Strategic Considerations for Complainants and Respondents Considering to Include Products in Development in Section 337 Investigations.

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INTRODUCTION

An interesting question arises when a respondent in a Section 337 investigation is developing new products, which may not have been imported into the United States, during the pendency of the investigation. This article discusses both the Commission’s treatment of products in development and possible avenues for respondents facing an exclusion order to import newly developed products that were not considered by the Commission during the Section 337 investigation. The final section briefly explores some advantages and disadvantages for both complainants and respondents of including products in development in a Section 337 investigation.

DISCUSSION

A. Is it a Discovery or a Jurisdictional Issue?

The question of whether products still in development and not named in the complaint should be included in a Section 337 investigation usually arises at the discovery stage. Most judges faced with this issue have concluded that discovery of products in development is appropriate if the products are likely to be imported into the United States prior to the close of the evidentiary record.¹ The underlying justification is that the Commission may direct its remedial orders to any products within the scope of the investigation that infringe the patents at issue, regardless of whether they were specifically named in the complaint.² In evaluating the likelihood that the finalized products will be imported into the United States before the close of the evidentiary record, judges have looked at factors such as the developmental stage of the products and whether the respondent has shown samples or prototypes to customers.³ If the respondent has already imported samples or prototypes, then the judge is even more likely to order discovery of the product.⁴

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² Hardware Logic, at 7; Certain GPS Chips, at 2.


⁴ In re Certain Automotive Multimedia Display and Navigation Systems, Components Thereof, and Products Containing the Same, Inv. No. 337-TA-657, Order No. 22, at 4 (May 11, 2009) (allowing discovery into products in development where samples had been imported); In re Certain GPS Chips, Associated Software and Systems, and
Alternatively, some judges have allowed discovery of products in development simply because it would lead to admissible evidence, regardless of the stage of development. For example, information relating to the product in development may also be relevant to other products that the respondent has already imported. The standard for relevance at the Commission, just as in federal district courts, includes information that is reasonably calculated to lead to the discovery of admissible evidence. For judges following this approach, the likelihood that the products will be imported before the close of the evidentiary period appears to be less important.

In any event, the notice of investigation, not the complaint, dictates the scope of discovery. Accordingly, the Office of Unfair Import Investigation (OUII) has taken the position that respondents should respond to discovery requests as long as they are reasonably directed to “products [within the scope of the notice] as to which an infringement argument can be made.” Judges tend to agree with OUII’s position because respondents may release new products similar to the products named in the complaint while the investigation is pending. Judges invoke fairness and judicial economy as additional reasons for making infringement determinations with respect to products under development in a single proceeding rather than making costly piecemeal determinations in separate proceedings.

In reaching its final determination, the Commission may consider all products that were included in the discovery phase of the investigation and imported (or sold for importation) before the close of the investigation. The Commission’s jurisdiction also extends to any infringing products that will be imported during the life of remedial orders, regardless of whether they were imported before the Commission concluded the investigation.

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*Products Containing the Same*, Inv. No. 337-TA-596, Order No. 26, at 3 (Jul. 10, 2007) (allowing discovery into products in development where test chips had been imported and samples distributed).

5 E.g., *In re Certain Baseband Processor Chips and Chipsets, Transmitter and Receiver (Radio) Chips, Power Control Chips, and Products Containing Same, Including Cellular Telephone Handsets*, Inv. No. 337-TA-543, Order No. 11, at 5 (Dec. 8, 2005). See also *In re Plastic Encapsulated Integrated Circuits*, Inv. No. 337-TA-315, Order No. 15, at 4 (Dec. 11, 1990) (“The question is not whether an individual exemplar is commercially available, but whether it is representative of circuits encapsulated by a respondent, and thus reasonably calculated to lead to admissible evidence regarding an accused process.”).

6 *Certain Baseband Processor Chips*, at 4; see also 19 C.F.R. § 210.27(b).


9 *In re Hardware Logic*, at 8.


B. What Happens if Products in Development are Not Included in the Investigation?

If the complainant prevails in the investigation, the Commission will issue a remedial order, assuming it is in the public interest to do so.\(^{12}\) The scope of the order cannot exceed the scope of the investigation (i.e., the categories of products outlined in the investigation notice).\(^ {13}\) However, the Commission has jurisdiction over products that will be imported during the life of remedial orders. As a result, the Commission’s long-standing practice is to direct its remedial orders to all products covered by the patent claims as to which a violation has been found, rather than limiting its orders to only those specific models selected for the infringement analysis.\(^ {14}\) Therefore, the respondent seeking to import newly developed products that fall within the scope of the investigation notice may bear the burden of demonstrating that such products do not infringe.

Before discussing the options a respondent may have to import new or redesigned products into the United States, it may be useful to consider briefly the procedures for enforcing Commission exclusion orders. Customs and Border Protection (CBP) enforces exclusion orders through the Intellectual Property Rights and Restricted Merchandise Branch (IPR Branch), which is responsible for translating Commission exclusion orders into detailed “field instructions” that Customs officers can follow at ports of entry.\(^ {15}\) The resulting field instructions explain how to identify the goods that are subject to the Commission’s exclusion order. They also may identify suspected manufacturers, importers, and ports of entry. In addition, the IPR Branch develops “targeting criteria” in conjunction with the Office of Trade.\(^ {16}\)

Once an incoming shipment is targeted, Customs officers physically examine the goods to determine whether they are to be excluded. Given the highly technical nature of many products subject to exclusion orders, CBP encourages its officers to seek advice from Customs laboratories, which provide technical assistance in determining whether goods fall within the claims of the subject patent.\(^ {17}\)

A respondent with a good faith belief that new or redesigned products avoid infringement may simply choose to import the products and hope that CBP will not exclude them. However, the respondent may face significant penalties if the Commission or CBP later conclude that the products infringe and the respondent fraudulently imported them in violation of the exclusion order, especially if the respondent’s products are also subject to a cease and desist order. Nevertheless, this approach may be attractive if the respondent is confident of its non-infringement position and cannot afford interruption in importation of the products. In such a case, the benefits of continued importation may outweigh the potential risk of enforcement penalties.

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\(^{12}\) The Commission has authority to issue two remedies under Section 337: exclusion orders and cease-and-desist orders. The discussion in this paper is limited to exclusion orders, but some issues also apply to cease-and-desist orders.

\(^{13}\) *In re Certain Automated Mechanical Transmission Systems for Medium-Duty and Heavy-Duty Trucks and Components Thereof*, Inv. 337-TA-503, Commission Opinion at 4 (May 9, 2005).

\(^{14}\) *Id.* at 16.


\(^{16}\) *Id.* at 253-254.

If CBP permits entry of the respondent’s new or redesigned products, the complainant may initiate enforcement proceedings at the Commission. Conversely, if CBP excludes the products at the border, the respondent may challenge enforcement of the exclusion order by filing a protest with the CBP District Director. If the District Director denies the protest, the respondent may appeal to the Court of International Trade (CIT), or seek an advisory opinion from the Commission.

Alternatively, a respondent wishing to import new or redesigned products in the face of an exclusion order may choose to take advantage of a certification provision, which many exclusion orders include. A certification provision allows respondents to certify that the imported products are not subject to the exclusion order. CBP has discretion to accept certifications, and CBP may request evidence to substantiate the certification. However, certification provisions may not be effective for “design-around” products that the Commission did not consider during the investigation.

Rather than hoping for Customs to allow entry at the border or using a certification provision, a respondent may choose to seek clearance before trying to import a new or redesigned product. For example, a respondent may request an advisory opinion from the Commission or an administrative ruling from CBP. The respondent also may seek a declaratory judgment of non-infringement in federal district court.

Upon request, the Commission may initiate an advisory opinion proceeding to provide guidance about whether a respondent’s “proposed course of action or conduct” would violate a particular remedial order. One drawback of advisory opinions is that there are no formal timelines for their issuance, but the Commission has imposed target dates for advisory opinions in several instances. Another disadvantage is that an advisory opinion is not appealable to the Federal Circuit because it is not a “final” decision. In spite of this, seeking an advisory opinion is one way for a respondent to demonstrate its good faith intent to comply with the exclusion order. In addition, seeking an advisory opinion may decrease the chance that the respondent will be heavily fined for violating a cease and desist order in subsequent enforcement proceedings.

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19 Id.


22 19 C.F.R. § 210.79(a).

23 See Adkins, supra note 20, at 324.


By contrast, seeking an administrative ruling from CBP might be faster and less costly than obtaining an advisory opinion from the Commission. Another advantage over advisory opinions is that CBP administrative rulings may be appealed to the Court of International Trade, just like any other CBP decision to exclude products at the border. CIT decisions in turn are appealable to the Federal Circuit. On the other hand, CBP administrative rulings also come with disadvantages. For example, they are available only with respect to prospective transactions, not products already pending before CBP for reason of arrival. In addition, CBP rulings are not binding on the Commission and do not prevent the respondent from being subject to Commission enforcement proceedings and, in the event the respondent is also subject to a cease and desist order, potential penalties for violating that order.

In the past, the Commission’s infringement determinations were sometimes more exhaustive than CBP infringement analyses, which often were based simply upon visual examination. However, in recent years, the IPR Branch tried to implement a new procedure for determining how to treat new or redesigned products following the issuance of an exclusion order by the Commission. Under this procedure, the IPR Branch would consider convening an adversarial administrative hearing to address the applicability of newly issued exclusion orders to respondent’s new or redesigned products, particularly when the issues are highly technical or are disputed by the parties. The IPR Branch attorneys would review the Judge’s initial determination, the Commission’s opinion, and briefs submitted by the parties to determine whether the product at issue falls within the scope of the exclusion order. This procedure afforded both parties an ample opportunity to bring information to the attention of CBP in order to facilitate proper enforcement of exclusion orders. In recent months, however, the IPR Branch has opted against holding such adversarial proceedings.

Regardless of whether a respondent elects to pursue an advisory opinion or an administrative ruling, complications can arise when multiple proceedings are initiated at both CBP and the Commission to address the scope of an exclusion order. In at least one case, the CIT has granted a preliminary injunction precluding a respondent from importing redesigned products under a certifying provision at the same time the Commission was undertaking a combined advisory opinion and enforcement proceeding. The Federal Circuit, however, immediately stayed the CIT’s order pending appeal. In that case, the CIT proceeding ultimately was mooted when the Commission found that the new products did not infringe the

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26 See, e.g., Jazz Photo Corp. v. United States, 439 F.3d 1344 (Fed. Cir. 2006) (allowing importer to challenge CBP ruling).
27 Duvall, supra note 18, § 10:9.
31 See Eaton, 395 F. Supp. 2d at 1329.
asserted patent and therefore could be imported. However, in other cases, there may be a risk of inconsistent rulings. These are all important factors that might counsel in favor of including products in development for the Commission to consider in the original Section 337 investigation rather than trying to clear them for importation after entry of an exclusion order.

C. Strategic Considerations in Deciding Whether to Include Products in Development in the Investigation.

A respondent with a strong case of non-infringement with respect to the accused products, or of invalidity of the asserted patent, might benefit from including in the investigation other products that may still be under development. If the products under development also present a strong case of non-infringement, including them in the investigation might increase the chances of favorable settlement. In addition, it might be more cost-effective for the respondent to obtain an infringement ruling with respect to all its products in single proceeding rather than seeking adjudication of its products in development separately or in a different forum. If the respondent prevails, it may continue importing its products without interruption, including during any appeal the complainant may file with the Federal Circuit. Furthermore, an ITC decision in favor of the respondent will be persuasive, although not dispositive, if subsequent litigation ensues in federal district court. And it is always useful to know that the Commission has formally determined that products in development do not infringe before investing further resources in research and development. Although the Commission will typically not compel discovery as to products under development if the products are not likely to be imported by the close of discovery or if the products are in early stages of development, in some instances the respondent may opt to include such products in the investigation anyway.

On the other hand, a respondent might benefit from not including products under development in an ongoing Commission investigation if the differences between the accused products and the products under development are so subtle that there is a risk that the Commission will group the products under development with other clearly infringing products in making its infringement determination. There may be a “guilt-by-association” effect that could be avoided if the products in development are considered separately from other clearly infringing products. Additionally, if the respondent believes it is likely that the complainant will file suit in federal district if the Commission decision is not favorable, the respondent may wish to preserve its resources for district court proceedings, given the lack of preclusive effect of Commission infringement decisions in federal court.


33 Blakeslee, supra note 29, at 408.

34 See e.g. In re Memory Devices with Increased Capacitance & Products Containing Same, Inv. No. 337-TA-371, Order No. 4, at 6 (Apr. 20, 1995) (“OKI need not submit information at this time about any DRAMs now being developed unless OKI is going to send samples to the United States while this case is pending. If OKI does not intend to send samples to the United States while this case is pending, but it wants the Commission to consider these DRAMs because OKI eventually intends to sell them in the United States and wants a finding as to whether they are infringing, it may include these DRAMs in this case.”).

35 Blakeslee, supra note 29, at 410.

36 Id. at 409.
The complainant might find it advantageous to include products under development in an ongoing Section 337 investigation if the complainant believes it has a strong case for infringement. Conversely, if the chance of prevailing with respect to those products is low, the better option might be to avoid giving the respondent an opportunity to “clear” the products under development with the Commission. Particularly if the case for infringement regarding other products is strong, the complainant may choose to defer consideration of the products under development until after the Commission issues an exclusion order. Once the exclusion order issues, CBP may interpret the order to require exclusion of both the original product and the newly developed product. In addition, issuance of the exclusion order might discourage the respondent from importing the new products in the first place or entice the respondent into licensing the asserted patent.37

One disadvantage for both complainants and respondents of not including products under development in an ITC investigation is that CBP might end up making the initial evaluation as to whether these new or redesigned products infringe. Because CBP’s proceedings are informal, the parties might have less input than they would have had at the underlying ITC proceeding.38 However, as noted above, unfavorable CBP rulings are not binding on the Commission, and unsatisfied parties may always initiate an enforcement proceeding or seek an advisory opinion.

CONCLUSION

Although cost and efficiency concerns counsel in favor of resolving infringement issues in a single proceeding before the Commission, in certain cases a party, whether complainant or respondent, might have incentives to leave products in development out of a Section 337 investigation. Parties should keep in mind that the likelihood of importation and the stage of development are two important factors judges consider in resolving disputes regarding products in development. In addition, if products under development are not included in a Section 337 investigation and an exclusion order issues, both parties might have to spend additional time and resources in further proceedings before obtaining a definitive determination with respect to whether newly developed products fall under the scope of the order. Complainants and respondents should consider these factors early in an investigation and make a strategic decision, based on their particular circumstances, about whether to include products in development in the investigation.

37 Bateman, supra note 10, at 4.
38 Id. at 3.