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The Filing and Defending of Section 337 Actions

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The Filing and Defending of Section 337 Actions

by Harvey Kaye* and Paul Plaia, Jr.**

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Section 337 of the Tariff Act of 1930, as amended,¹ provides for the issuance by the United States International Trade Commission (ITC) of an exclusion order² or cease and desist order³ when a violation is found. A violation exists when there is an unfair act or unfair method of competition in the importation of articles or in their sale, the effect or tendency of which is to destroy or substantially injure an efficiently and economically operated domestic industry, or to prevent the establishment of such an industry, or to restrain or monopolize trade and commerce in the United States.⁴ The most common example of a section 337 violation is the importation of an article which infringes a United States patent causing injury to U.S. producers.⁵

This article describes the uses, violations, and possible remedies available under section 337. The procedure for filing a section 337 complaint and the preparation for proceeding on behalf of a complainant are discussed. Since discovery problems in such proceedings are unique, they are explored in more detail. The major contributing factor to discovery problems is the one year (or eighteen months in more complicated cases) statutory time limit within which a section 337 investigation must be concluded. In order to balance the consideration of the issues involved in such actions, problems and procedures from a respondent's point of view are also presented.

I. The Statute

A. Development of Section 337

In 1922 Congress enacted the Tariff Act of 1922, including section 316, the predecessor to the present section 337.⁶ Section 316 provided that the Tariff Commission, renamed the ITC in 1974,⁷ was to investigate complaints of unfair competition and make recommendations thereon to the President. The President was provided the authority to increase duties on articles or exclude articles when a violation was deter-

¹ Tariff Act of 1930, ch. 497, § 337, 46 Stat. 590 (codified as amended at 19 U.S.C. § 1337 (1976 & Supp. III 1979)).

² 19 U.S.C. § 1337(d) (1976). Subsection (d) reads: "[i]f the Commission determines, as a result of an investigation under this section, that there is violation of this section, it shall direct that the articles concerned, imported by any person violating the provision of this section, be excluded from entry into the United States"

³ *Id.* § 1337(f) (Supp. III 1979). Subsection (f) reads:

In lieu of taking action under subsection (d) or (e) of this section, the Commission may issue and cause to be served on any person violating this section, or believed to be violating this section, as the case may be, an order directing such person to cease and desist from engaging in the unfair methods or acts involved

⁴ *Id.* § 1337(a) (1976).

⁵ *See, e.g.*, Thermometer Sheath Packages, Inv. No. 337-TA-56, U.S.I.T.C. Pub. No. 992 (July 1979); Solder Removal Wicks, Inv. No. 337-TA-26, U.S.I.T.C. Pub. No. 823 (July 1977); Above Ground Swimming Pools, Inv. No. 337-TA-25, U.S.I.T.C. Pub. No. 815 (April 1977).

⁶ Tariff Act of 1922, ch. 356, § 316, 42 Stat. 858 (repealed 1930).

⁷ The U.S. International Trade Commission was named the U.S. Tariff Commission before the name change brought about by the Trade Act of 1974, Pub. L. No. 93-618, § 171, 88 Stat. 1978 (1975) (codified at 19 U.S.C. § 2231 (1976)).

mined, and indeed a number of exclusion orders were issued under section 316.⁸ Congress later incorporated most of the provisions of section 316 into section 337 of the Tariff Act of 1930, but it eliminated the authority of the President to increase duties to remedy violations.⁹

During the period 1930-1952, the effectiveness of the statute was limited to the remedying of patent violations, probably because the Commission during this period refused to initiate an investigation or to recommend a remedy be imposed if the alleged unfair acts, other than patent infringement, could be dealt with under other laws. During the 1960's the importance of foreign competition in the United States market rekindled interest in section 337. The modern era of this statute began in 1969 when the President, on the recommendation of the Tariff Commission, issued the first exclusion order since the early years.¹⁰ Activity increased under the statute in the early 1970's when several other exclusion orders were issued by the President;¹¹ however, Presidential involvement and the time delays caused by the slow moving administrative process of the Tariff Commission dissuaded many from using the statute.

Finally, amendments to section 337 in the Trade Act of 1974 made a section 337 action a more useful action for domestic industries.¹² The 1974 Act transferred the authority to issue exclusion orders from the President to the ITC,¹³ and placed a one year time limit (eighteen months in more complicated cases) on the completion of investigations.¹⁴ Since the 1974 amendments, section 337 has become one of the most utilized laws in combatting activities alleged to be unfair competition in international trade.

B. *Uses of the Statute*

Until recent years, section 337 was used almost exclusively as an intellectual property statute. In a long line of cases dating back to 1929, the Commission and its reviewing court, the United States Court of Customs and Patent Appeals, have held patent infringement by imported goods to be an "unfair method of competition and unfair act" within the meaning of section 337 of the Tariff Act of 1930, as amended.¹⁵

⁸ Synthetic Phenolic Resin, Section 316 Doc. No. 4, May 26, 1927; Revolvers, Section 316, Doc. No. 1, July 14, 1925; Manila Rope, Section 316, Doc. No. 5, April, 1927.

⁹ Trade Act of 1930, ch. 497, § 337, 46 Stat. 703 (codified as amended at 19 U.S.C. § 1337 (1964)).

¹⁰ Furazolidone, Inv. No. 337-21, T.C. Pub. 299 (Nov. 1969).

¹¹ Lightweight Luggage, Inv. No. 337-28, T.C. Pub. 463 (Feb. 1972); Pantyhose, Inv. No. 337-25, T.C. Pub. 471 (Mar. 1972).

¹² Trade Act of 1974, Pub. L. No. 93-618, § 341(a), 88 Stat. 1978 (1975) (codified as amended at 19 U.S.C. § 1337 (1976 & Supp. III 1979)). For more information about the 1974 amendments, see Kaye & Plaia, *Revitalization of Unfair Trade Causes in the Importation of Goods*, 57 J. PAT. OFF. SOC'Y 208, 269 (1975).

¹³ Trade Act of 1974, note 12 *supra* (codified at 19 U.S.C. § 1337(d) and (e) (1976)).

¹⁴ *Id.* (codified at 19 U.S.C. § 1337(b)(1) (1976)).

¹⁵ In re Frischer & Co., Inc., 49 F.2d 274, 17 C.C.P.A. 494 (1929), *cert. denied*, 282 U.S. 852 (1930); In re Orion Co., 71 F.2d 458, 22 C.C.P.A. 149, 21 U.S.P.Q. 563 (1934); In re Northern

With the advent of the 1974 amendments, the Commission embarked on a continuing attempt to expand its jurisdiction to include the full range of intellectual property actions along with an entrance into almost every area of the antitrust laws. To accommodate this expansion, the Commission has promulgated regulations in the areas of rule making, consents, and enforcement procedures,¹⁶ and recently has begun issuing advisory opinions.¹⁷

The road of expansion has not been without its problems. In alleged price discrimination cases, for example, conflicts developed with other agencies, particularly the Treasury Department, where Commission investigations overlapped the administration of the antidumping laws and the countervailing duty laws (at that time, these laws were administered by the Treasury Department rather than as now by the Commerce Department). The conflict reached a climax when the President vetoed Commission action in the predatory pricing, section 337 investigation of *Steel Tubes*.¹⁸ In that case the President set aside the Commission action on the basis that the antidumping laws should be exhausted before Commission action becomes warranted.¹⁹ To further solidify this position, amendments to section 337 were enacted in 1979 to preclude the Commission from exercising its jurisdiction when the matter was cognizable under the antidumping law.²⁰ As a result of the President's action and the legislative initiatives, the Commission has determined not to exercise its jurisdiction in a number of predatory pricing cases filed under section 337.²¹

C. *Violation of the Statute*

A violation of section 337 occurs when (1) the existence of unfair methods of competition and unfair acts is established, and (2) the acts

Pigment Co., 71 F.2d 477, 22 C.C.P.A. 166, 21 U.S.P.Q. 573 (1934); *In re Amtorg Trading Corp.*, 75 F.2d 826, 22 C.C.P.A. 558, 24 U.S.P.Q. 315 (1935); *In re Von Clemm*, 229 F.2d 441, 43 C.C.P.A. 56, 108 U.S.P.Q. 371 (1955).

¹⁶ U.S.I.T.C. Proposed Rules: Investigation of Unfair Practices in Import Trade, 43 Fed. Reg. 2,886 (1978), 45 Fed. Reg. 24,192 (1980), 46 Fed. Reg. 17,526 (1981).

¹⁷ Apparatus for the Continuous Production of Copper Rod, Inv. No. 337-TA-52, Advisory Opinion issued July 14, 1980; Surveying Devices, Inv. No. 337-TA-68, U.S.I.T.C. Pub. No. 1085 (July 1980).

¹⁸ Welded Stainless Steel Pipe and Tube, Inv. No. 337-TA-29, U.S.I.T.C. Pub. No. 863 (Feb. 1978) [hereinafter cited as *Tubes*].

¹⁹ The Commission disagreed with the contention that its investigation should be dismissed or suspended because of the duplicative nature of its investigation and that of the Treasury Department. The Commission pointed out several differences between the two investigations, including the longer time period considered by the Commission; the adversarial nature of the Commission proceeding; the importance of the "intent" element in a Commission investigation; and the broader issues involved in determining injury in a Commission proceeding. *Id.* at 13-16.

²⁰ Trade Agreements Act of 1979, Pub. L. No. 96-39, § 1105, 93 Stat. 144 (codified at 19 U.S.C. § 1337(b)(3) (Supp. III 1979)).

²¹ *See, e.g.*, Calcium Pantothenate from Japan, Inv. No. 603-TA-5 (April 1980), which had not previously been instituted under § 337.

have been shown to tend to injure or destroy a domestic industry, tend to prevent the establishment of an industry, or tend to restrain or monopolize trade and commerce in the United States.²²

Unfair acts found to be within the meaning of section 337 include patent infringement,²³ misappropriation of trade secrets,²⁴ misappropriation of trademarks,²⁵ misappropriation of trade dress (passing off, or palming off),²⁶ violation of section 4(a) of the Lanham Act,²⁷ predatory pricing,²⁸ unlawful boycotts,²⁹ full line forcing,³⁰ conspiracy to monopolize,³¹ attempts to monopolize,³² below-cost selling,³³ and others such as false marking, advertising, and/or labeling.³⁴

The establishment of a violation under the statute, except antitrust violations, requires a showing that the complained of act has the tendency to injure or destroy a domestic industry or prevent the establishment of such an industry.³⁵ This causation requirement is essential to

²² 19 U.S.C. § 1337(a) (1976).

²³ See *Lightweight Luggage*, note 11 *supra*.

²⁴ See *Apparatus for the Continuous Production of Copper Rod*, Inv. No. 337-TA-52, U.S.I.T.C. Pub. No. 1017 (Nov. 1979) [hereinafter cited as *Copper Rod*]. To prove misappropriation of trade secrets, the Commission in *Copper Rod* required the establishment of four elements: 1) the existence of a trade secret not in the public domain; 2) complainant's ownership of the trade secret; 3) complainant's disclosure of the trade secret to respondent during a confidential relationship, or respondent's wrongful taking of the secret by unfair means; and 4) respondent's use or disclosure of the trade secret causing injury to the complainant. *Id.* at 38.

²⁵ See *Reclosable Plastic Bags*, Inv. No. 337-TA-22, U.S.I.T.C. Pub. No. 801 (Jan. 1977) [hereinafter cited as *Plastic Bags*].

²⁶ See *Novelty Glasses*, Inv. No. 337-TA-55, U.S.I.T.C. Pub. No. 991 (July 1979); *Steel Toy Vehicles*, Inv. No. 337-TA-31, U.S.I.T.C. Pub. No. 880 (April 1978). The three key elements of proof required to support an allegation of "passing off" are 1) the trade dress must include nonfunctional design features; 2) the trade dress and its packaging must have acquired secondary meaning in the public's mind; and 3) there must be a likelihood that the consumer will be confused as to the source of the product which copies the trade dress of the senior user who seeks protection. *Novelty Glasses*, U.S.I.T.C. Pub. No. 991, at 6-7.

²⁷ See generally *Novelty Glasses*, note 26 *supra*. To receive protection under the Lanham Act, a trademark must either be distinctive or else have acquired a secondary meaning. *Id.* at 12. The presiding officer in the *Airtight Cast Iron Stoves* investigation, U.S.I.T.C. Inv. No. 337-TA-69 (1979) (Recommended Determination), described the establishment of "secondary meaning" as occurring when a "name, mark, or symbol by long and exclusive use and advertising by one person in the sale of his goods . . . become[s] so associated in the public mind with such goods . . . that it serves to identify them and distinguish them from the goods . . . of others." *Id.* at 10.

²⁸ *Above Ground Swimming Pools*, note 5 *supra*. The presiding officer stated that predatory pricing involves selling below cost or at otherwise unreasonably low prices with the intent, purpose and effect of restraining and lessening competition. *Id.*, Recommended Determination at 64.

²⁹ See *Tractor Parts*, Inv. No. 337-TA-22, T.C. Pub. No. 443 (Dec. 1971).

³⁰ See 62 CONG. REC. 5879 (1922).

³¹ See generally *Chicory Root: Crude and Prepared*, Inv. No. 337-TA-27 (Aug. 1976); *Plastic Bags*, note 25 *supra*.

³² *Id.*

³³ See *Tubes*, note 18 *supra*.

³⁴ See *Solder Removal Wicks*, note 5 *supra*. For a discussion of the full range of acts encompassed by the term "unfair act and unfair methods of competition," see H. KAYE, P. PLAIA & M. HERTZBERG, *INTERNATIONAL TRADE PRACTICE*, at ch. 5 (Shepards, McGraw-Hill 1981).

³⁵ 19 U.S.C. § 1337(a) (1976).

the complainant's prima facie case and is discussed in more detail below.

D. Remedies

The statute authorizes the Commission to impose three types of remedies: temporary exclusion order (TEO);³⁶ permanent exclusion orders (PEO);³⁷ and cease and desist orders.³⁸ The TEO and PEO are in rem remedies, while the cease and desist order is an in personam remedy.³⁹

A TEO is similar to the preliminary injunction issued by the U.S. district courts. It is issued to maintain the status quo during the pendency of the Commission investigation by preventing importation of the excluded articles, except those articles admitted under bond. A new standard for issuance of a TEO recently developed by the Commission, is similar to the standard used by the federal courts.⁴⁰

Under the old standard, a complainant would obtain a TEO if it presented a prima facie case demonstrating a violation and that the resulting harm was both immediate and substantial.⁴¹ Under the new standard, the complainant must show a violation by a preponderance of the evidence, as well as the immediate and substantial harm.⁴² However, the new standard purports to be no more than the Commission following the standards used by the federal district courts when considering the issuance of a preliminary injunction.⁴³

The second type of remedy, a PEO, is similar to a permanent injunction in the U.S. district courts and prevents importation of articles⁴⁴ (with no provision for bonding as under a TEO, except for the period of presidential consideration). The Commission's authority rests with its power to order items to be excluded from entry into the United States. This remedy has frequently been used,⁴⁵ and many such exclusion orders are outstanding at this time.⁴⁶

A third type of remedy available to the Commission is a cease and desist order. Cease and desist orders have been used by the Commission

³⁶ *Id.* § 1337(e).

³⁷ *Id.* § 1337(d).

³⁸ *Id.* § 1337(f)(1) (Supp. III 1979).

³⁹ *See Exercising Devices*, Inv. No. 337-TA-24, U.S.I.T.C. Pub. No. 813 (April 1977); *Rotatable Photograph and Card Display Units*, Inv. No. 337-TA-74, U.S.I.T.C. Pub. No. 1109 (Nov. 1980).

⁴⁰ *Apparatus for the Continuous Production of Copper Rod*, Inv. No. 337-TA-89 (April 1981).

⁴¹ *Meprobamate*, T.C. Pub. No. 389, at 3-4 (April 1971).

⁴² *See* note 40 *supra*.

⁴³ *Id.*

⁴⁴ *See generally* *Roller Units*, Inv. No. 337-TA-44, U.S.I.T.C. Pub. No. 944 (Feb. 1979).

⁴⁵ *Multicellular Plastic Film*, Inv. No. 337-TA-54, U.S.I.T.C. Pub. No. 987 (June 1979) [hereinafter cited as *Plastic Film*]; *Doxycycline*, Inv. No. 337-TA-3, U.S.I.T.C. Pub. No. 964 (April 1979); *Flexible Foam Sandals*, Inv. No. 337-TA-47, U.S.I.T.C. Pub. No. 947 (Feb. 1979); *Roller Units*, note 44 *supra*; *Luggage Products*, Inv. No. 337-TA-39 (Aug. 1978).

⁴⁶ *Id.*

to proscribe specific conduct by parties over which it has in personam jurisdiction.⁴⁷ For example, in *Cast-Iron Stoves*,⁴⁸ the Commission issued several cease and desist orders prohibiting certain of the respondents from importing, selling, or distributing any stoves that were unlawful copies of complainant's stoves. The Commission had determined that certain respondents copied the arbitrary design features of the complainant and thereby engaged in common law trademark infringement.⁴⁹

With this arsenal of remedial actions available, the Commission has the flexibility to fashion remedies that allow continued fair competition if such fair competition can be established.

II. Procedures

For those who seek to use section 337 or who wish to defend an action under the statute, the most significant result of the 1974 amendments was the addition to the statute of a "due process" hearing requirement.⁵⁰ Actions before the Commission are subject to "due process" procedures similar to those followed by federal district courts,⁵¹ however, the Commission rules differ from those of the U.S. district courts in one important area—time limits. Time limits under the ITC rules are shorter owing to the severe statutory time period (one year or eighteen months in more complicated cases)⁵² within which the Commission must complete its determination as to whether a violation of section 337 exists, and if so, what remedy will be issued.

The complaint⁵³ is the basic document which sets forth the facts and issues upon which the action is based. ITC complaints must satisfy more than the bare "notice" requirements necessary in the federal courts, and the Commission will not institute proceedings unless the complaint sets forth the specific information required by the rules. The answer⁵⁴ required under the Commission rules is similar to that required in the U.S. district courts. It must address each allegation contained in the complaint and must set forth each affirmative defense to be raised by the respondent.

Generally, all forms of discovery available under the Federal Rules of Civil Procedure in the U.S. district courts are available in the ITC.⁵⁵ This includes depositions,⁵⁶ interrogatories,⁵⁷ production of documents,⁵⁸

⁴⁷ See generally *Plastic Bags*, note 25 *supra*.

⁴⁸ *Airtight Cast Iron Stoves*, Inv. No. 337-TA-69, U.S.I.T.C. Pub. No. 1126 (Jan. 1981).

⁴⁹ *Id.*

⁵⁰ Trade Act of 1974, Pub. L. No. 93-618, § 341(a), 88 Stat. 1978 (1975) (codified as amended at 19 U.S.C.A. § 1337(c) (West Supp. 1981)).

⁵¹ See generally *id.*

⁵² 19 U.S.C. § 1337(b)(1) (1976).

⁵³ 19 C.F.R. § 210.20 (1981).

⁵⁴ *Id.* § 210.21.

⁵⁵ *Id.* §§ 210.30-36.

⁵⁶ *Id.* § 210.31.

⁵⁷ *Id.* § 210.32.

and requests for admissions.⁵⁹ While the scope of discovery is broad and includes information "if the information sought appears reasonably calculated to lead to the discovery of admissible evidence,"⁶⁰ the time periods are generally shorter than those provided under the Federal Rules. For example, both interrogatories⁶¹ and requests for admissions⁶² are returnable within ten days.

For the protection of the participants, the Commission rules provide for *in camera* treatment of confidential technical and business information.⁶³ Shortly after institution of a section 337 investigation, a protective order is issued limiting the distribution or disclosure of any technical or business information designated as confidential under the protective order.⁶⁴

The statute requires that Commission hearings, in order to provide an evidentiary record,⁶⁵ be conducted pursuant to the Administrative Procedures Act.⁶⁶ Commission evidentiary hearings are presided over by an Administrative Law Judge (ALJ) and follow the format of trials held in the U.S. district courts. Parties have the right to receive proper notice, cross-examine witnesses, present evidence, make objections, make motions, and present argument.⁶⁷ The ALJ makes a recommended determination based on the evidence presented. The recommended determination together with the record, is certified to the Commission, which makes the actual determination as to whether or not there is a violation of the statute. The rules of evidence are similar to those of the U.S. district courts, but the Federal Rules of Evidence are not exactly followed.

Appeals of Commission determinations may be taken with the Court of Customs and Patent Appeals by any person adversely affected by a final determination of the Commission.⁶⁸

III. Prosecuting a Section 337 Action

Through a careful balancing of the factual presentation, the expected discovery and the statutory time limits, the complainant can control the course of the section 337 proceeding.

A. Prefiling Preparation

Because the complainant has knowledge of the proceeding well in

⁵⁸ *Id.* § 210.33.

⁵⁹ *Id.* § 210.34.

⁶⁰ *Id.* § 210.30(b).

⁶¹ *Id.* § 210.32.

⁶² *Id.* § 210.34.

⁶³ *Id.* § 210.44.

⁶⁴ *Id.* § 210.30(d).

⁶⁵ *Id.* § 210.41.

⁶⁶ 19 U.S.C.A. § 1337(c) (West Supp. 1981).

⁶⁷ 19 C.F.R. § 210.41(d) (1981).

⁶⁸ *Id.* § 210.61; 19 U.S.C. § 1337(c) (West Supp. 1981).

advance of the filing of the complaint, which is the first time the public becomes aware of the complaint, it can prepare its discovery documents before the action has been instituted. Requests for documents, an evaluation of complainant's own documents, and similar activities should be undertaken and completed in advance of the initial filing of the complaint. The complainant should identify the information needed from respondents and third parties and should develop methods for obtaining the information. Complainant's discovery strategy can and should allow for the control of discovery in the hands of the complainant. The scope of discovery is shaped by the complaint, and, with full exploitation of the time advantage, complainant can prove its case and then expand the action into other areas if facts and circumstances concerning additional violations by respondents develop. Preparation time is so valuable in section 337 proceedings that complainant ought to use this advantage to the fullest extent possible.

B. Preparation of the Complaint

In addition to the steps that should be taken prior to instituting an action for unfair competition in federal district court, complainant should obtain some special information. Prior to filing a section 337 complaint, the complainant should have answers to the following questions:

(1) What are the unfair acts? Are they the type which the ITC has previously found to be unfair?

(2) What is the injury being caused? Is it the type of injury cognizable under the statute?

(3) Is there a causal connection between the unfair acts and the injury or is the injury caused by other factors?

(4) Is there more than one company which constitutes the domestic industry? If there are other such firms, are they interested in cooperating? Will they join as co-complainants? Whether or not they join in the complaint, will they cooperate in providing assistance and information to complainant? Will they resist discovery-by-subpoena?

(5) What documents of complainant are most likely (a) to be used for the hearing, and (b) to be discovered by the other parties?

(6) Who are the potential parties?

(7) Will it be a "more complicated" investigation and thus lengthen the overall time limitation to eighteen months?

The case can be researched and outlined prior to filing, except for those facts which complainant will have to obtain from respondents and/or third parties. As for the elements listed above, discovery requests and subpoenas should be prepared in advance, at least in draft form, particularly in the event temporary relief is requested. As in other types of litigation, all discoverable material in the files of the party initiating the action should be reviewed prior to filing a complaint. This is particu-

larly important because the short response time to discovery requests means there may not be sufficient time to both find and review such documents prior to the time the response is due.

If the complainant believes a TEO *is needed*, it must take some special steps and should consider the following points; temporary relief, at best, will only provide relief several months earlier than a permanent exclusion order.⁶⁹ The hearing to determine whether there is "reason to believe" there is a violation is to be completed within three months from the date of the Notice of Investigation in the *Federal Register*.⁷⁰ While in the past "reason to believe" was established by proving probability of success on the merits or a preponderance of the evidence that there has been a violation, the Commission has recently changed this. Now, the proof required is "a balanc[ing of] the evidence of violation and the evidence that the complainant will suffer immediate and substantial harm absent the granting of such relief against the evidence of any adverse impact on other parties."⁷¹ Within thirty days of completion of the hearing, the recommended decision of the Administrative Law Judge is to be rendered.⁷² If the Commission determines there is reason to believe there is a violation of section 337, it may issue a remedy when there is a showing of immediate and substantial harm to the domestic industry in the absence of a remedy.⁷³ But the Commissioners have noted that a TEO is an "extraordinary" means to be used only "under the most compelling circumstances."⁷⁴ The complainant should also consider whether, realistically, temporary relief can be obtained, whether it is worth the expenditure required, and whether it will adversely affect discovery.

C. The Complaint

The complaint is the basic initiating pleading before the Commission. Once it has been filed, the strict time sequence of the proceeding has begun. From the date of filing, the Commission has thirty days, under its rules, in which to make a decision to institute proceedings.⁷⁵ The proceeding must be fully completed within one year of its institution.⁷⁶

Unlike the complaint in the federal district court, the Commission

⁶⁹ See 19 U.S.C. § 1337(d) (1976).

⁷⁰ 19 C.F.R. § 210.41(e)(2) (1981). Compare with 19 C.F.R. § 210.41(e)(1) which provides seven months for the completion of the hearing on permanent relief.

⁷¹ *Copper Rod*, *supra* note 40, at 6-7.

⁷² See 19 C.F.R. § 210.53(a) (1981).

⁷³ In *Luggage Products*, the Commission unanimously found reason to believe a violation existed and yet denied complainant's request for a TEO because there was a failure to show an "immediate or pressing need" to exclude the imported goods. See note 45 *supra*. See also *Copper Rod*, note 40 *supra*.

⁷⁴ *Luggage Products*, *supra* note 45 at 7. Compare, however, language in the Memorandum Opinion in *Chicory Root: Crude and Prepared*, stating that immediate and substantial harm is not necessary to a determination in favor of a TEO. See note 31 *supra*.

⁷⁵ 19 C.F.R. § 210.12 (1981).

⁷⁶ *Id.* § 210.15.

complaint must be detailed.⁷⁷ The Commission rules require that the substance of the alleged unfair act be spelled out and substantiated with specific facts which form the basis for the allegations.⁷⁸ In addition, economic data concerning injury to the domestic industry is necessary in detail not usually found in the federal courts.⁷⁹

The unfair acts detailed in the complaint form the basis for the Commission's notice of investigation which officially begins the ITC proceeding when it is published in the *Federal Register*.⁸⁰ The Commission's notice is also important because it, and not the complaint, establishes the scope of the proceedings.⁸¹

Thus, care should be taken in the drafting of the allegations to allow a broad scope in the proceedings. It may be necessary to mix patent allegations with other types of unfair trade practice allegations, such as trade secret actions, or to include unfair pricing or other antitrust type allegations.

Not only will the broad scope of the allegations allow for the widest possible discovery, but it also will allow for the possible development of additional violations within the scope of the notice as they arise during discovery. For example, in a trade secret dispute, complainant may wish to allege the general violation and supply the specifics as known at the time of the filing of the complaint. So long as the general trade secret allegation is included in the ITC notice, more detailed subject matter and/or circumstances may be developed during discovery. This type of situation will exist many times in antitrust-based complaints coming before the Commission because many of these types of complaints must be based in large part on facts and circumstances as the complainant perceives them. If, after extensive discovery, the circumstances and facts are found to differ from those set forth in the complaint, the offense developed should be within the allegations, provided they have been drawn sufficiently broadly at the outset. Thus, the allegations should be framed so as to cover all potential acts that may form a basis for a violation of the statute.

Complaints may be amended at any time prior to the Commission's initiation of an investigation. Since the ITC must act on a complaint within thirty days of its receipt, as a practical matter a complaint may be amended without cause only during that period.⁸²

After the investigation has been initiated, the complaint may be amended only upon the showing of "good cause" and only when the public interest and the rights of other parties will not be prejudiced by permitting the amendment. Generally, the sooner an amendment is

⁷⁷ *Id.* § 210.20.

⁷⁸ *Id.* § 210.20(2) and (3).

⁷⁹ *Id.* § 210.20(8).

⁸⁰ *Id.* § 210.12.

⁸¹ *Id.*

⁸² *Id.* § 210.20(d).

sought, the better the chance that it will be allowed. However, the Commission has been liberal in allowing amendment.⁸³ To avoid Commission refusal to add parties or violations, the complainant, as its first priority, may plan and execute discovery in the areas where possible expansion of the complaint may exist. In any event, the complainant should continuously weigh development of the facts during discovery, so that he will be able to detect any area where an amendment to the complaint and notice of investigation is needed.

D. Discovery

The discovery phase of section 337 proceedings is clearly an area where the complainant may have a decided advantage, because the respondents do not receive notice until the complaint is filed and sometimes not until the notice of investigation is published in the *Federal Register*. Owing to the shortness of the usual discovery period, three to four months in most cases, the complainant should not miss his opportunity to maximize this advantage.

1. Evidentiary Depositions

Because of the international nature of the proceeding, the use of depositions takes on added significance. To gather all of the available evidence in support of the complaint allegations, it may be necessary to take evidentiary depositions in lieu of testimony at the hearing. This need is the result of limitations on the ability to compel certain witnesses to appear.

The ITC rules provide for the taking of evidentiary depositions in certain instances.⁸⁴ If a foreign party is not able to appear at the hearing, but is agreeable to giving his testimony outside the United States or in the United States at a time other than during a hearing, the party seeking the testimony may, by motion to the ALJ, have the testimony of that witness taken as an evidentiary deposition and entered into the record as part of the record testimony.⁸⁵ The inability to compel testimony of nonparty foreign witnesses is one of the discovery problems which must be overcome by complainant when planning its proofs of facts.

2. Discovery on Foreign Respondents

The problems of how and where to obtain discovery on foreign respondents occur in almost every case. Because respondents are parties to the action, the opportunity for discovery may be obtained through the

⁸³ See, e.g., *Copper Rod*, *supra* note 24, in which an amendment to include an allegation for violation of a newly issued patent was allowed by the Commission after almost all of the discovery had been completed. The Commission also allowed an amendment adding a copyright count in *Coin-Operated, Audio Visual Games and Components Thereof*, Inv. No. 337-TA-87.

⁸⁴ 19 C.F.R. § 210.31(h) (1981).

⁸⁵ *Id.* § 210.31(h)(3).

use of discovery orders. This overcomes much of the problem of lack of personal jurisdiction for the ALJ to issue discovery subpoenas on foreigners. However, the problems of language, distance, and coordinating discovery with the foreign government are not easily solved. Owing to the limited time allowed for discovery, the complainant should begin at the outset to pursue discovery of foreign documents and testimony. If these initiatives are undertaken in a timely manner, the complainant will have reserved the time for exhausting available avenues necessary to obtain sanctions against foreign respondents if, even after an order to compel, the discovery has not been provided.

3. *Obtaining Evidence From Third Parties*

The complainant should obtain answers to some questions before commencing third party discovery, including the following:

- (a) Will the third party cooperate so that the needed information could be obtained informally?
- (b) Are subpoenas necessary to obtain the information desired?
- (c) Will the deposition transcripts be sufficient for the hearing so that they can be used in lieu of calling third parties as witnesses?
- (d) Is there time for the enforcement of subpoenas by the ITC if the third party refuses to cooperate in view of the need for the ITC to seek district court enforcement of such subpoenas?

4. *The Protective Order*

A Protective Order⁸⁶ is usually issued by the Administrative Law Judge a few days after the case has been assigned. The purpose of such an order is to protect confidential technical and business information which will be needed for use during the proceeding.

Sometimes there are special requests for modification of the Protective Order, such as permitting in-house counsel to have access to confidential documents. This is seldom, if ever, done other than by stipulation of the parties. Also, it must be ascertained by the adverse parties and then, if necessary, by the ALJ whether all intended experts qualify for access to confidential material under the order.

5. *Special Situations*

If the process claims of a patent are asserted, section 337a is applicable.⁸⁷ In deciding what form and extent its discovery should take, the

⁸⁶ See 19 C.F.R. § 210.30(d) (1981).

⁸⁷ 19 U.S.C. § 1337a, not to be confused with 19 U.S.C. § 1337(a). This section provides: § 1337a Importation of products produced under process covered by claims of unexpired patent

The importation for use, sale, or exchange of a product made, produced, processed, or mined under or by means of a process covered by the claims of any unexpired valid United States letters patent, shall have the same status for the purposes of section 1337 of this title as the importation of any product or article

complainant should consider whether or not the method of manufacture is revealed by an examination of the article, and if not, whether the probable process for making the articles can be shown. Based on these considerations, the complainant should determine what discovery can provide the required information from respondents. If the manufacturing method is not revealed, complainant should consider using the affidavits of technical experts as to probable methods of making the article. The complainant should also be prepared to request discovery sanctions in the event the respondents refuse to cooperate in discovery.

In proving a case against a foreign manufacturer, the practitioner should ascertain whether the respondent will cooperate in discovery, and whether all the evidence for proving a violation is available. If possible, complainant should obtain a sample of the imported article of each respondent and any similar information available from the importers. If discovery is not effective due to non-cooperation, the complainant must obtain a discovery order from the Administrative Law Judge as a prerequisite for subsequent sanctions.

E. The Domestic Industry

The domestic industry has been traditionally referred to in patent cases as the facilities which are manufacturing the patented article or carrying out the patented method.⁸⁸ Similar standards have been applied in cases involving other unfair competition.⁸⁹

The complainant must recognize the necessity of establishing that there is a domestic industry prior to filing the complaint or an industry which is being prevented from being established. The Commission has stated that "[p]ast Commission decisions, from *Bakelite*, through *Electronic Pianos*, have defined 'Industry' in section 337 investigations, based upon claims of patent infringement, as the domestic manufacture or production of the patented product by the patentee or his licensee."⁹⁰ The mere ownership or licensing of patent rights does not constitute an industry.⁹¹ The Commission believes that this would be contrary to precedent, to legislative history, and to the logical interpretation of the wording of the statute.⁹²

Even if there is no domestic manufacturer, there may be an industry

covered by the claims of any unexpired valid United States letters patent. Act of July 2, 1940, ch. 515, 54 Stat. 724.

⁸⁸ *Pantyhose*, *supra* note 11, at 7; *Meprobamate*, *supra* note 41, at 4. In Certain Inclined-Field Acceleration Tubes and Components Thereof, Inv. No. 337-TA-67 (1979) (Recommended Determination), the presiding officer stated that, for the purposes of section 337, the domestic industry is "that part of [complainant's] business devoted to the development, production, design, rebuilding, servicing and sale" of the product in question. *Id.* at 27.

⁸⁹ *Steel Toy Vehicles*, *supra* note 26, at 6-7.

⁹⁰ *Id.*

⁹¹ See generally *Airtight Cast Iron Stoves*, note 48 *supra*.

⁹² Ultramicrotome Freezing Attachments, Inv. No. 337-TA-10, U.S.I.T.C Pub. No. 77 at 9 (April 1976) [hereinafter cited as *Freezing Attachments*].

under certain circumstances. This occurs when a complainant alleges that the unfair acts are preventing the establishment of an efficiently and economically operated domestic industry. To establish that unfair acts are preventing the development of a domestic industry, the Commission has indicated that the complainant "must show a readiness to commence production"⁹³ and that there is an "indication that management has decided to produce or has made any overt acts toward commencing production."⁹⁴ Also, it is helpful to show that there have been "estimates of production costs, rate of production, or market share relative to productive industry."⁹⁵

In *Ultra-Microtome Freezing Attachments*,⁹⁶ the complainant was not in a position to state that it would begin production of the patented articles in the event that an exclusion order were issued. The Commission stated that "the very lack of a firm management decision to produce, contradicts, on its face, any assumption that there exists a readiness to commence production."⁹⁷ This was the primary reason that the Commission did not find a violation and did not issue an exclusion order. The Commission stated that when the prevention of establishment of an industry is alleged and that industry has not already begun production operations, then a complainant must demonstrate a readiness to commence production.⁹⁸

IV. Defending Against a Section 337 Action

In most cases, the first time a respondent receives notice of an ITC investigation is when the complaint is served by the ITC on the respondent or a report of the filing of the complaint is carried in a trade journal. By that time, the following actions will have taken place: The complaint will have been filed after one or more meetings between complainant and the ITC staff. There will have been pre-institution ITC staff activity; the Investigative Staff will have examined the complaint for sufficiency and compliance with the rules, identified sources of relevant information and assured the availability thereof, and, if necessary, prepared subpoenas as well as a memo for the benefit of the Commissioners.⁹⁹ Similarly, the Office of the General Counsel will have reviewed the complaint and prepared a memo for the benefit of the Commissioners, and the Commission will have reviewed the complaint and the two memos.¹⁰⁰ The Commission will have voted in an open (Sunshine Act)

⁹³ *Id.* at 10.

⁹⁴ *Id.*

⁹⁵ *Id.*

⁹⁶ See note 92 *supra*.

⁹⁷ *Id.* at 14.

⁹⁸ *Id.* at 10.

⁹⁹ 19 C.F.R. § 210.11 (1981). The current practice of the Commission is to do this. See, e.g., *Plastic Film*, note 45 *supra*, where such memos were prepared and sent to the Commission.

¹⁰⁰ See, for example, the transcript of the Sunshine Meeting in *Plastic Film*, note 45 *supra*.

meeting¹⁰¹ to institute the investigation and will have prepared the notice of investigation, a copy of which is sent to each respondent together with a copy of the complaint.

A. Preparation of the Answer

A respondent has very little time to consider how it will respond. Respondents have twenty days from the date of service of the complaint and Notice of Investigation to file a response.¹⁰² Since the Secretary of the Commission serves all complaints by mail, a respondent has an additional three days if domestic and ten days if foreign.¹⁰³ The response must include such formalities as a caption, title of action, investigation number, and the names of all the parties to the proceeding, all of which should appear on the first page.

The respondent must answer each allegation in the complaint and in the notice of investigation with a statement of the facts constituting each ground of defense.¹⁰⁴ This means a specific admission, denial, or explanation of each fact alleged in the complaint and notice, or, if the respondent is without knowledge of any such allegation, a statement to that effect.¹⁰⁵ All averments are to be simple, concise, direct, and made in numbered paragraphs, each limited to a single set of circumstances.

A respondent's failure to comply with the time periods may constitute a waiver of its rights to appear and contest the allegations of the complaint and notice.¹⁰⁶ It may constitute authorization for the presiding officer to find the facts to be as alleged and to enter a recommended determination containing such findings.¹⁰⁷ As a practical matter, the Administrative Law Judge and the Commission attempt to avoid issuing default findings. The complainant still must prove a prima facie violation even if all respondents are in technical default, which may be accomplished by filing a motion for summary determination.¹⁰⁸

It is virtually impossible for a respondent to have developed its case

¹⁰¹ 5 U.S.C. § 552b (1976). Also see the transcript of the Sunshine Act meeting. *Plastic Film*, note 45 *supra*.

¹⁰² 19 C.F.R. § 210.21(a) (1981).

¹⁰³ *Id.* § 201.16(d).

¹⁰⁴ *Id.* § 210.21(b).

¹⁰⁵ *Id.*

¹⁰⁶ *Id.*

¹⁰⁷ *Id.* § 210.21(d).

¹⁰⁸ *Electric Slow Cookers*, Inv. No. 337-TA-42 (Aug. 1979). In his Recommended Determination, the presiding officer stated that the mere entry of a default for nonappearance does not obviate the need for an affirmative showing to support a finding of a section 337 violation. Recommended Determination at 4. The Commission went on to state that the effect of a finding of default is to authorize the presiding officer to place certain procedural disabilities on the defaulting party and "to entertain, without opposition, proposed findings and conclusions, based upon substantial, reliable, and probative evidence, which would support a recommended determination." *Electric Slow Cookers*, Commission Opinion in Support of Order Terminating Certain Respondents, Declaring Matter More Complicated, and Remanding Matter, 44 Fed. Reg. 47,815 (1979). See also *Coin-Operated Audio Visual Games*, note 83 *supra*, ALJ's Order No. 17 (Nov. 6, 1980).

sufficiently by the time its response is due and be able to provide all of the information requested in the ITC rules. To properly prepare a defense requires that counsel for respondent review the client-respondent's article, determine whether there are unfair acts, review respondent's import and sales information, analyze the complaint, develop positions on each of the issues—assuming at this stage it is even possible to know what all of the issues are.

If it takes as little as a week to retain counsel, some of the twenty-day period will be gone before work has even begun on the response. Therefore, few respondents are in a position to file a timely response that includes all the material required and requested by the ITC rules. Extensions of time are difficult to obtain, however, in view of the statutory deadline of one year (eighteen months in more complicated cases) for completion of investigations.

Although the time pressures create burdens on all the parties, they do so particularly on the respondent. While the complainant may have taken a period of several months to prepare the complaint and decide what discovery it needs, and the Commission Investigative Attorney has been working on the case for a matter of weeks or months, the respondent is under incredible time constraints.

In addition to preparing its response to the complaint and the notice of investigation, respondent must begin to plan and take discovery. If the complainant has requested temporary relief under section 337(e), the hearing for temporary relief must be completed within three months of the date of initiation of the investigation.¹⁰⁹ Typically, discovery closes temporarily about two weeks before the hearing begins. Thus, respondent will have two months or less within which to take discovery.

The response times during discovery are usually ten days or less. For this reason, it is particularly important that the Commission and the staff insist that each complaint be within the rules. Otherwise, the burden upon respondents is even greater, because the information omitted by the complainant will have to be obtained by respondent during discovery, thereby increasing the burdens under which the respondent is already operating.

Respondents frequently do not take an active part in Commission proceedings in investigations in which there are a large number of respondents, none of whom having a particularly large interest in the market. In many such cases in the past, complainants have obtained exclusion orders due, at least in part, to these circumstances.¹¹⁰

B. Defenses

The Trade Act of 1974 provided a number of new defenses for re-

¹⁰⁹ 19 C.F.R. § 210.41(e)(2) (1981).

¹¹⁰ Display Devices for Photographs and the Like, Inv. No. 337-TA-30, U.S.I.T.C. Pub. No. 862 at 1-2 (Jan. 1978); *Plastic Bags*, note 25 *supra*.

spondents. The Congressional attitude was expressed clearly in the Finance Committee Report which stated that, "The committee feels that the public interest must be paramount in the administration of this statute."¹¹¹ Accordingly, the Commission was given specific statutory authority to consider all legal and equitable defenses.¹¹²

While the Finance Committee stated its belief that even under the previous statute, the Commission had authority to consider these defenses, the Committee realized that certain court decisions and Commission precedent indicated that the Commission may not have believed it could consider these defenses.¹¹³ The Finance Committee clarified this when it said that the Commission must use contemporary legal standards when considering patent validity and enforceability.

The Finance Committee's Report makes it clear that the intent of the statute is to encourage fair competition. Therefore, equitable and legal defenses are to be considered in determining whether section 337 is being violated. These defenses can also include fraud in the procurement of the patent and misuse of the patent.

When the formal response is filed, copies are to be served on each of the parties and an original and nineteen copies are to be filed with the Secretary's Office.

Many persons who are directly importing the article being investigated may wish to participate to protect their interests against a potential adverse finding by the Commission. Such additional parties could include those who use parts incorporating the subject product or provide services to a party who deals in the subject product.

The answer to the complaint is important since it should delineate the issues which will be involved in further proceedings. While many defenses will be immediately evident to practicing attorneys, there are some which may not be so apparent. In general, however, any defense available during a civil action in a federal district court should be raised before the ITC as well.

1. Consideration of Defenses Concerning Lack of Statutory Factors

a. Lack of Importation

When it appears that importations have not been made, a simple denial with supporting evidence should be presented. However, caution should be exercised when considering total reliance on this position as a defense, and before such a position is taken, the practitioner should analyze any possible future interest in importation.

One respondent in *Chain Door Locks*¹¹⁴ alleged that it had ceased

¹¹¹ S. REP. NO. 1298, 93d Cong., 2d Sess. 193, reprinted in [1974] U.S. CODE CONG. & AD. NEWS 7186, 7326.

¹¹² 19 U.S.C.A. § 1337(c) (West Supp. 1981).

¹¹³ S. REP. NO. 1298, *supra* note 111, at 196, [1974] U.S. CODE CONG. & AD. NEWS at 7329.

¹¹⁴ *Chain Door Locks*, Inv. No. 337-TA-5, U.S.I.T.C. Pub. No. 770 at 7 (April 1976).

importing the chain door locks “involved herein.” A comparable argument was made by another respondent in *Chain Door Locks* that, “[b]ecause our sales of the chain door locks in question are so small, we cannot afford to incur any expenses in this matter.”¹¹⁵ An extension of this defense would be an answer showing that the importations are de minimis and could have no possible effect on the business of the complainant. However, the statute expressly provides for a “tendency to substantially injure or destroy” the domestic industry. Thus, a present low level of importation might be viewed along with other evidence as creating a “tendency” to substantially injure as opposed to present injury.

Even if successful, an argument of de minimis importation does not settle the issues, but rather merely holds such issues in abeyance subject to their revival whenever the defense of de minimis is no longer found to be applicable.

b. Lack of Domestic Industry

Several complaints have been dismissed on the basis of the non-existence of a domestic industry. This defense may be inadequate when the issue is prevention of establishment of a domestic industry.

c. Lack of Injury or Tendency to Injure

This defense alleges that there is no effect or tendency to substantially injure or destroy a domestic industry. An initial submission concerning this defense might include information regarding the economic health of the domestic industry. Such data is usually only available through the records of the complainant and is difficult to develop without the aid of discovery. Discovery on the injury issue is used in almost every case, and indeed, through the Commission subpoena power, not only the parties but also third parties to the investigation may be forced to produce pertinent evidence.¹¹⁶

d. Lack of Efficient and Economic Operation of the Domestic Industries

The Commission has considered relevant to the defense of lack of efficient and economic operation of the domestic industry evidence of an analysis of product adaptation, sales practices engaged in by the domestic industry, and the comparative practices of competitors in the market place.¹¹⁷ In *In-the-Ear Hearing Aids*, for example, the Commission found evidence of a costly campaign to promote the sales of its hearing aids to be relevant to the issue of efficiency and economy of operation.¹¹⁸ The

¹¹⁵ *Id.* at 8.

¹¹⁶ See 19 C.F.R. § 210.35(b) (1981).

¹¹⁷ See M. Hertzberg, *The Economics of a Patent Based § 337 Case*, in ITC PATENT PRACTICE 29 (Patent Resources Group, Inc., W. Herrington ed. 1979).

¹¹⁸ *In-the-Ear Hearing Aids*, T.C. Pub. No. 182, at 20-21 (July 1966).

Commission also has advised that the tests for determining this issue include an increase in production as compared to other domestic producers, improvement of the product, well-equipped facilities, modern procedures, a favorable current profit ratio, and a relatively low debt to equity ratio.¹¹⁹

e. Lack of an Unfair Act

This defense goes to the factual circumstances and denies the basic facts giving rise to the complaint. For example, if the unfair act alleged is patent infringement, one defense is lack of infringement and another is patent invalidity, since an invalid patent cannot be infringed.

2. Consideration of Equitable Defenses

The complainant might be engaged in inequitable conduct which will serve as a defense to the complaint. For example, if it could be proven that the complainant had inequitably misled the Patent Office into granting a patent, this could be an equitable defense to a section 337 complaint.¹²⁰ In this regard, the courts have held patent applicants to "the highest standards of honesty and candor"¹²¹ in their dealings with the Patent Office.

Another equitable defense, equitable estoppel, requires a showing of conduct by the patent holder that has misled the defendant-infringer into believing that the patent holder has acquiesced in the infringement, and of reliance by the defendant on such conduct.¹²² According to at least one Commission opinion, however, to bar a patentee from enforcing his patent at all, the defendant must prove the patentee was actively deceptive rather than merely negligent.¹²³

V. Conclusion

A section 337 action, when properly used, is a formidable weapon when articles are imported and unfair acts are occurring. However, in view of the complexities associated with such an action when compared to litigation in federal district courts, and the short time periods provided for the various stages, including discovery, a complainant must be prepared in advance of the institution of investigation. Meanwhile, a respondent *must* act quickly when such an action is instituted; these short time periods can place extreme burdens on a respondent who is not able to prepare and execute its defense in an expeditious manner.

¹¹⁹ *Exercising Devices*, *supra* note 39, at 25-27.

¹²⁰ *Skateboards*, Inv. No. 337-TA-37 (Nov. 1978), Opinion at 13.

¹²¹ *Norton v. Curtiss*, 433 F.2d 779, 794 (C.C.P.A. 1970).

¹²² *See Minnesota Mining & Mfg. Co. v. Berwick Industries, Inc.*, 373 F. Supp. 851, 869 (M.D. Penn. 1974).

¹²³ *Plastic Bags*, *supra* note 25, at 54.