n Op. 14–15, Inv. No. 337-TA-406 (June 23, 2003), 2003 ITC LEXIS 807, at \*22–23. It matters here what orders apply to what parties; violations of exclusion orders generally do not give rise to civil penalties. *Id.* at 11, 2003 ITC LEXIS 807, at \*16. Here, the Commission declined to issue a cease and desist order against party in violation of general exclusion order absent evidence of commercially significant domestic inventory. *Id.* at 15, 2003 ITC LEXIS 807, at \*23. However, the Commission noted that it may issue cease and desist orders against parties *without* domestic inventory where it is necessary to effect the purposes of the statute. *Id.* at 15 n.11, 2003 ITC LEXIS 807, at \*23 n.11 (citing *In re Certain Hardware Logic Emulation Systems and Components Thereof*, USITC Pub. 3089, Op. on Remedy, the Public Interest, and Bonding 18–20, Inv. No. 337-TA-383 (Mar. 1998), 1998 ITC LEXIS 138, at \*36–42 (issuing a cease and desist order prohibiting sale of certain electronic transmissions)); see 19 U.S.C. § 1337(f)(2) (providing for daily fine of the larger of \$100,000 or twice the domestic value of the articles concerned for violations of cease and desist order, payable to the United States).

substantial civil penalties;<sup>19</sup> however, violations of cease and desist or consent orders have in the past led to civil penalties.<sup>20</sup>

How, then, can one get redesigns to market while minimizing the risk of violating Commission orders? A good faith belief that the redesigns do not infringe is insufficient. Instead, if a respondent cannot get its new products cleared by the Administrative Law Judge (“A.L.J.”) in the initial investigation, that respondent must follow the established procedures at Customs and/or the Commission to clear redesigned products so that they are not subject to exclusion. Taking advantage of these procedures can prevent losing market share to competitors without risking violating Commission orders (or at least minimizing that risk).

## I. BACKGROUND

The Commission’s exclusion orders supply essential details to Customs, *i.e.*, they identify products, the patents and claims at issue, the respondents (and their affiliates).<sup>21</sup> For example, the Commission issued the following LEO in the *Magnifying Loupe Products* investigation:

[T]he Commission hereby ORDERS that:

1. Magnifying loupe products and components thereof that are covered by one or more of claim 8 of U.S. Patent No. 5,446,507, claim 1 of U.S. Patent No. 6,513,929, and claims 1-5 and 10 of U.S. Patent No. 6,704,141 that are manufactured abroad by or on behalf of, or imported by or on behalf of,

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<sup>19</sup> See 19 U.S.C. § 1337(d)(1)–(2). Because there is no specific statutory authorization to impose penalties for violation of *in rem* exclusion orders, the Commission does not impose penalties for such violations. *Id.*; see *In re Certain Lens-Fitted Film Packages*, Comm’n Op. 10, Inv. No. 337-TA-406 (June 23, 2003), 2003 ITC LEXIS 807, at \*15–16 (citing *Gold Kist, Inc. v. U.S. Dep’t of Agric.*, 741 F.2d 344, 347–49 (11th Cir. 1984) (explaining that agencies generally may not impose civil penalties without statutory basis to do so). “Because we find no statutory basis for imposing monetary penalties on a party found in violation of an *in rem* exclusion order, we adopt the ALJ’s recommendation on this issue and decline to levy civil penalties against the parties found to have violated only the general exclusion order.” *Id.* at 12, 2003 ITC LEXIS 807, at \*18; see also *In re Certain Neodymium-Iron-Boron Magnets, Magnet Alloys, and Articles Containing Same*, USITC Pub. 3073, Comm’n Op. 8, Inv. No. 337-TA-372 (Nov. 1997), 1997 ITC LEXIS 379, at \*83 (affirming that the Commission must cite the specific 337 section for its authority); *In re Certain Erasable Programmable Read Only Memories, Components Thereof, Products Containing Such Memories and Processes for Making Such Memories, Recommended Determination*, Inv. No. 337-TA-276 (enforcement) (June 22, 1990), 1990 WL 710442 (“Civil penalties are authorized under §337(f)(2) only for violation of such cease and desist orders themselves, and for importations or sales in violation of a cease and desist order.”).

<sup>20</sup> See 19 U.S.C. § 1337(f)(2); *In re Certain Lens-Fitted Film Packages*, Comm’n Op. 1, Inv. No. 337-TA-406 (June 23, 2003), 2003 ITC LEXIS 807, at \*31 (former respondent relied on favorable Customs ruling as evidence of good faith compliance with cease and desist order, but Commission imposed fine of \$480,000); see also *San Huan New Materials High Tech., Inc. v. Int’l Trade Comm’n*, 161 F.3d 1347, 1355 (Fed. Cir. 1998) (“Responding to San Huan’s challenge to the Commission’s authority, the Commission referred to its long-standing practice of imposing civil penalties for violations of consent orders, and to Congressional ratification of that practice.”).

<sup>21</sup> See *Kyocera Wireless Corp. v. Int’l Trade Comm’n*, 545 F.3d 1340, 1346 (Fed. Cir. 2008) (demonstrating that Commission exclusion orders identify product categories, subcategories, patents, and claims at issue).

Nanjing or any of its affiliated companies, parents, subsidiaries, or other related business entities, or any of their successors or assigns, shall be excluded from entry for consumption into the United States, entry for consumption from a foreign trade zone, or withdrawal from a warehouse for consumption, for the remaining term of the patents, except under license of the patent owner or as provided by law.<sup>22</sup>

If a respondent is able to develop new and improved products that it believes are noninfringing after an exclusion order enters, there are options available at Customs and at the ITC to have those products allowed entry into the United States.<sup>23</sup>

The Commission’s exclusion orders generally include certification provisions, whereby Customs, in its discretion, may accept a certification by an entity seeking to import articles that the articles in question do not fall within the scope of an exclusion order.<sup>24</sup> For example, in *Magnifying Loupe Products*, the Commission provided:

3. At the discretion of U.S. Customs and Border Protection (CBP) and pursuant to procedures it establishes, persons seeking to import magnifying loupes and components thereof that are potentially subject to this Order may be required to certify that they are familiar with the terms of this Order, that they have made appropriate inquiry, and thereupon state that, to the best of their knowledge and belief, the products being imported are not excluded from entry under paragraphs 1 through 7 of this Order. At its discretion, Customs may require persons who have provided the certification described in this paragraph to furnish such records or analyses as are necessary to substantiate the certification.<sup>25</sup>

Such provisions are intended to ease the administrative burden on Customs and to minimize disruptions to legitimate trade activities.<sup>26</sup> These are especially helpful

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<sup>22</sup> *In re* Certain Magnifying Loupe Products and Components Thereof, Limited Exclusion Order 2, Inv. No. 337-TA-611 (July 24, 2008), 2008 ITC LEXIS 1296, at \*2–3 (explaining that cease and desist orders generally prohibit activities related to “covered products,” that are defined as products falling under the scope of the IP rights at issue); *see, e.g., In re* Certain Ink Sticks for Solid Ink Printers, Order to Cease and Desist 2, Inv. No. 337-TA-549 (Apr. 11, 2006), 2006 ITC LEXIS 247, at \*7 (“The term ‘covered products’ shall mean: ink sticks for solid ink printers that are covered by one or more of claim 16 of the ’713 patent, claims 5–10 and 13–14 of the ’613 patent, and claims 1–2 of the ’612 patent.”).

<sup>23</sup> *See In re* Certain Magnifying Loupe Products and Components Thereof, Limited Exclusion Order 3, Inv. No. 337-TA-611 (July 24, 2008), 2008 ITC LEXIS 1296, at \*3–4 (stating that persons seeking to import magnifying loupes may be required to certify that the products being imported are not excluded from entry under the Order).

<sup>24</sup> *Id.*; *see also* U.S. CUSTOMS & BORDER PROT., HQ RULING LETTER 471165 (May 15, 2002), available at <http://rulings.cbp.gov/index.asp?ru=471165&qu=337&vw=detail> (last visited Mar. 2, 2009) (making available rulings on the entry of products into the United States based on the scope of the ITC’s general exclusion orders).

<sup>25</sup> *See In re* Certain Magnifying Loupe Products and Components Thereof, Limited Exclusion Order 3, Inv. No. 337-TA-611 (July 24, 2008), 2008 ITC LEXIS 1296, at \*3–4.

<sup>26</sup> *See In re* Certain Audio Processing Integrated Circuits and Products Containing Same, USITC Pub. 3991, Comm’n Op. 10, Inv. No. 337-TA-538 (May 2008), 2008 ITC LEXIS 814, at \*15

where a product's infringing status can only be determined by rigorous or highly technical inspection and analysis.<sup>27</sup>

As with any tribunal, the Commission diligently enforces its remedial orders. Parties subject to CDOs or consent orders have "an affirmative duty to take 'energetic steps' to do 'everything in [their] power' to assure compliance with [an] order."<sup>28</sup> To that end, respondents'

... failure to act in good faith in attempting to comply with the Commission's orders warrants a *significant* civil penalty in order to ensure the continuing deterrent effect of the Commissions' order[s]... , to vindicate the Commission's authority, and to put future parties subject to Commission remedial orders on notice of the risks of failure to comply with Commission orders.<sup>29</sup>

Thus, any party seeking to import a redesigned product is well-advised to proceed with extreme caution.

## II. CUSTOMS

### A. Rulings

One way to attempt to clear redesigned products for entry into the United States is to seek a Customs ruling that the redesigned products do not fall within the scope of an exclusion order.<sup>30</sup> In the Customs ruling procedure, an importer can request a ruling that addresses whether the redesigned product falls within the scope of an

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("We believe that the burdens on third parties and Customs will be minimized by the certification provision we have included in the limited exclusion order.")

<sup>27</sup> See *id.*, 2008 ITC LEXIS 814, at \*15.

<sup>28</sup> *In re* Certain Neodymium-Iron-Boron Magnets, Magnet Alloys, and Articles Containing Same, USITC Pub. 3073, Comm'n Op. 24, Inv. No. 337-TA-372 (Nov. 1997), 1997 ITC LEXIS 379, at \*103-04 (noting further that a general rule is for an enjoined party to "keep a safe distance from the margin line" (citing *Paper Converting Mach. Co. v. Manga-Graphics Corp.*, 785 F.2d 1013, 1016 (Fed. Cir. 1986)). As mentioned *supra* note 18, cease and desist orders prohibit many of the same activities that exclusion orders do, including importation of excluded products.

<sup>29</sup> *Id.*, 1997 ITC LEXIS 379, at \*104-05 (emphasis added) (citing *In re* Certain Erasable Programmable Read Only Memories, Components Thereof, Products Containing Such Memories, and Processes for Making Such Memories, Comm'n Op. 29, Inv. No. 337-TA-276 (Aug. 1, 1991), 1991 ITC LEXIS 1311, at \*45).

<sup>30</sup> 19 C.F.R. § 177.1(c) (2008) (a ruling may be requested "by any person who, as an importer or exporter of merchandise, or otherwise, has a direct and demonstrable interest in the question or questions presented in the ruling request, or by the authorized agent of such person."); see also U.S. Customs and Border Protection – Legal, available at [http://www.customs.gov/xp/cgov/trade/legal/rulings/ruling\\_letters.xml](http://www.customs.gov/xp/cgov/trade/legal/rulings/ruling_letters.xml) (last visited Mar. 2, 2009) (providing a general description of customs rulings and other helpful information).

Also note that, because a cease and desist order is administered by the Commission, and not Customs, a Customs Ruling will have little impact on the applicability of a cease and desist order, unlike an advisory opinion from the Commission. See discussion *infra*, Part III.

exclusion order.<sup>31</sup> Customs will consider the product in light of the Commission’s exclusion order and then determine whether the product should be excluded under the terms of the order.<sup>32</sup>

In line with Customs’s policy of educating parties about the legality of proposed transactions, Customs “will give full and careful consideration to written requests from importers and other interested parties for rulings . . . with respect to a specifically described transaction, a definitive interpretation of applicable law, or other appropriate information.”<sup>33</sup> Any person having a direct and demonstrable interest in the questions presented in the rulings, including, *e.g.*, an importer or exporter of redesigned products, may file a ruling request.<sup>34</sup> If Customs finds that the redesign falls outside the scope of the exclusion order, it will issue a ruling to that effect and permit the articles entry into the United States.<sup>35</sup>

As an example, one of the respondents in the *Lens-Fitted Film Packages* investigation wrote a letter to Customs, submitted sample products and requested “a ruling as to whether certain cameras preloaded with 35-mm film are excluded from entry into the United States.”<sup>36</sup> Customs ruled that the cameras in question were not excluded.<sup>37</sup> The Commission had decided that “one-time use cameras, single use cameras, and disposable cameras [*i.e.*, lens-fitted film packages, or LFFPs] . . . infringed claims under one or more of fifteen patents[at-issue] . . .”<sup>38</sup> Turning to the respondent’s cameras, Customs concluded that “[d]ue to their design, the sample cameras can be reloaded and reused by the consumer.”<sup>39</sup> The sample cameras thus were “different articles than the products identified by the ITC as being at issue in” the underlying investigation.<sup>40</sup> As a result, “[i]t is therefore [Customs’s] position that the sample cameras are not LFFPs of the type covered by the ITC’s exclusion order.”<sup>41</sup>

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<sup>31</sup> See *Jazz Photo Corp. v. United States*, 439 F.3d 1344, 1347–48 (Fed. Cir. 2006) (allowing importer to challenge a Customs Ruling); see also *Canadian Tarpoly Co. v. U.S. Int’l Trade Comm’n*, 640 F.2d 1322, 1325 n.2 (C.C.P.A. 1981) (describing protest denial procedures in the United States Court of International Trade as a “meaningful alternative legal remedy”) to a writ of mandamus requesting that the CCPA address legality of Commission’s exclusion order); *Eaton Corp. v. United States*, 395 F. Supp. 2d 1314, 1329 (Ct. Int’l Trade 2005) (granting temporary restraining order requiring Customs to enforce limited exclusion order against redesigned products until Customs ruling or advisory opinion issued). Interestingly, patent owners may be able to prevent entry of redesigned products during the pendency of a Customs ruling and/or advisory opinion from the Commission. *Eaton*, 395 F. Supp. 2d at 1329.

<sup>32</sup> See *Jazz Photo*, 439 F.3d at 1347–48 (“Customs concluded that Jazz had failed to prove that the subject LFFPs were outside the scope of the Exclusion order and excluded the two shipments from entry on September 24 and 26, 2004.”).

<sup>33</sup> 19 C.F.R. § 177.1(a)(1).

<sup>34</sup> *Id.* § 177.1(c).

<sup>35</sup> 19 U.S.C. § 1337(d)(1) (2006).

<sup>36</sup> U.S. CUSTOMS & BORDER PROT., HQ RULING LETTER 471165 (May 15, 2002), available at <http://rulings.cbp.gov/index.asp?ru=471165&qu=337&vw=detail> (last visited Mar. 2, 2009) (responding to letter of James C. Tuttle, attorney for Argus Industries Inc., requesting a ruling regarding general exclusion order).

<sup>37</sup> *Id.*

<sup>38</sup> *Id.* (citing *In re Certain Lens-Fitted Film Packages*, USITC Pub. 3219, Gen. Exclusion Order 1–2, Inv. No. 337-TA-406 (Aug. 1999), 1999 ITC LEXIS 502, at \*18–20)).

<sup>39</sup> *Id.*

<sup>40</sup> *Id.*

<sup>41</sup> *Id.*

Customs rulings can also help clarify the scope of an exclusion order, even for third parties. For example, in *Lens-Fitted Film Packages*, VastFame Camera Ltd. (“VastFame”) was not a named respondent in the ITC investigation and was aware of the Commission’s investigation and resulting GEO.<sup>42</sup> Recall that, unlike a LEO, the GEO bars infringing products from all sources, regardless of whether that source was named on the complaint as a respondent. After the GEO issued, VastFame obtained a Customs ruling finding that its cameras were not excluded.<sup>43</sup> Under that ruling, Customs allowed VastFame to import its cameras in early 2000.<sup>44</sup>

In June 2001, complainant Fuji filed an enforcement complaint, asking the Commission to determine whether VastFame (and others) violated the GEO.<sup>45</sup> The Commission barred VastFame from presenting its invalidity defenses and found the VastFame products subject to the exclusion order.<sup>46</sup> The Federal Circuit vacated the Commission’s findings and remanded to the Commission,<sup>47</sup> finding that because enforcement proceedings were authorized under section 1337(b), section 1337(c) required that VastFame be able to present “[a]ll legal and equitable defenses . . . .”<sup>48</sup>

On remand, VastFame was not subjected to any further remedial measures by the Commission, apart from the standing GEO.<sup>49</sup> First, VastFame did not have to pay civil penalties because it was not previously subject to a CDO.<sup>50</sup> Second, VastFame did not maintain commercially significant inventory in the United States, so the Commission declined to issue a cease and desist order as to VastFame.<sup>51</sup> Still, VastFame did not emerge entirely unscathed; because a GEO was already in place, Customs excluded VastFame’s products going forward.<sup>52</sup>

A benefit of obtaining a favorable Customs ruling is that the redesigned products will then be allowed entry into the United States by Customs. A collateral benefit of a favorable Customs ruling is evidence of good faith compliance with the Commission’s orders. Even so, a Customs ruling may not completely avoid future negative consequences. First, while the ruling may permit the redesigned products

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<sup>42</sup> See *VastFame Camera, Ltd. v. Int’l Trade Comm’n*, 386 F.3d 1108, 1110 (Fed. Cir. 2004) (“Although VastFame was not a named respondent in the Initial Investigation, it knew that the proceedings were taking place.”).

<sup>43</sup> *Id.* (“After the general exclusion order issued, VastFame obtained a ruling from the U.S. Customs Service . . . that the VN99 and VN991 cameras did not violate the general exclusion order.”).

<sup>44</sup> *Id.* (“[C]ustoms allowed the importation of VastFame’s VN99 and VN991 cameras beginning in early 2000.”).

<sup>45</sup> *In re Certain Lens-Fitted Film Packages*, Notice of Commission Determinations Not to Review an Initial Determination Finding Nine Respondents in Default 1, Inv. No. 337-TA-406 (Apr. 16, 2002), 2002 ITC LEXIS 181, at \*2–3.

<sup>46</sup> *In re Certain Lens-Fitted Film Packages*, Enforcement Initial Determination, Inv. No. 337-TA-406 (May 2, 2002), 2002 ITC LEXIS 473, at \*190.

<sup>47</sup> *VastFame*, 386 F.3d at 1116.

<sup>48</sup> *Id.* at 1110, 1115 (agreeing with VastFame that the “all defenses” provision applies to investigations under § 1337(b)); 19 U.S.C. § 1337(b)–(c) (2006) (“All legal and equitable defenses may be presented in all cases.”).

<sup>49</sup> *In re Certain Lens-Fitted Film Packages*, Comm’n Op. 8, Inv. No. 337-TA-406 (June 23, 2003), 2003 ITC LEXIS 807, at \*13.

<sup>50</sup> *Id.*, 2003 ITC LEXIS 807, at \*13.

<sup>51</sup> *Id.* at 9, 2003 ITC LEXIS 807, at \*13–14.

<sup>52</sup> See *id.*, 2003 ITC LEXIS 807, at \*13–14 (stating that VastFame is subject to the Commission’s general exclusion order).

entry into the United States through Customs, the Customs ruling has no preclusive effect on the Commission.<sup>53</sup> So, even if Customs determines the redesigns do not infringe, the Commission can still find otherwise. Second, though Customs rulings are evidence of good-faith compliance with exclusion orders, the Commission will not necessarily consider them evidence of good-faith *vis-à-vis* CDOs.<sup>54</sup> Finally, even if Customs issues a favorable ruling, complainants can still file an enforcement complaint with the Commission to enforce an exclusion order against the redesigns.<sup>55</sup>

Obviously, good faith compliance with the Commission’s orders is critically important in such enforcement proceedings. If the Commission finds that redesigns are within the scope of an exclusion order, it can order Customs to exclude them.<sup>56</sup> If the redesigns were distributed within the United States, the Commission could impose substantial civil penalties for violation of any applicable CDO.<sup>57</sup>

Reliance on a Customs noninfringement ruling may mitigate – though not altogether preclude – any assessed penalties.<sup>58</sup> As discussed herein, the Commission takes a dim view of violations of its orders; parties subject to such orders have “an affirmative duty to take “energetic steps” to do “everything in their power” to ensure compliance,” and are expected to “not [merely avoid] cross[ing] the line of infringement, “but to stay several healthy steps away.””<sup>59</sup>

In the event of a cease and desist order violation, the Commission applies a six-factor framework to determine the amount of any penalty:

- (1) the good or bad faith of the respondent;
- (2) the injury to the public;

<sup>53</sup> See *id.* at 19–20, 2003 ITC LEXIS 807, at \*29 (“[T]he Commission is the sole arbiter of whether its [cease and desist orders] are violated, and accordingly [respondent] had no basis for relying on Customs’ rulings in matters concerning the Commission’s [cease and desist order] . . .”).

<sup>54</sup> See *id.* at 10, 19–21, 2003 ITC LEXIS 807, at \*15, \*28–32 (finding that good faith reliance on a Customs ruling does not necessarily exonerate a party from a finding that a cease and desist order is violated).

<sup>55</sup> See *VastFame Camera, Ltd. v. Int’l Trade Comm’n*, 386 F.3d 1108, 1110 (Fed. Cir. 2004) (allowing third party’s articles entry into the United States after examining general exclusion order after patent owner brought enforcement complaint before Commission).

<sup>56</sup> *In re Certain Lens-Fitted Film Packages*, Comm’n Op. 1, Inv. No. 337-TA-406 (June 23, 2003), 2003 ITC LEXIS 807, at \*1 (stating that a general exclusion order prohibits the unlicensed entry and sale of new and refurbished products).

<sup>57</sup> 19 U.S.C. § 1337(f)(2) (2006) (providing the standard for civil penalties applicable to violations of *in personam* orders, which is the greater of \$100,000 per day in violation or twice the domestic value of the articles concerned).

<sup>58</sup> See *San Huan New Materials High Tech., Inc. v. Int’l Trade Comm’n*, 161 F.3d 1347, 1352 (Fed. Cir. 1998) (“The Commission would exercise the discretionary authority provided [in Section 337(f)(2)] with respect to deciding upon the appropriate size of any penalty under this section so as to insure the deterrent effect of its order while taking into account such factors as intentional versus unintentional violations and the public interest.” (quoting H.R. REP. NO. 96-317, at 191 (1979); S. REP. NO. 96-249, at 262 (1979))).

<sup>59</sup> *In re Certain Agricultural Tractors Under 50 Power Take-Off Horsepower*, USITC Pub. 3227, Comm’n Op. 32, Inv. No. 337-TA-380 (Aug. 1999), 1999 ITC LEXIS 260, at \*86–87 (quoting *In re Certain Agricultural Tractors Under 50 Power Take-Off Horsepower*, USITC Pub. 3227, Final Initial And Recommended Determinations 42–43, Inv. No. 337-TA-380 (Aug. 1999) (citing *In re Certain Neodymium-Iron-Boron Magnets, Magnet Alloys, and Articles Containing Same*, USITC Pub. 3073, Comm’n Op. 24, Inv. No. 337-TA-372 (Nov. 1997), 1997 ITC LEXIS 379, at \*103, *aff’d sub nom. San Huan*, 161 F.3d at 1347)).

- (3) the respondent's ability to pay;
- (4) the extent to which respondent has benefited from the violations;
- (5) the need to vindicate the authority of the Commission; and
- (6) the public interest.<sup>60</sup>

While a favorable Customs ruling is evidence of good faith compliance with the Commission's orders, the Commission (and only the Commission) determines whether its orders have been violated. Thus, reliance on the Customs ruling will not prohibit the Commission from imposing a civil penalty.<sup>61</sup>

The *Lens-Fitted Film Packages* investigation is instructive. There, the Commission found a violation of section 337 in the "importation and sale of certain refurbished and newly-made lens-fitted film packages," or single-use cameras, and issued an exclusion order prohibiting their entry into the United States, in addition to entering a number of CDOs.<sup>62</sup> After the investigation was over, two respondents obtained a Customs noninfringement ruling for reconfigured products.<sup>63</sup> Specifically, Customs found that the term "lens-fitted film package," present in all claims of the patents-in-suit, did not cover an LFFP that could be reloaded, and the reconfigured products could be reloaded.<sup>64</sup> These respondents urged the Commission that there should be no penalty (or only a nominal penalty) based on their reliance on the ruling.<sup>65</sup>

The Commission rejected that argument. As "the Commission is the sole arbiter of whether its [cease and desist orders] are violated," there was "no basis for relying on Customs' rulings in matters concerning the Commission's [cease and desist order] . . ." <sup>66</sup> Nonetheless, the Commission noted "respondents' subjective intent may be relevant in considering the appropriate civil penalty."<sup>67</sup> In any event, the Commission observed that the respondents were

on notice of the Commission's view that parties subject to Commission [cease and desist orders] have "an affirmative duty to take 'energetic steps' to do 'everything in their power' to assure compliance, and this duty not

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<sup>60</sup> *In re* Certain Lens-Fitted Film Packages, Comm'n Op. 1, Inv. No. 337-TA-406 (June 23, 2003), 2003 ITC LEXIS 807, at \*25-26; see *In re* Certain Agricultural Tractors Under 50 Power Take-Off Horsepower, USITC Pub. 3227, Comm'n Op. 32, Inv. No. 337-TA-380 (Aug. 1999), 1999 ITC LEXIS 260, at \*86-120; *In re* Certain Neodymium-Iron-Boron Magnets, Magnet Alloys, and Articles Containing Same, USITC Pub. 3073, Comm'n Op. 12-13, Inv. No. 337-TA-372 (Nov. 1997), 1997 ITC LEXIS 379, at \*101-118; *In re* Certain Erasable Programmable Read Only Memories, Components Thereof, Products Containing Such Memories, and Processes for Making Such Memories, Comm'n Op. 23-24, 26, Inv. No. 337-TA-276 (Aug. 1, 1991), 1991 ITC LEXIS 1311, at \*36-37, 40; see also *San Huan*, 161 F.3d at 1362 (describing Commission's analysis in *Magnets* as reasonable in light of legislative history of Section 337(f)(2), which emphasized desire to deter violations, intentional or unintentional nature of violations, and the public interest).

<sup>61</sup> *In re* Certain Lens-Fitted Film Packages, Comm'n Op. 11, Inv. No. 337-TA-406 (June 23, 2003), 2003 ITC LEXIS 807, at \*19-20.

<sup>62</sup> *Id.* at 1, 2003 ITC LEXIS 807, at \*1.

<sup>63</sup> *Id.* at 2 n.1, 2003 ITC LEXIS 807, at \*2 n.1.

<sup>64</sup> *Id.* at 19, 2003 ITC LEXIS 807, at \*28-29 (noting that the A.L.J. construed the term "lens-fitted film package" in the original investigation as not including reloadable single-use cameras).

<sup>65</sup> *Id.*, 2003 ITC LEXIS 807, at \*29.

<sup>66</sup> *Id.*, 2003 ITC LEXIS 807, at \*29.

<sup>67</sup> *Id.* at 20, 2003 ITC LEXIS 807, at \*30.

only means ‘not to cross the line of infringement, but to stay several healthy steps away.’”<sup>68</sup>

In that investigation, the accused products had been ordered *before* the Customs ruling and the respondent never sought an advisory opinion from the Commission regarding whether their importation and sale would violate the CDO.<sup>69</sup> Even so, the Commission concluded that the A.L.J. had considered the respondent’s reliance on the Customs ruling, but the ITC still adopted the A.L.J.’s conclusions.<sup>70</sup> Ultimately, the Commission issued a penalty of \$480,000, substantially less than the \$1.6 million penalty assessed against another respondent in the investigation.<sup>71</sup>

Should Customs conclude that the redesign is covered by the exclusion order, it will issue a ruling and continue to exclude it.<sup>72</sup> Importers denied entry into the United States may file a protest of Customs’s decision.<sup>73</sup> A denial of the protest<sup>74</sup> creates a right to appeal to the United States Court of International Trade (“CIT”).<sup>75</sup> The CIT is an Article III court, located in New York, with nationwide jurisdiction over import transactions and international trade matters, including Customs’s protest denials.<sup>76</sup> The United States Court of Appeals for the Federal Circuit has jurisdiction over appeals from the CIT’s final decisions.<sup>77</sup>

From a respondent’s perspective, an advantage of seeking a Customs ruling – rather than an advisory opinion – is that the complainant will have a limited role in determining the outcome of proceedings before the CIT. Complainants generally do not have standing to protest a Customs ruling and do not have standing in

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<sup>68</sup> *Id.*, 2003 ITC LEXIS 807, at \*30 (quoting *In re Certain Agricultural Tractors Under 50 Power Take-Off Horsepower*, USITC Pub. 3227, Comm’n Op. 32, Inv. No. 337-TA-380 (Aug. 1999), 1999 ITC LEXIS 260, at \*86–87 (quoting *In re Certain Agricultural Tractors Under 50 Power Take-Off Horsepower*, USITC Pub. 3227, Final Initial And Recommended Determinations 42–43, Inv. No. 337-TA-380 (Aug. 1999) (citing *In re Certain Neodymium-Iron-Boron Magnets, Magnet Alloys, and Articles Containing Same*, USITC Pub. 3073, Comm’n Op. 24, Inv. No. 337-TA-372 (Nov. 1997), 1997 ITC LEXIS 379, at \*103, *aff’d sub nom. San Huan*, 161 F.3d at 1347)).

<sup>69</sup> *Id.*, 2003 ITC LEXIS 807, at \*30; *see* 19 C.F.R. § 210.79(a) (2008). Presumably, the respondent could have requested an advisory opinion regarding its proposed course of conduct. 19 C.F.R. § 210.79(a).

<sup>70</sup> *In re Certain Lens-Fitted Film Packages*, Comm’n Op. 11, Inv. No. 337-TA-406 (June 23, 2003), 2003 ITC LEXIS 807, at \*17–18.

<sup>71</sup> *Id.* at 21, 2003 ITC LEXIS 807, at \*31.

<sup>72</sup> *See Jazz Photo Corp. v. United States*, 439 F.3d 1344, 1347–48 (Fed. Cir. 2006); U.S. CUSTOMS & BORDER PROT., HQ RULING LETTER 470783 (Apr. 10, 2001), *available at* <http://rulings.cbp.gov/index.asp?ru=470783&qu=470783&vw=detail> (last visited Mar. 2, 2009) (issuing ruling that redesigned semiconductor devices were covered by scope of exclusion orders).

<sup>73</sup> 19 U.S.C. § 1514(a) (2006).

<sup>74</sup> *Id.* § 1515.

<sup>75</sup> 28 U.S.C. § 1581(a) (2006); *see* *Fuji Photo Film Co. v. Benun*, 463 F.3d 1252, 1255 (Fed. Cir. 2006) (noting that the CIT has exclusive jurisdiction over denials of protests arising under 19 U.S.C. § 1515).

<sup>76</sup> *See generally* 1 PETER BUCK FELLER & MATTHEW T. MCGRATH, U.S. CUSTOMS AND INTERNATIONAL TRADE GUIDE § 5.02 (2nd ed. 2008) (explaining that the court is responsible for review of all civil actions arising from import transactions).

<sup>77</sup> 28 U.S.C. § 1295(a)(5).

subsequent proceedings before the CIT.<sup>78</sup> Nevertheless, complainants have been able to present their position, through, for example, an *amicus curiae* brief.<sup>79</sup>

This situation arose after the *Lens-Fitted Film Packages* investigation concluded. On June 2, 1999, the Commission issued a GEO prohibiting the unlicensed entry for consumption of LFFPs, both new and refurbished, that infringed the claims of the asserted patents.<sup>80</sup> The Federal Circuit affirmed the Commission's finding as to the new LFFPs, but reversed as to the refurbished LFFPs, finding exhaustion of patent rights by virtue of the first sale doctrine.<sup>81</sup> With a general exclusion order in place but a solid non-infringement position (akin to a redesign scenario), manufacturers and importers sought to clear their LFFPs for entry through Customs's administrative procedures.<sup>82</sup>

In August 2004, former respondent Jazz Photo ("Jazz") sought to import two shipments of LFFPs through the Port of Los Angeles/Long Beach that Jazz believed were outside the scope of the Commission's GEO.<sup>83</sup> The LFFPs that Jazz sought to import were refurbished cameras, ostensibly outside the GEO's scope under the Federal Circuit's ruling.<sup>84</sup> Jazz requested a Customs ruling to that effect.<sup>85</sup>

In September 2004, Customs concluded that Jazz had failed to show that the LFFPs were outside the scope of the exclusion order and excluded the two shipments from entry at the Port of Los Angeles/Long Beach.<sup>86</sup> Jazz filed a protest of Customs's decision under 19 U.S.C. § 1514(a).<sup>87</sup> Customs denied Jazz's protest on September 29, 2004, and Jazz filed a civil action against Customs in the CIT under 28 U.S.C. § 1581(a) in October 2004.<sup>88</sup> Jazz sought an order declaring that its LFFPs should be allowed into the United States and ordering Customs to release the LFFPs.<sup>89</sup>

The CIT held a bench trial and entered final judgment that Jazz had established that the LFFPs refurbished using Photo Recycling shells were non-infringing, but that the LFFPs using certain shells still infringed.<sup>90</sup> As referenced above, the original complainant, Fuji, participated only as *amicus curiae*, and the CIT denied Fuji's request to intervene.<sup>91</sup>

On appeal, the Federal Circuit affirmed the CIT's finding that the LFFPs refurbished using Photo Recycling shells were noninfringing and therefore fell outside the scope of the exclusion order.<sup>92</sup> The Court also held that the CIT did not

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<sup>78</sup> See *id.* § 2631(j)(1)(A) ("[N]o person may intervene in a civil action under section 515 or 516 of the Tariff Act of 1930."); see also *Jazz Photo Corp. v. United States*, 439 F.3d 1344, 1357 (Fed. Cir. 2006) (affirming that CIT did not err in denying patent owner intervenor status).

<sup>79</sup> See *Jazz Photo Corp. v. United States*, 353 F. Supp. 2d 1327, 1329 n.1 (Ct. Int'l Trade 2004).

<sup>80</sup> *In re Certain Lens-Fitted Film Packages*, Comm'n Op. 1, Inv. No. 337-TA-406 (June 23, 2003), 2003 ITC LEXIS 807, at \*1.

<sup>81</sup> *Jazz Photo Corp. v. Int'l Trade Comm'n*, 264 F.3d 1094, 1110–11 (Fed. Cir. 2001).

<sup>82</sup> See *Jazz Photo*, 353 F. Supp. 2d at 1330.

<sup>83</sup> *Id.* at 1329.

<sup>84</sup> *Id.* at 1341 (noting that Jazz purchased used camera shells to refurbish from two sources: Photo Recycling Enterprise, Inc. ["Photo Recycling"], and Seven Buck's, Inc. ["Seven Buck's"]).

<sup>85</sup> See *id.* at 1329.

<sup>86</sup> *Id.*

<sup>87</sup> *Id.* at 1362.

<sup>88</sup> *Id.* at 1330; *id.* at 1330 n.2.

<sup>89</sup> *Id.* at 1354–55.

<sup>90</sup> *Id.* at 1349–50.

<sup>91</sup> *Id.* at 1363.

<sup>92</sup> *Jazz Photo Corp. v. United States*, 439 F.3d 1344, 1354–55 (Fed. Cir. 2006).

err by denying Fuji intervenor status.<sup>93</sup> First, the statute clearly proscribed intervention in actions brought in the CIT under sections 515 or 516 of the Tariff Act of 1930, such as this action.<sup>94</sup> Second, Fuji’s exclusion did not constitute a failure to join a necessary party.<sup>95</sup> The government litigated on behalf of Fuji, so its intellectual property interest was represented.<sup>96</sup>

### *B. Certifications to Customs*

As noted, the Commission often includes a provision in its exclusion orders permitting an importer to certify that the subject products are not covered by the exclusion order. The question arises, then, whether an importer may use the certification procedure to get redesigned products into the United States while a request for a Customs ruling or an ITC advisory proceeding (described below) concerning these products is pending. In considering this question, it may be useful to consider some background regarding certifications. First, certification is not intended to clear redesigned products; it is intended only to minimize the burdens on third parties, Customs and legitimate trade.<sup>97</sup> Second, certification, without more, is not always sufficient to achieve entry. The Commission often includes, as part of the certification requirement, a provision that allows Customs to require “persons who have provided the certification . . . to furnish such records or analyses as are necessary to substantiate the certification.”<sup>98</sup> As noted in *Optical Disk Controller Chips*, this provision allows Customs to reverse engineer chips that an importer wants to bring into the United States, “rather than accept[ing] a certification from [the] importer . . .”<sup>99</sup> Further, “[t]his provision also puts importers on notice that certification alone may not be sufficient to support the importation of goods that are potentially covered by the Limited Exclusion Order.”<sup>100</sup> Perhaps not surprisingly, Commission practice and precedent stand against the idea that an importer may certify that products do not infringe – based on nothing more than the importer’s representations – and avoid exclusion or substantial civil penalties.<sup>101</sup>

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<sup>93</sup> *Id.* at 1357.

<sup>94</sup> *Id.* (“Fuji’s attempt to intervene fails under the plain language of 28 U.S.C. § 2631(j). The statute provides that ‘no person may intervene in a civil action under section 515 or 516 of the Tariff Act of 1930.’” (quoting 28 U.S.C. § 2631(j)(1)(A) (2006))).

<sup>95</sup> *Id.*

<sup>96</sup> *Id.* (noting the government litigated on behalf of Fuji before the CIT and the Court of Appeals for the Federal Circuit).

<sup>97</sup> See *In re Certain Audio Processing Integrated Circuits and Products Containing Same*, USITC Pub. 3991, Comm’n Op. 10, Inv. No. 337-TA-538 (May 2008), 2008 ITC LEXIS 814, at \*15 (“We believe that the burdens on third parties and Customs will be minimized by the certification provision we have included in the limited exclusion order.”).

<sup>98</sup> *E.g., In re Certain Optical Disk Controller Chips and Chipsets and Products Containing Same, Including DVD Players and PC Optical Storage Devices*, Comm’n Op. 58, Inv. No. 337-TA-506 (Aug. 7, 2006), 2005 ITC LEXIS 881, at \*93 (public version of original issued on September 28, 2005).

<sup>99</sup> *Id.* at 59, 2005 ITC LEXIS 881, at \*94.

<sup>100</sup> *Id.*, 2005 ITC LEXIS 881, at \*94.

<sup>101</sup> See *In re Certain Amorphous Metal Alloys and Amorphous Metal Articles*, USITC Pub. 2036, Recommended Determination, Inv. No. 337-TA-143 (Nov. 1987), 1987 ITC LEXIS 172, at \*45.

*Eaton Corp. v. United States*<sup>102</sup> counsels against trying to use the certification procedure to clear redesigned products for entry into the United States without authoritative support. In *Eaton*, the underlying Section 337 investigation concluded with a finding that the respondent's automated mechanical transmission systems ("AMTS") infringed Eaton's patent, and issuance of a limited exclusion order.<sup>103</sup> The LEO "include[d] a certification provision that allow[ed] importation of [AMTS] or components thereof if the importer certifies that these imports do not fall within the scope of the order."<sup>104</sup> The certification provision included a provision that "[a]t its discretion, [CBP] may require persons who have provided the certification described in this paragraph to furnish such records or analyses as are necessary to substantiate the certification."<sup>105</sup>

By that time, however, the respondent had developed a redesigned AMTS – the FreedomLine – that it represented did not infringe.<sup>106</sup> Nonetheless, the respondent did not seek "a determination from the Commission regarding whether or not [the FreedomLine] infringes claim 15 of the [patent-at-issue], and [the Commission] ha[d] not made such a determination."<sup>107</sup> Instead of first seeking guidance from the Commission (or Customs), the respondent tried to import the FreedomLine, certifying that it did not infringe.<sup>108</sup> Customs refused entry because it concluded the FreedomLine fell within the scope of the exclusion order.<sup>109</sup> In response, the respondent filed a complaint in the CIT.<sup>110</sup> Eaton also filed a complaint there, asking for an order directing Customs to enforce the exclusion order despite the respondent's certifications.<sup>111</sup>

In communications related to the CIT proceedings, the Commission unambiguously rejected the use of unilateral certification that redesigns do not infringe.<sup>112</sup> Specifically, Customs asked the Commission "whether the certification

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If a respondent were given the opportunity to have the question of whether each slightly different process infringes the [patent-at-issue] litigated and decided by the Commission before importation will be stopped, the respondent would get a second bite at the apple each time he brings in a product made by a new process and certifies that it does not infringe the [patent-at-issue.] This would be unfair to the complainant.

*Id.*, 1987 ITC LEXIS 172, at \*45. Additional civil penalties are available under 19 U.S.C. § 1592 "for fraud, gross negligence and negligence in entering or attempting to enter merchandise into the commerce of the United States by false and material documentation, statements, or acts." *Id.*, 1987 ITC LEXIS 172, at \*22–23. Also, "[c]riminal penalties for entry of goods by means of false certifications are provided in 18 U.S.C. § 1542." *Id.*, 1987 ITC LEXIS 172, at \*23.

<sup>102</sup> 395 F. Supp. 2d 1314 (Ct. Int'l Trade 2005).

<sup>103</sup> *In re Certain Automated Mechanical Transmission Systems for Medium-Duty and Heavy Duty Trucks and Components Thereof*, USITC Pub. 3934, Comm'n Op. 2, Inv. No. 337-TA-503 (July 2007), 2007 ITC LEXIS 1300, at \*2–4.

<sup>104</sup> *Id.* at 5, 2007 ITC LEXIS 1300, at \*7.

<sup>105</sup> *Eaton*, 395 F. Supp. 2d at 1318.

<sup>106</sup> *Id.* at 1317.

<sup>107</sup> *Id.* at 1318. Rather, the Commission noted that ArvinMeritor "may seek an advisory opinion under Commission Rule 210.79 . . . as to whether their new FreedomLine transmission system falls within the scope of the limited exclusion order." *Id.* (emphasis added).

<sup>108</sup> *Id.* at 1319–20.

<sup>109</sup> *Id.* at 1320.

<sup>110</sup> *Id.* at 1323.

<sup>111</sup> *Id.*

<sup>112</sup> *Id.* at 1326.

provision referenced in paragraph 3 of the Order is intended to extend to the importation of ‘redesigned’ automated mechanical transmissions.”<sup>113</sup> The Commission’s response: “It does not.”<sup>114</sup>

More generally, the Commission clarified that certification provisions are intended to ease Customs’s administrative burden: “An interpretation of the subject certification provision such that the provision would apply to redesigned AMTS for which no determination on infringement has been made by either the Commission or Customs would be contrary to the Commission’s long-standing practice.”<sup>115</sup> Thus, the Commission rejected wholesale the use of certification that redesigns do not infringe, absent any guidance from the Commission (or perhaps Customs), as a means to gain entry into the United States.<sup>116</sup>

### III. ADVISORY OPINIONS

Another, perhaps more certain way to establish that redesigns do not infringe is to obtain a Commission advisory opinion to that effect. Under Commission Rule 210.79, any person may petition the Commission to conduct an investigation and issue an advisory opinion as to whether the person’s proposed course of action or conduct would violate a Commission exclusion order, CDO or consent order.<sup>117</sup> Rule 210.79 thus permits anyone – not just former respondents – who may be considering whether to manufacture or import a redesigned product to seek the Commission’s advice on whether that product falls within the scope of the Commission’s order.<sup>118</sup> A Commission advisory opinion can be helpful in assessing the business risks associated with importing redesigned products, and can also reduce the likelihood of substantial civil penalties for violation of a CDO or consent order under Section 337(f)(2).<sup>119</sup>

The Commission has wide discretion in the conduct of advisory proceedings and the content of advisory opinions. First, unlike the underlying violation phase investigation, advisory proceedings are not subject to the requirements of the Administrative Procedure Act.<sup>120</sup> The A.L.J. conducting advisory proceedings may

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<sup>113</sup> *Id.*

<sup>114</sup> *Id.*

<sup>115</sup> *Id.* Though Customs had told Congress that it “believe[d] that the certification language provided for in the ITC’s limited exclusion order was not intended to allow importation of putative non-infringing redesigns,” Customs had, in fact, permitted entry based on the respondent’s certifications. *Id.* at 1327–28 (emphasis omitted).

<sup>116</sup> *Id.* at 1326–27. The CIT held that “CBP’s current form of certification . . . [wa]s not in accordance with the law governing this case[.]” and ultimately issued a temporary restraining order and an injunction ordering CBP to enforce the exclusion order. *Id.* at 1328–29. Though the TRO and injunction were ultimately dissolved by the Federal Circuit in *Eaton Corp. v. United States*, 186 F. App’x 999 (Fed. Cir. 2006), *Eaton* demonstrates the CIT’s disapproval of using certification as a means to achieve right of entry for redesigned products in the absence of an authoritative ruling from Customs or an advisory opinion. *Id.* at 1327.

<sup>117</sup> 19 C.F.R. § 210.79(a) (2008).

<sup>118</sup> *Id.*

<sup>119</sup> 19 U.S.C. § 1337(f)(2) (2006) (providing for civil penalties for party in violation of Commission order of not more than the greater of \$100,000 per day in violation or twice the domestic value of the articles concerned).

<sup>120</sup> *Id.*

allow for as much – or as little – procedure and discovery as he or she finds appropriate.<sup>121</sup> Second, the Commission’s determinations in advisory proceedings are not considered final decisions and therefore are not directly appealable to the Federal Circuit.<sup>122</sup> Third, there are no formal timelines for issuance of an advisory opinion.<sup>123</sup> The Commission, however, has imposed target dates for advisory opinions in several instances.<sup>124</sup>

Petitioners bear the burden of establishing standing for an advisory opinion under the requirements of Commission Rule 210.79(a).<sup>125</sup> Petitioners must establish: (1) a compelling business need for the Commission’s advice; and (2) that the request for the Commission’s advice has been framed as fully and accurately as possible.<sup>126</sup> Standing may be defeated by other persons (or the Commission) if the proposed

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<sup>121</sup> See *In re* Certain Hardware Logic Emulation Systems and Components Thereof, Initial Advisory Op., Inv. No. 337-TA-383 (Aug. 7, 2000), 2000 ITC LEXIS 285, at \*22–24 (describing *In re* Certain Surveying Devices, Advisory Op., Inv. No. 337-TA-68 (Aug. 18, 1981), 214 U.S.P.Q. 900, 903, as a proceeding in which “there appears to have been little discovery, no formal institution of an advisory opinion proceeding and no hearing.”) (footnote omitted).

<sup>122</sup> See 19 U.S.C. § 1337(c); 28 U.S.C. § 1295(a)(5) (2006); *Allied Corp. v. U.S. Int’l Trade Comm’n*, 850 F.2d 1573, 1578–79 (Fed. Cir. 1988) (finding advisory opinions not “final decisions” appealable under section 337(c) and section 1295(a)(5), but reviewing decision to modify exclusion order issued in combined advisory/modification proceeding). Where an advisory opinion can resolve the same issues raised in a request for modification of an exclusion order, the Commission prefers to issue the advisory opinion. *Id.*; see also *In re* Certain Bar Clamps, Bar Clamp Pads, and Related Packaging, Display, and Other Materials, Order No. 5, at 12, Inv. No. 337-TA-429 (Feb. 2, 2001), 2000 ITC LEXIS 389, at \*12 (public version of original filed on October 2, 2000) (“The Commission . . . indicated a desire to see less reliance on . . . [modification proceedings under Commission Rule 210.76], specifically suggesting that parties seek advisory opinions when such opinions could resolve questions without resort to the procedure of the modification and rescission [sic] of orders.” (citing Proposed Final Rules Governing Investigations & Enforcement Procedures Pertaining to Unfair Practices in Import Trade, 57 Fed. Reg. 52,863 (Nov. 5, 1992))).

<sup>123</sup> Cf. 19 C.F.R. § 210.51(a) (2008) (requiring A.L.J.s to set a target date of up to sixteen months to complete violation-phase investigations, with any larger target date subject to Commission review).

<sup>124</sup> See, e.g., *In re* Certain Automated Mechanical Transmission Systems for Medium-Duty and Heavy-Duty Trucks and Components Thereof, Order No. 60, at 2, Inv. No. 337-TA-503 (June. 10, 2005), 2005 ITC LEXIS 458, at \*2 (“The order also directed the administrative law judge to set ‘the earliest practicable target date for the completion of [combined enforcement and advisory] proceedings within 45 days of institution in accordance with 210.51(a).’”); *In re* Certain Hardware Logic Emulation Systems and Components Thereof, Initial Advisory Op., Inv. No. 337-TA-383 (Aug. 7, 2000), 2000 ITC LEXIS 285, at \*5 (stating that Commission ordered that the advisory opinion should issue “as expeditiously as practicable, but no later than nine months from the date of publication of the notice of this order.”); see also *In re* Certain Condensers, Parts Thereof and Products Containing Same, Including Air Conditioners for Automobiles, Order No. 10, at 1, Inv. No. 337-TA-334 (Remand) (Mar. 4, 1999), 1999 ITC LEXIS 82, at \*2 (referencing Commission Order requiring issuance of advisory opinion within nine months of publication of notice).

<sup>125</sup> See *In re* Certain Hardware Logic Emulation Systems and Components Thereof, Initial Advisory Op., Inv. No. 337-TA-383 (Aug. 7, 2000), 2000 ITC LEXIS 285, at \*22.

<sup>126</sup> 19 C.F.R. § 210.79(a) (2008); see, e.g., *In re* Certain Bag Closure Clips, USITC Pub. 1663, Advisory Op. 2–3, Inv. No. 337-TA-170 (Mar. 1985), 1985 ITC LEXIS 206, at \*5 (finding standing for advisory opinion where petitioner contended that “consumers and competitive conditions within the United States will be definitely benefited, with the public being spared the consequences and hardships of a monopoly of improper scope . . .”).

course of action or conduct is shown to be merely hypothetical.<sup>127</sup> Nevertheless, *bona fide* plans or preparations to begin such action or conduct may provide a sufficient basis for an advisory opinion.<sup>128</sup>

Business certainty (and uncertainty), as well as other practical concerns, seem to underlie the Commission’s advisory opinion procedures. The “compelling business need” requirement for standing to request an advisory opinion arises from the Commission’s concern that legitimate trade practices in non-infringing articles will be curtailed (or altogether abandoned) in response to the Commission’s orders, making it “incumbent on the Commission to dispel unnecessary business uncertainty by issuing advisory opinions . . . .”<sup>129</sup> Whether a petitioner has a “compelling business need” for an advisory opinion will turn on the facts of the case.<sup>130</sup> On the other hand, the Commission requires “full and accurate” framing of the request for an advisory opinion because the original complainant has a business certainty interest in the finality of the Commission’s orders.<sup>131</sup> Finally, the Commission does not want to subject itself to repeated collateral attacks on its orders.<sup>132</sup>

An example of the effective use of the advisory opinion procedure is the *Amorphous Metals and Amorphous Metal Articles* investigation.<sup>133</sup> There, the Commission found a violation of Section 337 and issued an exclusion order prohibiting entry into the United States of products that infringed Allied Corporation’s (“Allied”) patent, that claimed a method of forming a continuous strip

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<sup>127</sup> *In re* Certain Surveying Devices, Advisory Op., Inv. No. 337-TA-68 (Aug. 18, 1981), 214 U.S.P.Q. 900, 902 (“The Commission does not have the resources to conduct a formal adjudication concerning every hypothetical question presented to it.”).

<sup>128</sup> *See In re* Certain Hardware Logic Emulation Systems and Components Thereof, Initial Advisory Op., Inv. No. 337-TA-383 (Aug. 7, 2000), 2000 ITC LEXIS 285, at \*21–22.

<sup>129</sup> *In re* Certain Surveying Devices, Advisory Op., Inv. No. 337-TA-68 (Aug. 18, 1981), 214 U.S.P.Q. 900, 902.

<sup>130</sup> *See, e.g., In re* Certain Hardware Logic Emulation Systems and Components Thereof, Initial Advisory Op., Inv. No. 337-TA-383 (Aug. 7, 2000), 2000 ITC LEXIS 285, at \*30–31 (establishing a compelling business need where products at issue valued at \$5 million in gross revenue, as well as determining further potential receipt of additional revenue from maintenance contracts for products at issue); *In re* Certain Bag Closure Clips, USITC Pub. 1663, Advisory Op. 3, Inv. No. 337-TA-170 (Mar. 1985), 1985 ITC LEXIS 206, at \*4 (stating compelling business need where products at issue were petitioner’s “biggest selling item in a product line of over 460 items”).

<sup>131</sup> *Certain Surveying Devices*, Inv. No. 337-TA-68 (Aug. 18 1981), *available at* 214 U.S.P.Q. 900, 902 (“[A] complainant, which has gone through [an] investigation to obtain necessary relief, ought not be continually called upon to defend the Commission’s remedial order. Moreover, a complainant has a business-certainty interest, not unlike that of a potential importer, in the finality of the Commission’s orders.”).

<sup>132</sup> *Id.* (“[T]he Commission does not wish to become involved in giving a series of advisory opinions in response to reiterated requests based on facts that differ only slightly from one request to the next.”).

<sup>133</sup> *In re* Certain Amorphous Metal Alloys and Amorphous Metal Articles, USITC Pub. 1664, Inv. No. 337-TA-143 (Nov. 1984); *Allied Corp. v. U.S. Int’l Trade Comm’n*, 850 F.2d 1573, 1574 (Fed. Cir. 1988).

of metal.<sup>134</sup> The A.L.J. interpreted the patent term “nozzle” as requiring a critical feature of “wide lips.”<sup>135</sup> The Commission issued the following order:

Amorphous metal articles manufactured abroad in accordance with the process set forth in claims 1, 2, 3, 5, 8, and/or 12 of U.S. Letters Patent 4,221,257 are excluded from entry into the United States for the remaining term of said patent . . . .<sup>136</sup>

Two of the respondents filed petitions with the Commission seeking an advisory opinion that their “newly developed” processes would not violate the terms of the exclusion order.<sup>137</sup> The Commission instituted exclusion order modification proceedings *sua sponte*,<sup>138</sup> and consolidated both proceedings for hearing.<sup>139</sup> The Commission concluded that the new processes did not literally infringe the patent claims as construed in the original investigation because “in order for respondents’ processes to literally infringe the claims of the . . . patent, they must utilize a front casing nozzle lip that is at least 1.45 times as wide as the width of the casting nozzle’s slot.”<sup>140</sup> Further, there was no infringement under the doctrine of equivalents.<sup>141</sup> The Commission modified the exclusion order accordingly.<sup>142</sup>

The Federal Circuit affirmed the Commission’s finding of noninfringement.<sup>143</sup> In addition, the Court held that it had no jurisdiction to hear an appeal from the advisory opinion (although it did have jurisdiction over an appeal from the modification proceeding).<sup>144</sup> Specifically, the Court held that “ITC Advisory Opinions . . . are not reviewable by this court because they are not ‘final determinations’ required by sections 337(c) and 1295(a)(6).”<sup>145</sup> Even the Commission’s published comments on the Commission Rule governing advisory opinions stated that “[s]ince . . . advisory opinions are not binding, they are not final

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<sup>134</sup> *In re* Certain Amorphous Metal Alloys and Amorphous Metal Articles, USITC Pub. 1664, Comm’n Action and Order 3, Inv. No. 337-TA-143 (Nov. 1984), 1984 ITC LEXIS 157, at \*5–7; *Allied*, 850 F.2d at 1574.

<sup>135</sup> *In re* Certain Amorphous Metal Alloys and Amorphous Metal Articles, USITC Pub. 1664, Initial Determination 41, Inv. No. 337-TA-143 (Nov. 1984), 1984 ITC LEXIS 157, at \*66–67; *Allied*, 850 F.2d at 1575.

<sup>136</sup> *In re* Certain Amorphous Metal Alloys and Amorphous Metal Articles, USITC Pub. 1664, Comm’n Action and Order 3, Inv. No. 337-TA-143 (Nov. 1984), 1984 ITC LEXIS 157, at \*5–6; *Allied*, 850 F.2d at 1576.

<sup>137</sup> *Allied*, 850 F.2d at 1576.

<sup>138</sup> See 19 C.F.R. § 210.76(a)(1) (2008) (“Whenever any person believes that changed conditions of fact or law, or the public interest, require that an exclusion order . . . be modified or set aside, in whole or in part, such person may file with the Commission a petition requesting such relief. The Commission may also on its own initiative consider such action.”).

<sup>139</sup> *Allied*, 850 F.2d at 1576.

<sup>140</sup> *Id.*

<sup>141</sup> *Id.* at 1577.

<sup>142</sup> *Id.*

<sup>143</sup> *Id.* at 1581.

<sup>144</sup> *Id.* at 1578. Similarly, an enforcement decision is binding on the enforcement parties and is a final judgment appealable to the United States Court of Appeals for the Federal Circuit. *Id.*; see, e.g., *VastFame Camera, Ltd. v. Int’l Trade Comm’n*, 386 F.3d 1108, 1113 (Fed. Cir. 2004) (asserting jurisdiction over appeal from Commission’s enforcement determination under 28 U.S.C. § 1295(a)(6) and 19 U.S.C. § 1337(c)).

<sup>145</sup> *Allied*, 850 F.2d at 1578.

orders and therefore are not appealable.”<sup>146</sup> Still, while an advisory opinion is neither binding nor appealable, a favorable advisory opinion is perhaps the best evidence of a party’s good faith intent to comply with the Commission’s orders, substantially reducing the likelihood that the party would be heavily fined for violating those orders in a subsequent enforcement proceeding.<sup>147</sup>

#### CONCLUSION

A business faced with an ITC complaint or an exclusion order is well advised to prepare “new and improved” products immediately. To minimize risks of business disruption and potentially substantial monetary sanctions, from the former respondents must do more than not cross the line of infringement; they must be “several healthy steps away” from that line. Navigating within the framework of the Commission, Customs and the CIT may be complicated, but all of these institutions provide procedural mechanisms for clearing noninfringing redesigns for entry into the United States. By using these procedural mechanisms effectively, businesses can achieve two important goals: maintaining market share and reducing the likelihood of violating Commission orders.

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<sup>146</sup> *Id.* (quoting 46 Fed. Reg. 17,526–17,527 (Mar. 18, 1981) (citation omitted)). The Commission appears to have intended advisory opinions as an ancillary means to ensure compliance with Commission Orders, rather than a formal means to obtain binding legal precedent regarding a proposed course of conduct. *Id.*; *see also* 46 Fed. Reg. at 17,527 (Mar. 18, 1981).

This provision is intended to provide the Commission with an additional means of securing parties compliance by advising them that their acts evidence noncompliance. This provision also ensures fairness to the parties since if they are uncertain as to the scope of the Commission's order, they can ask for an advisory opinion. The proposed rule as drafted provides both the Commission and parties a certain measure of flexibility since the issuance of advisory opinions may not be warranted in every case. Since the advisory opinions are not binding they are not final orders and are therefore not appealable.

46 Fed. Reg. at 17,527 (Mar. 18, 1981).

<sup>147</sup> *See* 19 U.S.C. § 1337(f)(2) (2006); *In re* Certain Lens-Fitted Film Packages, Comm’n Op. 20, Inv. No. 337-TA-406 (June 23, 2003), 2003 ITC LEXIS 807, at \*20 (noting that party in violation of Commission’s CDO “never sought clarification from the Commission on whether its importation and sales of the accused cameras were consistent with the Commission’s [CDO].”).