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Section 337 Jurisdiction and the Forgotten Remedy

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SECTION 337 JURISDICTION AND THE FORGOTTEN REMEDY*

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I. INTRODUCTION

Section 337 of the Tariff Act of 1930,¹ administered by the United States International Trade Commission ("ITC" or "Commission"), offers unique opportunities to protect American industry from unfair competition in import trade. Widespread misunderstanding of the jurisdictional basis for the ITC's exercise of authority under section 337 contributes to a failure to utilize fully the remedial power of the statute. This article will review briefly the historical development of section 337 and the remedies available under it, discuss competing jurisdictional theories relating to the remedial powers of section 337, and suggest that complainants request the Commission to issue cease and desist orders resting on personal jurisdiction and that they be enforced in federal district court.

* The views expressed herein are those of the authors and do not necessarily reflect the views of the United States International Trade Commission or other members of the Office of Administrative Law Judges.

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1. 19 U.S.C. § 1337 (1982 & Supp. III 1985).

II. HISTORY OF SECTION 337

The basic thrust of section 337 has remained unchanged since its passage as part of the Tariff Act of 1930.² Amendments in 1975³ and 1979⁴ had a substantive impact on the jurisdictional and remedial aspects of the statute which are the subject of this article.

Section 337(a)⁵ declares unfair methods of competition unlawful:

Unfair methods of competition and unfair acts in the importation of articles into the United States, or in their sale by the owner, importer, consignee, or agent of either, the effect or tendency of which is to destroy or substantially injure an industry, efficiently and economically operated, in the United States, or to prevent the establishment of such an industry, or to restrain or monopolize trade and commerce in the United States, are hereby declared unlawful, and when found by the *President* to exist shall be dealt with, in addition to any other provisions of law, *as hereinafter provided*.⁶

Section 337(a) has remained unchanged from its inception except for the above italicized portions. The Trade Act of 1974 altered the respective roles of the ITC (formerly named the Tariff

2. Tariff Act of 1930, ch. 497, tit. III, § 337, 46 Stat. 703 (1930) (codified in current version at 19 U.S.C. §§ 1202 to 1677g (1982 & Supp. III 1985)).

3. Trade Act of 1974, Pub. L. No. 93-618, § 341(a), 88 Stat. 2053, 2379 (1975) (current version at 19 U.S.C. § 1337 (1982)).

4. Trade Agreements Act of 1979, Pub. L. No. 96-39, § 1105(b), 93 Stat. 311 (1979) (current version at 19 U.S.C. § 1337 (1982)).

5. 19 U.S.C. § 1337(a). The reader is cautioned not to confuse § 1337(a) and § 1337a. Congress enacted section 1337a in 1940 (54 Stat. 724) as an amendment to title 19 of the United States Code, without amending the Tariff Act of 1930. Section 1337a relates to process patents:

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 covered by the claims of any unexpired valid United States letters patent.

Only the ITC currently has jurisdiction to provide a remedy against a product manufactured abroad by a process that would infringe a United States process patent if practiced in the United States. Legislation has been proposed that would give the district courts jurisdiction over this situation as well. See S. 1543, 99th Cong., 1st Sess.; H.R. 1069, 99th Cong., 1st Sess. (1985).

6. 46 Stat. 703 (1930). The italicized portions have subsequently been amended: "President" was changed to "Commission" and the last clause was changed to "as provided in this section." See Trade Act of 1974, *supra* note 3.

Commission) and the President. Before 1975, the President made the finding of an unfair act with the assistance of the Commission; the 1974 Act gave the ITC the authority to determine whether an unfair act exists and the authority to impose a remedy, subject to judicial review⁷ as well as providing the opportunity for the President to disapprove the determination for policy reasons.⁸

Before 1975, the only remedy available for a violation of section 337(a) was the exclusion of articles from entry into the United States.⁹ The 1974 Act added a second remedy: the Commission was authorized to issue, in lieu of an exclusion order, an order to cease and desist from engaging in the unfair methods or acts involved.¹⁰ In commenting on this change, the Senate Finance Committee stated that the exclusion order remedy was "extreme and inappropriate in some cases," and that "the power to issue cease and desist orders would add needed flexibility" to the Commission's remedial authority.¹¹ The Commission could modify or revoke an order to cease and desist, and if revoked, issue an exclusion order in its place,¹² but there was no provision for a penalty in case the order was violated.¹³

7. Trade Act of 1974, § 337(c), 19 U.S.C. § 1337(c) (1982). The reviewing court is the Court of Appeals for the Federal Circuit.

8. Trade Act of 1974, § 337(g)(2), 19 U.S.C. § 1337(g)(2) (1982).

9. Tariff Act of 1930, ch. 497, tit. III, § 337(e), 46 Stat. 703, 704 (1930) (current version at 19 U.S.C. § 1337 (1982)).

10. Trade Act of 1974, Pub. L. No. 93-618, § 341(a), 88 Stat. 2053, (1975) (amending § 337(f), 19 U.S.C. § 1337(f) (1982)). The "in lieu of" qualifier originally was interpreted by the Commission to mean that an exclusion order and orders to cease and desist were mutually exclusive in any given investigation. See *Doxycycline*, Inv. No. 337-TA-3, USITC Pub. 964, 213 U.S.P.Q. (BNA) 963 (1979). Later, both remedies were used in the same investigation, but applied to separate unfair acts. See, *Certain Airtight Cast-iron Stoves*, Inv. No. 337-TA-69, USITC Pub. No. 1126 (1981). More recently, both remedies have been applied to the same unfair act. *Certain Compound Action Metal Cutting Snips and Components Thereof*, Inv. No. 337-TA-197, USITC Pub. No. 1831 (1986). The General Accounting Office has proposed that Congress clearly authorize the Commission to issue both exclusion orders and cease and desist orders to remedy the same unfair trade practice. GAO Report to Selected Cong. Subcomm., *International Trade: Strengthening Trade Law Protection of Intellectual Property Rights*, GAO/NSIAD-86-150 (August 1986).

11. S. REP. No. 1298, 93d Cong., 2d Sess. 198 (1974).

12. Trade Act of 1974, § 337(f), 19 U.S.C. § 1337(f). This provision is still in effect.

13. A cease and desist order prohibiting a respondent from importing a specific product was a hollow threat. An exclusion order imposed to replace a disregarded cease and desist order would call on the Customs Service to enforce the

The 1979 Act¹⁴ added a powerful tool for the enforcement of section 337, a tool that frequently is overlooked and never has been used: a new subsection (f)(2)¹⁵ was added, giving the Commission the power to bring a civil penalty action in federal district court against any person who violates a cease and desist order of the Commission. The penalty accrues to the United States and the amount of the penalty is, "for each day on which an importation of articles, or their sale, occurs in violation of the order . . . not more than the greater of \$10,000 or the domestic value of the articles entered or sold on such day in violation of the order."¹⁶ In addition, the 1979 Act gave the district court authority to issue "mandatory injunctions incorporating the relief sought by the Commission as they deem appropriate in the enforcement of such final orders of the Commission."¹⁷ The Senate Finance Committee described these changes as providing "a more flexible remedy" since the only previous remedy for violation of a cease and desist order, imposition of an exclusion order, was sometimes "too draconian."¹⁸ At the same time, the amount of the penalty was designed to be a deterrent to the violation of the order.¹⁹

III. JURISDICTIONAL BASIS OF SECTION 337

To start a section 337 case, the Commission must have subject matter jurisdiction or the authority to hear the case. This can be found if the complainant has alleged an unfair act as defined in section 337, i.e., an unfair act in connection with the importation of products into or their subsequent sale in the United States. Once the Commission finds subject matter jurisdiction three additional jurisdictional issues remain. These involve the Commission's power to take certain steps that may alter the rights of people,

exclusion, rather than relying on voluntary compliance. A respondent who was inclined to profit by disobeying the cease and desist order could do so during the period of time necessary for the Commission to find out that the cease and desist order was being violated and to issue the exclusion order, which it could have issued in the first place.

14. Trade Agreements Act of 1979, Pub. L. No. 96-39, § 1105(b), 93 Stat. 311 (1979) (current version at 19 U.S.C. 1337 (1982)).

15. 19 U.S.C. § 1337(f)(2) (1982).

16. *Id.*

17. *Id.*

18. S. REP. No. 249, 96th Cong., 1st Sess. 262 (1979).

19. *Id.*

property, or evidence in the section 337 case and therefore its ultimate outcome.

A. *Jurisdiction To Issue Exclusion Orders.*

It is settled law that in personam jurisdiction is not required to support the issuance of an exclusion order, since “[a]n exclusion order operates against goods, not parties.”²⁰ Perhaps because it is clear that the exclusion order remedy is not in personam, commentators and attorneys have referred to the “in rem jurisdiction” of the ITC when discussing the exclusion order remedy.²¹ While there are similarities between the traditional notion of in rem jurisdiction and a section 337 case, there are important distinctions that make the use of the term “in rem” inappropriate in section 337 cases.²²

In rem jurisdiction usually is exercised by seizing or attaching the property.²³ At a minimum, the property must be found in the jurisdiction of the court.²⁴ In *Shaffer v. Heitner*,²⁵ the Supreme Court stated:

If a court's jurisdiction is based on its authority over the defendant's person, the action and judgment are denominated “in personam” and can impose a personal obligation on the defendant in favor of the plaintiff. If jurisdiction is based on the court's power over property within its territory, the action is called “in rem” or “quasi in rem.”²⁶

20. *Sealed Air Corp. v. United States Int'l Trade Comm'n*, 645 F.2d 976, 985 (C.C.P.A. 1981).

21. See Perry, *The In Rem Jurisdiction of Section 337 Unfair Trade Investigations*, 2 WEST'S INT'L L. BULL. 4040-41 (1984); Leonard and Taylor, *Section 337: a Familiar Road into Strange Country*, 12 AIPLA Q.J. 336 (1984); Note, *Protection of Computers and Computer Software Before the United States International Trade Commission*, 15 GA. J. INT'L & COMP. L. 627, 637 (1985).

22. Although the *Sealed Air* case (645 F.2d 976) has been cited as the source of the theory of in rem jurisdiction under section 337, it is interesting to note that the Court of Appeals for the Federal Circuit and its predecessors have never used the term “in rem” in a case involving the ITC, according to the results of a search of the Westlaw database.

23. *Thormann v. Frame*, 176 U.S. 350 (1900); *Pennoyer v. Neff*, 95 U.S. 714 (1877); *The Rio Grande*, 90 U.S. (23 Wall.) 458 (1874).

24. *Pennoyer v. Neff*, 95 U.S. 714 (1877); *L.B. Harvey Marine, Inc. v. M/V “River Arc”*, 712 F.2d 458 (11th Cir. 1983); 4 C. WRIGHT & K. MILLER, *FEDERAL PRACTICE AND PROCEDURE* § 1070 at 270 (1969).

25. 433 U.S. 186 (1977).

26. *Id.* at 199.

When in rem jurisdiction is asserted, the court can issue an order only affecting property which is under the control of the court; if the res is no longer before the court, in rem jurisdiction and the ability to enforce a judgment against property are lost.²⁷ At the ITC, in contrast, no attempt is made to seize or attach property or otherwise to bring it before the forum. If the Commission issues an exclusion order, the Commission does not seize the property and dispose of it. The order is directed to the Customs Service. Usually, the exclusion order requests the Customs Service to exclude the product from the United States unless the product is licensed. The Commission's exclusion order places limits on the disposition of the property, but does not dispose of the property as in an in rem case.

In Appendix B of the ITC's decision in *Certain Steel Rod Treating Apparatus*,²⁸ the Commission stated that in rem jurisdiction can be found in section 337 cases because the "res" or property is either in the United States or "constructively present" by virtue of its sale and imminent importation. This "constructive presence" theory appears to be a strained attempt to fit the Commission's power into the in rem mold. If the property already has been imported into the United States, the ITC surely can take jurisdiction over it, but the Commission has never issued an in rem order against property located in the United States. Instead, an order to cease and desist sometimes is issued against the owner of the property in the United States.²⁹ If the property is located outside the United States, the ITC does not attempt to control it beyond ordering Customs to try to exclude it from the country. An owner of property about to be imported into the United States can still "turn the ship around" at the last minute and take his property home, or to anyplace else in the world. Even if the property is stopped by the Customs Service, the owner can take it back home or to another port of entry into the United States for section 337 has no provision for ordering seizure of goods.³⁰ Thus, no real control over property outside the United States is derived from the

27. *L.B. Harvey Marine*, 712 F.2d 458; 4 WRIGHT AND MILLER, FEDERAL PRACTICE AND PROCEDURE § 1070 at 267 (1969).

28. Inv. No. 337-TA-97, USITC Pub. No. 1210, 215 U.S.P.Q. (BNA) 229, 234 (1981).

29. See *infra* notes 96-98 and accompanying text.

30. The General Accounting Office has suggested a change in legislation to permit the Commission to order Customs to seize the property in certain instances. See *infra* notes 90-92 and accompanying text.

legal fiction of “constructive presence” and the constructive presence theory provides no real basis for asserting in rem jurisdiction. Since there is a nonfictional way to explain the basis of the Commission’s order power, as will be shown below, the constructive presence theory should be abandoned.

The source of the Commission’s power to exclude products from importation is a Congressional delegation of authority. Under the Constitutional power to regulate commerce with foreign nations which is expressly conferred upon Congress,³¹ Congress has plenary power to exclude merchandise brought from foreign countries.³² It can exert a police power over foreign commerce by provisions amounting to the assertion of the right to exclude merchandise “at discretion.” No individual has a vested right to trade with foreign nations, and a statute which excludes goods from the United States does not violate the due process clause of the Constitution.³³ The importer does not have a constitutional right to a hearing before his property is excluded.³⁴

In contrast, in rem jurisdiction, based on control over property before the court, carries with it *constitutional* rights to due process, including notice to the property owner and the right to defend the action in a forum having minimum contacts with the litigation and the property owner.³⁵ At the ITC, there is a *statutory* right to notice and the opportunity for a hearing before products can be excluded from importation.³⁶

B. Jurisdiction To Issue Cease and Desist Orders

As discussed above, the Trade Act of 1974 granted authority to the ITC to issue cease and desist orders.³⁷ In *Certain Welded Stainless Steel Pipe and Tube*,³⁸ a case that was decided after the grant of authority to issue orders to cease and desist and before civil penalties were authorized for their violation, the Commission considered and rejected the contention that personal jurisdiction

31. U.S. CONST. art. I, § 8, cl. 3.

32. *Buttfield v. Stranahan*, 192 U.S. 470, 492 (1904).

33. *Id.* at 493.

34. *Id.* at 492-93, 497.

35. *Shaffer v. Heitner*, 433 U.S. 186, 216 (1977).

36. Section 337(c) requires the Commission to give “notice and the opportunity for a hearing in conformity with the provisions of sub-chapter II of chapter 5 of Title 5” [i.e., the Administrative Procedure Act]. 19 U.S.C. § 1337(c).

37. See *supra* notes 10-13 and accompanying text.

38. Inv. No. 337-TA-29, USITC Pub. No. 863 (1978).

over a party was required before a cease and desist order could be issued. The Commission pointed out that “[t]he cease and desist order itself merely compels parties to refrain from unfair trade practices or risk exclusion of their products. This Commission has no independent power beyond that of exclusion.”³⁹ The Commission relied on *Buttfield v. Stranahan*⁴⁰ for the proposition that the exercise of the exclusion power without personal jurisdiction was not contrary to the due process clause.⁴¹ Although the possibility of court enforcement of a cease and desist order under 19 U.S.C. § 1333(c) was raised, and the need to obtain personal jurisdiction in that event was foreseen, the Commission discounted the likelihood that such a course of action would be contemplated or effective: “In most cases, exclusion is our only practical means of enforcement.”⁴²

In *Certain Large Video Matrix Display Systems and Components Thereof*,⁴³ the Commission for the first time treated the issue of jurisdiction in conjunction with the authority to seek civil penalty fines granted by the 1979 act.⁴⁴ There, the Commission correctly found two requirements before a cease and desist order could be issued: “(1) a finding of jurisdiction over the subject matter . . . and (2) a finding of in personam jurisdiction over the persons whose acts are sought to be enjoined.”⁴⁵

No case has been found that answers the specific question of whether a federal agency must have in personam jurisdiction in order to issue a valid cease and desist order which could lead to the imposition of civil penalties. There has been no occasion for the federal courts to rule on this question in the context of an ITC cease and desist order, since the ITC has not yet brought any enforcement or civil penalty actions in district court.

Cases involving other agencies clearly establish that elements of due process must be satisfied before a penalty may be imposed

39. *Id.* at 5.

40. 192 U.S. 470 (1904).

41. *Certain Welded Stainless Steel Pipe and Tube*, Inv. No. 337-TA-29, USITC Pub. No. 863 at 6.

42. *Id.*

43. Inv. No. 337-TA-75, USITC Pub. No. 1158, at 30, 213 U.S.P.Q. (BNA) 475 (1981).

44. 19 U.S.C. § 1377(f)(2) (1982).

45. *Certain Large Video Matrix Display Systems*, Inv. No. 337-TA-75, USITC Pub. No. 1158, at 30, 213 U.S.P.Q. at 488.

on a person. In *Mathews v. Aldridge*,⁴⁶ a case involving the termination of Social Security benefits, the Supreme Court stated that

[p]rocedural due process imposes constraints on governmental decisions which deprive individuals of "liberty" or "property" interests within the meaning of the Due Process Clause of the Fifth or Fourteenth Amendment. . . .

This Court consistently has held that some form of hearing is required before an individual is finally deprived of a property interest. . . . The "right to be heard before being condemned to suffer grievous loss of any kind, even though it may not involve the stigma and hardships of a criminal conviction, is a principle basic to our society." . . . The fundamental requirement of due process is the opportunity to be heard "at a meaningful time and in a meaningful manner."⁴⁷

A party must be informed of the basis of the complaint against it and have a full opportunity to meet the charges.⁴⁸ Due process requires that an administrative hearing constitute a fair trial, conducted in accordance with fundamental principles of fair play and applicable procedural standards established by law.⁴⁹ It is submitted that due process also requires that the ITC establish in personam jurisdiction over a party before issuing an order that could result in the imposition of a penalty if the order is disobeyed.

C. *Jurisdiction to Issue Discovery Orders*

Relying on the Commission's frequent description of its "in rem" jurisdiction, many attorneys seek orders compelling discovery from a foreign party who has not appeared or participated in any way in the case, without making any attempt to establish that the Commission has jurisdiction over the party. Personal jurisdiction is not required to support a discovery order against a party if the end result of failure to comply with the order is the imposition of an exclusion order based on evidentiary sanctions, because personal jurisdiction is not required to support an exclusion order.⁵⁰ If the

46. 424 U.S. 319 (1976).

47. *Id.* at 332-33 (citations omitted).

48. *Southwest Sunsites, Inc. v. Federal Trade Commission*, 785 F.2d 1431 (9th Cir. 1986); *Citizens State Bank of Marshfield, Mo. v. Federal Deposit Insurance Corp.*, 751 F.2d 209 (8th Cir. 1984).

49. *Precious Metals Associates, Inc. v. Commodity Futures Trading Comm'n*, 620 F.2d 900 (1st Cir. 1980).

50. *Sealed Air Corp. v. USITC*, 645 F.2d 976 (C.C.P.A. 1981).

end result is to be the issuance of an order to cease and desist, personal jurisdiction should be required before issuance of the evidentiary orders that could lead to issuance of the final order.

When it is possible, it is the better practice for the complainant to establish the existence of personal jurisdiction over the respondent before asking the Administrative Law Judge to issue discovery orders against a respondent. It is relatively easy to establish personal jurisdiction,⁵¹ and there is little excuse for failing to do so.

Many complainants, perhaps lulled by frequent references to the ITC's "in rem" jurisdiction, focus on the exclusion order as the ultimate remedy and do not seek a cease and desist order against any respondent. Nevertheless, only the Commission—not the complainant or the Administrative Law Judge—can determine the remedy, and if the Commission determines that a cease and desist order is appropriate, the necessary foundation for in personam jurisdiction ought to have been laid. Only if the Commission abjured the possibility of issuing a cease and desist order from the outset of a case—a most unlikely event—could a decision not to establish personal jurisdiction be supported.

IV. PRACTICAL CONSIDERATIONS RELATED TO ESTABLISHING PERSONAL JURISDICTION

"The existence of personal jurisdiction . . . depends upon the presence of reasonable notice to the defendant that an action has been brought . . . and a sufficient connection between the defendant and the forum State to make it fair to require defense of the action in the forum."⁵²

What activities of a foreign respondent in a section 337 investigation are sufficient to subject it to the in personam jurisdiction of the ITC or of a district court, in a subsequent action by the ITC to enforce a personal order against the respondent? The case law does not answer this question. The ITC has yet to seek to enforce a personal order against a foreign respondent.

The boundaries of the ITC's in personam jurisdiction ought to be evaluated in light of the "minimum contacts" standard developed in *International Shoe Co. v. Washington*⁵³ and cases follow-

51. See *infra* Part IV.

52. *Kulko v. Superior Court of California*, 436 U.S. 84, 91 (1978) (citing *Mullane v. Central Hanover Trust Co.*, 339 U.S. 306 (1950) and *Milliken v. Meyer*, 311 U.S. 457 (1940)).

53. 326 U.S. 310 (1945).

ing it.⁵⁴ Although these cases have addressed principally the due process limitations on state courts seeking to exert jurisdiction over nonresidents of the state, the theory of minimum contacts can be used to evaluate the propriety of an attempt by the ITC to exert in personam jurisdiction over respondents located outside the United States.⁵⁵ Under *International Shoe*, a binding personal judgment against a person requires that the person "have certain minimum contacts with [the forum State] such that the maintenance of the suit does not offend 'traditional notions of fair play and substantial justice.'" ⁵⁶ The minimum contacts test requires a determination in each case that it is "reasonable" and "fair" to require a party to conduct his defense in the forum.⁵⁷ A standard of "reasonableness" cannot be applied mechanically, but depends on the facts of each case.⁵⁸ The Supreme Court has found it reasonable to subject a nonresident corporation to a state's in personam jurisdiction if the corporation "purposefully avails itself of the privilege of conducting activities within the forum state,"⁵⁹ or if it "delivers its products into the stream of commerce with the expectation that they will be purchased by consumers in the forum State."⁶⁰ A defendant whose product comes into the forum state as a result of his deliberate, although perhaps indirect, effort is subject to the state's personal jurisdiction.⁶¹ The execution of even a single contract in the forum has been held sufficient to satisfy the "minimum contacts" test and subject the party to personal jurisdiction.⁶²

Most jurisdictional issues arising in the context of a section 337 investigation can be resolved readily in light of these princi-

54. See cases cited *infra* notes 59-62.

55. *Insurance Corp. of Ireland, Ltd. v. Compagnie des Bauxites de Guinee*, 456 U.S. 694 (1982) (applying minimum contacts analysis to non-United States residents in finding in personam jurisdiction).

56. 326 U.S. at 316 (quoting *Milliken v. Meyer*, 311 U.S. 457, 463 (1940)).

57. *International Shoe Co. v. Washington*, 326 U.S. at 316, 319.

58. *Kulko v. Superior Court of California*, 436 U.S. at 92.

59. *Hanson v. Denckla*, 357 U.S. 235, 253 (1958).

60. *World-Wide Volkswagen Corp. v. Woodson*, 444 U.S. 286, 298 (1979) (dictum) (citing with approval *Gray v. American Radiator & Standard Sanitary Corp.*, 22 Ill.2d 432, 176 N.E.2d 761 (1961)).

61. *Fidelity & Casualty Co. v. Philadelphia Resins Corp.*, 766 F.2d 440 (10th Cir. 1985).

62. *McGee v. Int'l Life Ins. Co.*, 355 U.S. 220 (1957), *Stanley v. Local 926 of the Int'l Union of Operating Eng'rs*, 354 F. Supp. 1267 (N.D. Ga. 1973).

ples. Typically, foreign respondents⁶³ fall into one of a limited number of categories: a manufacturer who sells an accused product directly to United States purchasers; a manufacturer who sells to a third party (e.g., a trading company), also outside the United States, who then resells to a U.S. customer; and the trading company that sells to a U.S. customer. Direct sales to a United States purchaser almost always subject the seller to in personam jurisdiction in the United States.⁶⁴ Indirect sales through a sales agent or trading company should result in a finding of in personam jurisdiction over the manufacturer when it could be shown that the manufacturer had knowledge that his goods would be sold to U.S. consumers, or if he acquired knowledge that his goods were being sold to U.S. consumers and continued to sell to the intermediate party. In this situation, the manufacturer's products come into the United States through his deliberate effort, resulting in personal jurisdiction under the *World-Wide Volkswagen* principle.⁶⁵

Not all respondents named in section 337 actions, however, can be found subject to the ITC's in personam jurisdiction. A complainant may name a respondent solely because the complainant has seen, in a publication that may be directed to a worldwide audience, an advertisement for an item thought to infringe an intellectual property right. If that was the only contact with the United States, a finding of personal jurisdiction over this respondent would be unlikely.⁶⁶

What if a foreign respondent fails to participate in the investigation, as is frequently the case? Can the complainant establish facts sufficient to demonstrate the existence of in personam jurisdiction in the absence of discovery responses by the respondent, or can the respondent "simply refuse to participate and thereby render section 337 a nullity"?⁶⁷ Facing a similar problem, the Supreme Court gave an important weapon to the plaintiff in *Insurance Corporation of Ireland, Ltd. v. Compagnie des Bauxites de*

63. Domestic respondents, being located within the territorial jurisdiction of the federal government, are of course per se subject to the in personam jurisdiction of the ITC.

64. Conceivably, a sale might be so isolated and *de minimis* that it would be unfair to require the seller to appear and defend in this forum.

65. *World-Wide Volkswagen Corp. v. Woodson*, 444 U.S. 286 (1979).

66. A motion to terminate the investigation as to him on the basis that he had committed no unfair act likely would be granted as well.

67. *Certain Composite Diamond Coated Textile Machinery Components, Inv. No. 337-TA-160* (Commission Memorandum Opinion filed February 6, 1984) 11.

Guinee.⁶⁸ In the *Bauxites* case, the Court held that a finding of personal jurisdiction could be based on a sanction for failure to comply with discovery orders, pursuant to Federal Rule of Civil Procedure 37(b)(2)(A). The Court pointed out that "the manner in which the court determines whether it has personal jurisdiction may include a variety of legal rules and presumptions, as well as straightforward factfinding."⁶⁹ Absent an abuse of discretion, application of the sanction results in a legal presumption of personal jurisdiction.⁷⁰ The ITC has a similar, although not identical, sanctions rule⁷¹ that has been used to establish personal jurisdiction.

A three-step procedure must be used to establish personal jurisdiction by the sanctions method. First, one should serve limited interrogatories on the respondent, including one or two simple questions addressed to the jurisdictional issue. For example, "In the past two years, have you made more than two shipments of widgets to the United States?" This is followed by a motion to compel answers to these interrogatories, pursuant to ITC rule 210.36(a).⁷² "Reasonable notice" of the motion also must be given to the respondent.⁷³ Reasonable notice should be demonstrated by personal service of this motion on respondent, or a signed return receipt for certified or registered mail. Finally, after respondent's time to comply with the order has expired, a motion for sanctions should be filed based on the respondent's failure to comply with the order compelling discovery.⁷⁴

Very few interrogatories are required to establish the minimum contacts needed to support a finding of personal jurisdiction. In the recent case of *Certain Indomethacin*,⁷⁵ a foreign respondent was ordered to answer the following questions:

(1) Has Respondent exported (shipped) indomethacin or indomethacin products to the United States?

(2) If the response to the preceding Interrogatory is anything

68. 456 U.S. 694 (1982).

69. *Id.*

70. *Id.*

71. 19 C.F.R. § 210.36(b)(1) (1985).

72. 19 C.F.R. § 210.36(a) (1985). The rule reads as follows: "A party may apply to the administrative law judge for an order compelling discovery, upon reasonable notice to the other party and all persons affected thereby."

73. *Id.*

74. Of course, if the order is complied with, complainant will need to evaluate the answers and proceed appropriately with the fact finding process.

75. Inv. No. 337-TA-183 (1986).

other than an unqualified negative, identify for each shipment:

- a. the date of the shipment and
- b. the quantity of indomethacin shipped.⁷⁶

Complainant's subsequent motion for sanctions upon respondent's failure to comply with the order was granted and it was found that respondent "has exported indomethacin or indomethacin products to the United States, on more than one occasion since December 27, 1983, in substantial quantities."⁷⁷ After these findings were made, personal jurisdiction was found on the basis of the sanctions rule.⁷⁸ Given the relative ease with which this finding can be made, complainants should seek a finding of in personam jurisdiction early in the course of every section 337 investigation.

An alternative method to establish personal jurisdiction over a defaulting respondent, if the complainant can attest to sufficient facts in an affidavit, would be the filing of a motion for summary determination under ITC rule 210.50.⁷⁹ If the respondent has adequate notice of the motion and fails to respond to it, a finding of personal jurisdiction would be consistent with the principles established in *Bauxites*.⁸⁰

V. EXCLUSION ORDER OR CEASE AND DESIST ORDER?

Once a complainant has established the in personam jurisdiction necessary to permit the issuance of orders to cease and desist, should he seek this remedy for a violation of section 337, or request the ITC to issue a general exclusion order to be enforced by the Customs Service? Until passage of the Trade Act of 1974,⁸¹ the exclusion order was the only remedy for violation of section 337. The general exclusion order remains the favored remedy of many complainants, perhaps because of its familiarity in addition to certain advantages it offers the party seeking relief against unfair import competition. The general exclusion order may be the only effective relief when the product in issue is being made by numerous foreign manufacturers, many of whom may be unidentified. This remedy is also appropriate where manufacturing start-up costs are small, since new infringers could easily replace those enjoined from

76. *Id.*, Order No. 50, filed June 6, 1986.

77. *Id.*, Order No. 51, filed July 10, 1986.

78. *Id.*

79. 19 C.F.R. § 210.50 (1985).

80. See *supra* text accompanying notes 67-70.

81. See *supra* note 3.

production or those enjoined could easily set up shop under a different name, in a different garage, thus escaping easy detection.

In *Certain Airless Paint Spray Pumps and Components Thereof*,⁸² the ITC issued an exclusion order limited to the products of the only manufacturing respondent in the case. The Commission, seeking to ameliorate "the inherent potential of a general exclusion order to disrupt legitimate trade,"⁸³ stated that a general exclusion order would be issued only when the complainant proved "both a widespread pattern of unauthorized use of its patented invention and certain business conditions from which one might reasonably infer that foreign manufacturers other than the respondents to the investigation may attempt to enter the U.S. market with infringing articles."⁸⁴

The exclusion order remedy also has disadvantages from the complainant's point of view. The General Accounting Office recently surveyed firms that have obtained section 337 exclusion orders and found less than total satisfaction with the relief obtained.⁸⁵ Of the firms responding to the survey that indicated they had a basis to judge, sixty-five percent reported that counterfeit or infringing goods continued to enter the country after entry of an exclusion order. Of those sixty-five percent, twenty-nine percent reported that the value of infringing goods changed little, while seventy-one percent reported that the value of infringing goods decreased substantially.⁸⁶ Of the firms indicating that infringing goods continued to enter, forty-six percent indicated that their sales were injured to a moderate or substantial extent, and twenty-seven percent reported some damage to sales.⁸⁷ The GAO report points out that infringers may ignore the exclusion order, placing the enforcement burden on Customs port inspectors.⁸⁸ Although many firms were very pleased with Customs' enforcement efforts, others reported that enforcement was inadequate.⁸⁹ Since Customs

82. 46 Fed. Reg. 58,616 (Inv. No. 337-TA-90, USITC Pub. No. 1199, 216 U.S.P.Q. 465 (BNA) (1981)).

83. *Id.*, 216 U.S.P.Q. at 473.

84. *Id.*

85. GAO Report to Selected Cong. Subcomm., *International Trade: U.S. Firms' Views on Customs' Protection of Intellectual Property Rights*, GAO/NSIAD-86-96 (May 1986).

86. *Id.* at 18-19.

87. *Id.*

88. *Id.* at 17.

89. *Id.* at 18, 20.

can only exclude, not seize, infringing goods, and the foreign infringer is entitled to re-export the goods, the deterrent effect of an exclusion order is not great.⁹⁰ Indeed, a determined infringer is free to go from port to port hoping to find one where his goods will slip through; apparently they frequently do. The report cites the Congressional testimony of the General Counsel of Apple Computer, Inc. "[ITC] exclusion orders, which provide for the re-export of the illicit goods rather than for seizure or forfeiture, invite importers to 'port shop' for an entry point that is understaffed or ill-equipped to detect and intercept infringing merchandise."⁹¹

The GAO has proposed that section 337 be amended to authorize the ITC to direct the Customs Service to seize counterfeit or infringing goods "when there is evidence that a firm or firms have on more than one occasion attempted to bring such goods into the country in knowing violation of exclusion orders."⁹² Such seizure authority could increase the effectiveness of the exclusion order remedy and would be a salutary change in the law.

Broader use of the existing cease and desist order remedy might have an even greater deterrent effect than the threat of seizure of goods by Customs, since the monetary penalties for violation of a cease and desist order could be higher than the value of the goods imported.⁹³ Moreover, an injunction can be sought from the district court, in addition to monetary penalties.⁹⁴ Violation of a court's injunction could lead to additional fines or imprisonment.⁹⁵ Broader use of cease and desist orders directed to foreign manufacturers and traders could also relieve some of the burden on the Customs Service by transferring primary enforcement functions to the Commission staff.

90. *Id.* at 17.

91. *Id.*

92. GAO Report to Selected Cong. Subcomm., *International Trade: Strengthening Trade Law Protection of Intellectual Property Rights*, GAO/NSIAD-86-150 (August 1986).

93. 19 U.S.C. § 1337(f)(2); *see supra* notes 14-19 and accompanying text.

94. *Id.*

95. 18 U.S.C. § 401 (1982) provides:

A Court of the United States shall have power to punish by fine or imprisonment, at its discretion, such contempt of its authority, and none other, as—

- (1) Misbehavior of any person in its presence or so near thereto as to obstruct the administration of justice;
- (2) Misbehavior of any of its officers in their official transactions;
- (3) Disobedience or resistance to its lawful writ, process, order, rule, decree, or command.

In only a few cases has the ITC utilized the cease and desist order remedy.⁹⁶ It has been used principally against domestic parties to stop them from selling inventories of infringing articles obviously beyond the reach of an exclusion order, or to stop them from engaging in such unfair practices as trademark infringement, passing off, and false advertising.⁹⁷ In *Food Storage Containers*,⁹⁸ the orders were directed also to foreign respondents, as to their unfair trade practices, trademark infringement, passing off and false advertising committed in the United States. Cease and desist orders have not yet been used by the ITC to prevent someone from attempting to bring offending goods into the United States in the first place.

Full utilization of the ITC's authority to issue and enforce cease and desist orders quickly would take the Commission into new areas of law and practice, and predictions of how the practice would develop cannot be made with certainty.⁹⁹ Cases involving only one or a few foreign manufacturers of a product found to be imported into the United States in violation of section 337 present an ideal opportunity for the use of cease and desist orders directed to the manufacturer, enjoining the manufacturer from exporting to the United States in whatever manner has been determined to be unfair. Depending on the facts of the case, the order could prohibit all sales of the product destined for the United States, or it could be tailored to permit importation if certain steps are taken by the manufacturer. The order need not be limited to prohibiting the illegal practice in the precise form in which it is found to have existed in the past.¹⁰⁰ In a case involving the Federal Trade Commis-

96. See *Certain Airtight Cast-iron Stoves*, 46 Fed. Reg. 7105-02 (1981) (Inv. No. 337-TA-69, USITC Pub. No. 1126); *Certain Sandwich Panel Inserts*, 47 Fed. Reg. 42,847-01 (1982) (Inv. No. 337-TA-99, USITC Pub. No. 1246); *Certain Food Storage Containers*, 49 Fed. Reg. 29,287-02 (1984) (Inv. No. 337-TA-152, USITC Pub. No. 1563); *Certain Compound Action Metal Cutting Snips and Components Thereof*, 50 Fed. Reg. 31,052-01 (1985) (Inv. No. 337-TA-197, USITC Pub. No. 1831).

97. A cease and desist order directing domestic purchasers not to use imported products when practicing a process in the United States that infringes a process patent was disapproved by President Reagan on policy grounds pursuant to Section 337(g), 19 U.S.C. § 1337(g), 47 Fed. Reg. 29,919 (July 9, 1982).

98. 49 Fed. Reg. 29,287-02 (1984).

99. Other agencies such as the Federal Trade Commission have had extensive experience with cease and desist orders; useful case digests and practice notes are collected in 3 Trade Reg. Rep. (CCH) ¶¶ 9661 *et seq.* (1982).

100. *Federal Trade Commission v. Ruberoid Co.*, 343 U.S. 470, 473 (1952).

sion, the Supreme Court stated: "If the Commission is to attain the objectives Congress envisioned, it cannot be required to confine its road block to the narrow lane the transgressor has traveled; it must be allowed effectively to close all roads to the prohibited goal, so that its order may not be by-passed with impunity."¹⁰¹ If there are unknown manufacturers in addition to the known ones, it may prove effective to issue cease and desist orders as to the known manufacturers and an exclusion order directed to products emanating from any source other than those named in the cease and desist orders.

VI. CONCLUSION

Cease and desist orders are a powerful weapon available to the complainant in section 337 cases. The finding of personal jurisdiction over the respondent, which is the necessary foundation for an order to cease and desist, is not difficult to obtain. This finding must be requested even when an exclusion order is the principal remedy sought. The complainant cannot change his mind and elect to request a cease and desist order at the end of the case when he is arguing for a specific remedy, because it is then too late to prove personal jurisdiction. When the flexible and unique features of a cease and desist order are overlooked at the beginning of the case, one of the most important remedies available at the United States International Trade Commission is wasted. The Commission has the power to protect United States companies from unfair import competition in a variety of ways, but only if the companies seeking this protection understand the full powers of the Commission, and do not underestimate the strength of this sleeping giant.

101. *Id.*