

CHAPTER XV

THE TERRITORIAL STRUCTURE OF INTELLECTUAL PROPERTY RIGHTS

Most of the legal issues in this area—involving various forms of intellectual property, such as patents, copyrights, trademarks, and trade secrets—typically relate to the flow of technology within a corporate structure or between a corporation and its licensees. This form of technology flow is a natural consequence of the product cycle theory discussed in Chapter I. This form of technology transfer, however, is only one of many—technology flows relating to education, scientific research and public international cooperation may produce fewer legal controversies but are often more important, especially in areas like agriculture and medicine.

In this chapter, the different legal forms of intellectual property are treated together. From a legal viewpoint, each of these forms of property is simply a power to exclude, to keep someone else from practicing the invention or using the trademark or reproducing the copyrighted text. Moreover, the international structures of the different areas are closely parallel.

Nevertheless, there are major differences that should be noted, particularly between the two examples that the text emphasizes: patent rights and trademarks. The patent right is purely a creature of statutory law and protects the right to manufacture, sell, or use a product or, in some cases, a process. Although there are minor differences in detail from state to state, the right to control the invention lasts for a limited period, typically around 17 years, and completely expires after that time. In some states certain specific products such as pharmaceuticals are not patentable, and in a few states a firm loses control over a patented idea unless it actually practices the idea.

Trademark rights, in contrast, derive (at least in Anglo-American states) from a common law tort right to protect one's trade reputation against inferior goods passed off as one's own. The statutory structure systematizes and details this right. In contrast to patents, trademark protection can theoretically last forever, although one must actually use the trademark in order to obtain this protection.

These accidental differences reflect more fundamental policy differences. The patent monopoly is intended as an incentive to invention (although its real-world effectiveness for this purpose is sometimes unclear). The value of the monopoly—and therefore of the patent—depends on the economic improvement associated with the invention. The requirements that the invention will be disclosed in the patent application and that it will be available to all at the end of the patent term are central to the economic wisdom of granting the monopoly. For the trademark, the social function of the monopoly—of preventing passing off and ensuring authenticity of goods—is one that reasonably requires continued protection. And the value of this monopoly depends on the brand image carried by the product; the monopoly loses its value unless the mark is known to the public.

There are many other forms of intellectual property, such as copyright and plant breeder's rights. Their existence reflects a strong sense, especially in civil law nations, that creators have a moral right to control of their product; hence, for example, the expansion of artists' rights over use of their work. But a less formal kind of intellectual property should also be mentioned—that of trade secrets and know-how. Some inventions are not patentable, and some innovators have chosen secrecy rather than a legal route to protect their invention. Examples range from the formula for certain soft drinks or candy bars to “tricks of the trade” used in high-tech manufacturing. There is no analogue of the patent system for these properties, which are protectable only indirectly—such as through contracts with employees or through what amount to actions against theft. The international flow of these ideas can present legal difficulties quite distinct from those of the regular patent area.

QUESTIONS

1. If you were starting a legal system afresh, to which of these forms of intellectual property would you provide legal protection? Patents? Copyrights? Trademarks? Trade secrets?
2. How might you answer this question differently if you were from a socialist state? From a developing country?
3. How would you decide whether a specific intellectual property system is benefitting a specific state?
4. Suppose you were counsel to a hotel chain seeking to set up the analogue of franchised local hotels in a state with no trademark law. What special difficulties would you face, and how might you resolve them?

A. NATIONAL SYSTEMS

In most circumstances, both patent and trademark rights apply only to infringement within the state granting the right. Hence, it is quite plausible for an idea to be patented in one state and not another or for one firm to hold a specific trademark in one state and for another firm to hold the same trademark in another state. This territoriality leaves only very limited protection against foreign practice of an invention. In general, the existing treaty structure is only strong enough to permit an inventor or initial trademark user the opportunity to obtain parallel coverage in all states in which he or she is interested. Arrangements to protect an inventor from imports coming from places where they were legitimately made are left to national law.

The following cases show the territorial extension that contemporary courts give to intellectual property concepts. The first case, *Deepsouth*, shows how sharply U.S. courts will refuse to provide extraterritorial protection for a patent. (This case was effectively reversed by § 101 of the Patent Law Amendments Act of 1984, Pub. L. No. 98-622, 35 U.S.C. § 271.)

The law for trademarks is much less settled, as suggested by the two cases that follow *Deepsouth*. Footnote 22 of *Wells Fargo*, the first case following *Deepsouth*, describes the traditional cases, *Steele* and *Vanity Fair*, that had long defined working boundaries for extraterritorial application of trademark law—but, in the wake of *Timberlane*, the trend is toward a balancing test rather than the factor analysis suggested by the earlier cases. This is the lesson of *Wells Fargo*, which involved a global copying of the Wells

Fargo mark. And, as shown in *American Rice*, the last of the cases in this group, U.S. courts are now willing to protect U.S. competitors against copying in foreign markets—and do not necessarily defer to the decisions of foreign trademark offices.

DEEPSOUTH PACKING CO. v. LAITRAM CORP.
406 U.S. 518 (1972)

MR. JUSTICE WHITE delivered the opinion of the Court.

The United States District Court for the Eastern District of Louisiana has written:

Shrimp, whether boiled, broiled, barbecued or fried, are a gustatory delight, but they did not evolve to satisfy man's palate. Like other crustaceans, they wear their skeletons outside their bodies in order to shield their savory pink and white flesh against predators, including man. They also carry their intestines, commonly called veins, in bags (or sand bags) that run the length of their bodies. For shrimp to be edible, it is necessary to remove their shells. In addition, if the vein is removed, shrimp become more pleasing to the fastidious as well as more palatable.

Such "gustatory" observations are rare even in those piscatorially favored federal courts blissfully situated on the Nation's Gulf Coast, but they are properly recited in this case. Petitioner and respondent both hold patents on machines that devein shrimp more cheaply and efficiently than competing machinery or hand labor can do the job. Extensive litigation below has established that respondent, the Laitram Corp., has the superior claim and that the distribution and use of petitioner DeepSouth's machinery in this country should be enjoined to prevent infringement of Laitram's patents. *Laitram Corp. v. DeepSouth Packing Co.*, 443 F.2d 928 (5th Cir. 1971). We granted certiorari . . . to consider a related question: Is DeepSouth, barred from the American market by Laitram's patents, also foreclosed by the patent laws from exporting its deveiners, in less than fully assembled form, for use abroad?

The lower court's decision that Laitram held valid combination patents entitled the corporation to the privileges bestowed by 35 U.S.C. § 154, the keystone provision of the patent code. "[F]or the term of seventeen years" from the date of the patent, Laitram had "the right to exclude others from making, using, or selling the invention throughout the United States...." The § 154 right in turn provides the basis for affording the patentee an injunction against direct, induced, and contributory infringement, 35 U.S.C. § 283, or an award of damages when such infringement has already occurred, 35 U.S.C. § 284. Infringement is defined by 35 U.S.C. § 271 in terms that follow those of § 154:

(a) Except as otherwise provided in this title, whoever without authority makes, uses or sells any patented invention, within the United States during the term of the patent therefor, [directly] infringes the patent.

(b) Whoever actively induces infringement of a patent shall be liable as an infringer.

(c) Whoever sells a component of a patented machine, manufacture, combination or composition, or a material or apparatus for use in practicing a patented process, constituting a material part of the invention, knowing the same to be especially made or especially adapted for use in an infringement of such patent, and not a staple article or commodity of commerce suitable for substantial noninfringing use, shall be liable as a contributory infringer.

As a result of these provisions the judgment of Laitram's patent superiority forecloses Deepsouth and its customers from any future use (other than a use approved by Laitram or occurring after the Laitram patent has expired) of its deveiners "throughout the United States." The patent provisions taken in conjunction with the judgment below also entitle Laitram to the injunction it has received prohibiting Deepsouth from continuing to "make" or, once made, to "sell" deveiners "throughout the United States." Further, Laitram may recover damages for any past unauthorized use, sale, or making "throughout the United States." This much is not disputed.

But Deepsouth argues that it is not liable for every type of past sale and that a portion of its future business is salvageable. Section 154 and related provisions obviously are intended to grant a patentee a monopoly only over the United States market; they are not intended to grant a patentee the bonus of a favored position as a flagship company free of American competition in international commerce. Deepsouth, itself barred from using its deveining machines, or from inducing others to use them "throughout the United States," barred also from making and selling the machines in the United States, seeks to make the parts of deveining machines, to sell them to foreign buyers, and to have the buyers assemble the parts and use the machines abroad.⁵ Accordingly, Deepsouth seeks judicial approval, expressed through a modification or interpretation of the injunction against it, for continuing its practice of shipping deveining equipment to foreign customers in three separate boxes, each containing only parts of the 1¾-ton machines, yet the whole assemblable in less than one hour. The company contends that by this means both the "making" and the "use" of the machines occur abroad and Laitram's lawful monopoly over the making and use of the machines throughout the United States is not infringed.

Laitram counters that this course of conduct is based upon a hypertechnical reading of the patent code that, if tolerated, will deprive it of its right to the fruits of the inventive genius of its assignors. "The right to make can scarcely be made plainer by definition. . . ." *Bauer v. O'Donnell*, 229 U.S. 1, 10 (1913). Deepsouth in all respects save final assembly of the parts "makes" the invention. It does so with the intent of having the foreign user effect the combination without Laitram's permission. Deepsouth sells these components as though they were the machines themselves; the act of assembly is regarded, indeed advertised, as of no importance.

The District Court, faced with this dispute, noted that three prior circuit courts had considered the meaning of "making" in this context and that all three had resolved the question favorably to Deepsouth's position. . . . The District Court held that its injunction should not be read as prohibiting export of the elements of a combination patent even when those elements could and predictably would be combined to form the whole.

It may be urged that . . . [this] result is not logical. . . . But it is founded on twin notions that underlie the patent laws. One is that a combination patent protects only the combination. The other is that monopolies—even those conferred by patents—are not

5. Deepsouth is entirely straightforward in indicating that its course of conduct is motivated by a desire to avoid patent infringement. Its president wrote a Brazilian customer:

We are handicapped by a decision against us in the United States. This was a very technical decision and we can manufacture the entire machine without any complication in the United States, with the exception that there are two parts that must not be assembled in the United States, but assembled after the machine arrives in Brazil.

Quoted in *Laitram Corp. v. Deepsouth Packing Co.*, 443 F.2d 928, 938 (5th Cir. 1971).

viewed with favor. . . .

The Court of Appeals for the Fifth Circuit reversed, thus departing from the established rules of the Second, Third, and Seventh Circuits. In the Fifth Circuit panel's opinion, those courts that previously considered the question "worked themselves into . . . a conceptual box" by adopting "an artificial, technical construction" of the patent laws, a construction, moreover, which in the opinion of the panel, "[subverted] the Constitutional scheme of promoting 'the Progress of Science and useful Arts'" by allowing an intrusion on a patentee's rights, 443 F.2d, at 938-939, citing U.S. Const., Art. I. §8.

III

We disagree with, the Court of Appeals for the Fifth Circuit. Under the common law the inventor had no right to exclude others from making and using his invention. If Laitram has a right to suppress Deepsouth's export trade it must be derived from its patent grant, and thus from the patent statute. We find that 35 U.S.C. §271, the provision of the patent laws on which Lattrani relies, does not support its claim.

Certainly if Deepsouth's conduct were intended to lead to use of patented deveiners inside the United States its production and sales activity would he subject to injunction as an induced or contributory infringement. But it is established that there can be no contributory infringement without the fact or intention of a direct infringement. "In a word, if there is no [direct] infringement of a patent there can be no contributory infringer." *Mercoïd Corp. v. Mid-Continent Co.*, 320 U.S. 661, 677 (1944) (Frankfurter, J., dissenting on other grounds).

The statute makes it clear that it is not an infringement to make or use a patented product outside of the United States. 35 U.S.C. §271. . . . Thus, in order to secure the injunction it seeks, Laitram must show a §271(a) direct infringement by Deepsouth in the United States, that is, that Deepsouth "makes," "uses," or "sells" the patented product within the bounds of this country.

We cannot endorse the view that the "substantial manufacture of the constituent parts of [a] machine" constitutes direct infringement when we have so often held that a combination patent protects only against the operable assembly of the whole and not the manufacture of its parts. "For as we pointed out in *Mercoïd v. Mid-Continent Investment Co.*, 320 U.S. at 676,] a patent on a combination is a patent on the assembled or functioning whole, not on the separate parts." *Mercoïd Corp. v. Minneapolis-Honeywell Regulator Co.*, 320 U.S. 680, 684 (1944).

It was this basic tenet of the patent system that led judge Swan to hold in the leading case, *Radio Corp. of America v. Andrea*, 79 F. 2d 626 (2d Cir. 1935), that unassembled export of the elements of an invention did not infringe the patent.

[The] relationship is the essence of the patent.

No wrong is done the patentee until the combination is formed. His monopoly does not cover the manufacture or sale of separate elements capable of being, but never actually, associated to form the invention. Only when such association is made is there a direct infringement of his monopoly, and not even then if it is done outside the territory for which the monopoly was granted. *Id.* at 628.

We reaffirm this conclusion today.

IV

It is said that this conclusion is derived from too narrow and technical an interpretation of the statute, and that this Court should focus on the constitutional mandate

[T]o promote the Progress of Science and useful Arts, by securing for limited Times to Authors and Inventors the exclusive Right to their respective Writings and Discoveries . . . , Art. I, § 8,

and construe the statute in a manner that would, allegedly, better reflect the policy of the Framers.

We cannot accept this argument. The direction of Art. I is that *Congress* shall have the power to promote the progress of science and the useful arts. When, as here, the Constitution is permissive, the sign of how far Congress has chosen to go can come only from Congress. We are here construing the provisions of a statute passed in 1952. The prevailing law in this and other courts as to what is necessary to show a patentable invention when a combination of old elements is claimed was clearly evident from the cases when the Act was passed; and at that time *Andrea*, representing a specific application of the law of infringement with respect to the export of elements of a combination patent, was 17 years old. When Congress drafted §271, it gave no indication that it desired to change either the law of combination patents as relevant here or the ruling of *Andrea*. Nor has it on any more recent occasion indicated that it wanted the patent privilege to run farther than it was understood to run for 35 years prior to the action of the Court of Appeals for the Fifth Circuit.

In conclusion, we note that what is at stake here is the right of American companies to compete with an American patent holder in foreign markets. Our patent system makes no claim to extraterritorial effect; “these acts of Congress do not, and were not intended to, operate beyond the limits of the United States,” *Brown v. Duchesne*, 19 How., at 195, 15 L. Ed. 595 (1856), and we correspondingly reject the claims of others to such control over our markets. *Cf. Boesch v. Oraff*, 133 U.S. 697, 703 (1890). To the degree that the inventor needs protection in markets other than those of this country, the wording of 35 U.S.C. §§ 154 and 271 reveals a congressional intent to have him seek it abroad through patents secured in countries where his goods are being used. Respondent holds foreign patents; it does not adequately explain why it does not avail itself of them.

V

In sum: the case and statutory law resolves this case against the respondent. When so many courts have so often held what appears so evident—a combination patent can be infringed only by combination—we are not prepared to break the mold and begin anew. And were the matter not so resolved, we would still insist on a clear congressional indication of intent to extend the patent privilege before we could recognize the monopoly here claimed. Such an indication is lacking. Accordingly, the judgment of the Court of Appeals for the Fifth Circuit is reversed and the case is remanded, for proceedings consistent with this opinion. . . .

MR. JUSTICE BLACKMUN, with whom THE CHIEF JUSTICE, MR. JUSTICE POWELL, and MR. JUSTICE REHNQUIST join, dissenting.

. . . With all respect, this seems to me to be too narrow a reading of 35 U.S.C. §§ 154 and 271(a). In addition, the result is unduly to reward the artful competitor who uses another’s invention in its entirety and who seeks to profit thereby. Deepsouth may be admixive and candid or, as the Court describes it, . . . “straightforward,” in its “sales rhetoric” . . . but for me that rhetoric reveals the very iniquitous and evasive nature of Deepsouth’s operations. I do not see how one can escape the conclusion that the Deepsouth machine was *made* in the United States, within the meaning of the protective language of §§ 154 and 271(a). The situation, perhaps, would be different were parts, or even only one vital part, manufactured abroad. Here everything was accomplished in

this country except putting the pieces together as directed (an operation that, as Deepsouth represented to its Brazilian prospect, would take “less than one hour”), all much as the fond father does with his little daughter’s doll house on Christmas Eve. To say that such assembly, accomplished abroad, is not the prohibited combination and that it avoids the restrictions of our patent law, is a bit too much for me. The Court has opened the way to deny the holder of the United States combination patent the benefits of his invention with respect to sales to foreign purchasers. . . .

WELLS FARGO & CO. v. WELLS FARGO EXPRESS CO.
556 F.2d 406 (9th Cir. 1977)

CHOY, CIRCUIT JUDGE:

A show-down over rights to the storied name “Wells Fargo” is the subject of this trademark infringement and unfair competition action. Two American corporations challenge the use of the name, in the United States and abroad, by two other corporations, one of which is foreign. . . .

. . . At the heart of plaintiffs’ allegations is the claim that a group headed by Herman Heymann, a German national who resides in Gibraltar, has deliberately and wrongfully attempted to appropriate the “Wells Fargo” name both in Europe as well as in the United States. Defendant Wells Fargo Express Company, A.G. (“A.G.”), a Liechtenstein corporation, was incorporated in 1967 by Heymann to engage in the business of loaning money and is the foreign defendant dismissed by the district court below. In the course of its activities, A.G. had acquired various European and American subsidiaries. While none of the European subsidiaries has been named in the instant action, an American subsidiary, Wells Fargo Express Company (“Express”), is a named defendant.

Plaintiff Wells Fargo & Company, a California corporation, is engaged in various businesses in the United States and abroad, most notably as Wells Fargo Bank. In addition to world-wide banking and trust services, the company is also involved in toy manufacture, the restaurant trade, and the travel agency business. In each of these endeavors, it makes use of trade names, trademarks, and service marks which consist—in whole or in part—of the name “Wells Fargo,” and which are registered in the United States under the Lanham Act, [the Trademark Act of 1946], 15 U.S.C. §§ 1051-1127. and in various foreign countries. The other plaintiff, Baker Industries, Inc., is a Delaware corporation which owns and has registered the “Wells Fargo” trademark for use in its business of providing armored car and other protective services.

II. Subject Matter Jurisdiction over A.G.’s Activities

The Lanham Act grants a registrant a civil right of action against “[a]ny person who shall . . . use in commerce,” in any improper manner detailed therein, a registered trademark. 15 U.S.C. § 1114(a)(1). For purposes of the Act, “commerce” is sweepingly defined as “all commerce which may lawfully be regulated by Congress.” *Id.* §1127. Section 1121 provides the federal courts with subject matter jurisdiction over causes of action arising under the Act.

A. A.G.’s Foreign Activities

The district court ruled that the Lanham Act was generally limited to causes of action arising out of American activities. It held that foreign activities could be reached only if the following three factors were present:

- (1) Defendant’s conduct must have had a substantial effect on United States commerce; (2)

defendant must be a United States citizen, as the United States has broad powers to regulate the conduct of its citizens in foreign countries; (3) there must be no conflict with trademark rights established under the foreign law.

358 F. Supp. at 1077. Although it is somewhat unclear, it appears that the district court's test required that all of the factors be present. This conclusion follows from the court's holding that, even if A.G. and Express be viewed as one corporation, the court would decline jurisdiction because A.G.'s "purely foreign activities have no substantial effect on commerce in the United States and there would exist a conflict between the trademark laws of the United States and the trademark laws of foreign countries." *Id.*

In so holding, the district court carefully analyzed the three cases which have discussed whether foreign activities may be reached under the Lanham Act. *Steele v. Bulova Watch Co.*, 344 U.S. 280 (1952); *Vanity Fair Mills, Inc. v. T. Eaton Co.*, 234 F.2d 633 (2d Cir.). *cert. denied*, 352 U.S. 871 (1956); *Ramirez & Feraud Chili Co. v. Las Palmas Food Co., Inc.*, 146 F. Supp. 594 (S.D. Cal. 1956), *aff'd per curiam*, 245 F.2d 874 (9th Cir. 1957), *cert. denied*, 355 U.S. 927 (1958). It did not, however, have before it this court's recent decision in *Timberlane Lbr. Co. v. Bank of America, N. T. & S. A.*, 549 F.2d 597 (9th Cir. 1976). In *Timberlane*, we set down a "jurisdictional rule of reason" to govern the extraterritorial reach of the Sherman Act which, like the Lanham Act, contains sweeping jurisdictional language. *Compare* 15 U.S.C. §§ 1 & 2 with 15 U.S.C. §§ 1114(a)(1) & 1127.

Our review of the cases on which the district court relied,²² and the extensive analysis of extraterritoriality undertaken by us in *Timberlane*, *see* 549 F.2d at 608-15, lead us to the conclusion that the district court's denial of subject matter jurisdiction under the Lanham Act must be vacated. First, it seems clear that, just as in the interstate context, the extraterritorial coverage of the Lanham Act should be gauged not so much by the locus of the activity sought to be reached—as the district court below held, . . . —as by the nature of its effect on that commerce which Congress may regulate. *See Bulova*, 344 U.S. at 286.

Next, although foreign activities must of course have *some* effect on United States foreign commerce before they can be reached, we disagree with the district court's

22. In *Steele v. Bulova Watch Co.*, 344 U.S. 280 (1952), Steele was an American citizen who imported watch parts from the United States into Mexico and there affixed to the completed watches the name "Bulova." Sales were confined to Mexico, but some purchasers of the watches carried them into the United States. By the time the case reached the Supreme Court, the Bulova Watch Company had secured the cancellation of Steele's Mexican trademark. In holding that the district court had jurisdiction under the Lanham Act to award relief, the Court reasoned that Congress could constitutionally regulate the foreign activities of American citizens, 344 U.S. at 285-86; that the Lanham Act evidenced a congressional intent to exercise its power to the fullest, *Id.* at 285-87; that Steele's foreign activities adversely affected Bulova's "trade reputation in markets cultivated by advertising here as well as abroad," *id.* at 286, 735; and that, owing to the cancellation of the Mexican trademark, the question "whether a valid foreign registration would affect either the power to enjoin or the property of its exercise" was not before the Court, *id.* at 289. Contrary to the district court's reading of *Bulova*, the Supreme Court does not appear to have required a "substantial effect on commerce in the United States," 358 F. Supp. at 1076 (emphasis added).

In *Vanity Fair Mills, Inc. v. T. Eaton Co.*, 234 F.2d 633 (2d Cir. 1956), the defendant was a Canadian corporation which had registered the name "Vanity Fair" in Canada. Plaintiffs, holders of that trademark in the United States, brought an action against the Canadian use of the name. Defendant's use of the name extended to the United States only in a few mail order sales and advertisements which crossed the border. Observing that the "Lanham Act itself gives almost no indication of the extent to which Congress intended to exercise its power in this area," the court nevertheless held that Congress did not intend that the infringement remedies of the Act should reach "acts committed by a foreign national in his home country under a presumably valid trademark registration in that country." 234 F.2d at 642. Plaintiffs were, however, allowed to amend their complaint to challenge only the United States sales and advertisements. *Id.* at 647-48.

The facts of *Ramirez & Feraud Chili Co. v. Las Palmas Food Co.*, 146 F. Supp. 594, 601-02 (S.D. Cal. 1956), *aff'd per curiam*, 245 F.2d 874 (9th Cir. 1957), are very similar to those of the *Bulova* case. *Ramirez* presented an even stronger case for coverage than did *Bulova*, however, because defendants, American citizens, produced their counterfeit labels in the United States and sold their merchandise to American residents after affixing the labels in Mexico to goods produced there.

requirement that that effect must be “substantial,” *Bulova* contains no such requirement. And, as we noted in *Timberlane*, since the origins of the “substantiality” test apparently lie in the effort to distinguish between intrastate commerce, which Congress may not regulate as such, and interstate commerce, which it can control, it may be unwise blindly to apply the factor in the area of foreign commerce over which Congress has exclusive authority. See *Timberlane*, 549 F.2d at 612.

Finally, while we agree with the district court that each of the three factors which it cited—degree of effect on United States commerce, the citizenship of defendants, and the existence of a conflict with foreign trademark registrations—are indeed relevant to the resolution of the jurisdictional issue, contrary to the apparent view of the district court, the absence of one of the factors is not necessarily determinative of the issue. Rather, each factor is just one consideration to be balanced in the “jurisdictional rule of reason.” of comity and fairness adopted by us in *Timberlane*:

The elements to be weighed include the degree of conflict with foreign law or policy, the nationality or allegiance of the parties and the locations or principal places of business of corporations, the extent to which enforcement by either state can be expected to achieve compliance, the relative significance of effects on the United States as compared with those elsewhere, the extent to which there is explicit purpose to harm or affect American commerce, the foreseeability of such effect, and the relative importance to the violations charged of conduct within the United States as compared with conduct abroad. A court evaluating these factors should identify the potential degree of conflict if American authority is asserted. A difference in law or policy is one likely sore spot, though one which may not always be present. Nationality is another; though foreign governments may have some concern for the treatment of American citizens and businesses residing there, they primarily care about their own nationals. Having assessed the conflict, the court should then determine whether, in the face of it, the contacts and interests of the United States are sufficient to support the exercise of extraterritorial jurisdiction.

549 F.2d at 614-15 (footnotes omitted).

In the instant case, it appears that plaintiffs have been successful in securing the invalidation of some, but not all, foreign registrations held by A.G. and its European subsidiaries.²³ While A.G. and its affiliates are alien corporations, they may indeed be conducting some commercial activity in the United States either themselves or through the Express entity. Moreover, A.G.’s activities may have some effect on both plaintiffs’ domestic business and Wells Fargo Bank’s heavily-advertised international affairs, and plaintiffs do maintain that A.G.’s scheme has all along been purposeful and deliberate.

We are, however, not prepared to say that some or all of A.G.’s foreign activities may be reached under the Lanham Act. Therefore, we vacate the dismissal of the district court and remand the issue to it for the opportunity to apply the *Timberlane* test to the jurisdictional facts which plaintiffs can establish.

23. At last report of plaintiffs, the tally in foreign encounters stood as follows: Plaintiff Wells Fargo & Company has met with great success in West Germany and Austria against A.G., and in Italy and France against A.G.’s wholly-owned Irish subsidiary. Lesser success is reported in Liechtenstein against A.G. itself and proceedings in Great Britain and South Africa against A.G. and in Spain against A.G.’s partially-owned Spanish subsidiary, were still awaiting resolution. Plaintiff Baker Industries has seemingly fared less well, losing to A.G. in Great Britain and to A.G.’s Spanish subsidiary in Spain. . . .

**AMERICAN RICE, INC., v. THE ARKANSAS RICE GROWERS
COOPERATIVE ASSN.**

701 F.2d 408 (5th Or. 1983)

WISDOM, J.

In this interesting and unusual trademark dispute, we are asked to explore the extraterritorial reach of the Lanham Act, 15 U.S.C. § 1051 *et seq.* The district court . . . concluded that it was not powerless to prevent the acts complained of, despite the facts that the sales of the products bearing the allegedly infringing marks were consummated in a foreign country, Saudi Arabia, and none of those products found their way back into the United States. Finding also that there was a likelihood of confusion between the competing products, the district court issued a preliminary injunction, enjoining the defendant from any acts likely to cause confusion in the Saudi Arabian consuming public. We affirm.

I

The plaintiff, American Rice, Inc. (“ARI”), and defendant, Arkansas Rice Growers Cooperative Association (“Riceland”), in this trademark suit are farmers’ marketing cooperatives that process, mill, package, and market rice for their member-patrons. ARI is based in Houston, Texas, and counts among its members 1700 farmers in Arkansas, Louisiana, and Texas. Riceland’s 14,000 members are located in Arkansas, Louisiana, Mississippi, and Missouri. Both cooperatives are actively engaged in selling rice under a number of brands in the United States and abroad.

In 1975, ARI purchased Blue Ribbon Mills, a company that had been exporting its rice to Saudi Arabia since 1966, and was assigned that company’s trademarks. Included among those trademarks were the word marks “Blue Ribbon”, “Chopstick”, and “Abu Bint”, and the design mark of a girl. Since the takeover of Blue Ribbon, ARI has continued to market rice under these marks with the assistance of its brokerage firm, Alpha Trading and Shipping Agencies, Ltd. (“Alpha”). Alpha is ARI’s exclusive agent in Saudi Arabia, and is licensed by ARI to use the mark “Abu Bint” and to assist it in the ongoing efforts to obtain a trademark registration in that country. ARI has attempted to register the “Abu Bint” mark since 1972, when a Saudi official rejected the application.

At the time of the injunctive order, ARI owned two federal registrations for the girl design trademark, and Texas trademark registrations, in both English and Arabic, of the word mark “Abu Bint”. The plaintiff contends, and the trial court found, that “Abu Bint” translates into English as “of the girl” or “girl brand”. The girl design marks, which are featured prominently on ARI’s rice bags sold in Saudi Arabia, show the head and torso of a young oriental woman holding a bowl of rice and chopsticks. The color combination is red, yellow, and black. The words “chopstick” and “rice” appear in large, oriental-style writing, and the words “golden parboiled” are set into the table of the girl design. “Abu Bint” is printed at the top of each bag in Arabic script, and the logo and full name of ARI appear at the bottom in smaller English print.

ARI’s rice is referred to only as Abu Bint in Saudi Arabia, and not as Chopstick brand. The reason for this, as the district court stated, is that the largely illiterate Saudi Arabian public distinguishes rice brands on the basis of the design on the package. The high incidence of illiteracy also explains why the plaintiff does not advertise, but relies instead on promotional schemes. ARI sells its rice in merchant “offices” where Saudis are permitted to view samples and place their orders. The rice is typically purchased in

large quantities, 25 or 100 pound burlap bags.

Like ARI, Riceland sells its rice in 25 and 100 pound burlap bags through a system of merchants. The defendant initially marketed the rice in bags displaying a lion design, but in 1974 the company entered into an agreement with a Saudi merchant and began selling its product under the name “Abu Bintin” or “Twin Girl”. The colors appearing on the Twin Girl bags are red, yellow and black, the same colors used by ARI.³ Four years later, in 1978, Riceland introduced a third brand called “Bintal-Arab” or “daughter of the Arabs”. Although the mark Bint al-Arab is owned by a Saudi merchant, Alarnoudi, Riceland contends that it possesses the exclusive right to use the mark outside of Saudi Arabia.⁴ The Bint al-Arab design portrays a young Arab woman outlined by a black seal. Arabic script is on the top of the seal and Roman lettering is on the bottom. The predominant colors are green, yellow, and black. Below the seal are the English words “extra long grain, parboiled American RICE,” and at the bottom of the bag is the Riceland logo. In 1981, at the request of Alarnoudi, Riceland modified its Bint al-Arab label and changed the color scheme to red, yellow, and black. The seal was also enlarged and the girl’s facial features were altered.

Following the change in the Bint al-Arab label, Riceland began packaging, on a “private label” basis, another variety of rice called “Gulf Girl” in Arabic. The brand once again featured a label with a design of a girl and the colors red, yellow, and black. The girl is portrayed between black Arabic script, from the waist up, her hair uncovered. Unlike the young woman displayed on the Bint al-Arab rice bags, the Gulf Girl is western in appearance.

Even before the Gulf Girl mark was introduced, evidence admitted at the hearing showed that Saudi Arabian merchants, longshoremen, and consumers occasionally confused the defendant’s Hint al-Arab brand with the plaintiff’s Abu Bint rice. Riceland bags were shipped to and accidentally mixed with ARI bags at a merchant’s warehouse. And one witness testified that he heard the owner of the Bint al-Arab mark, Alarnoudi, attempt to tell a customer looking for Abu Bint that Bint al-Arab was the same rice.

ARI filed suit against Riceland on October 15, 1981, alleging trademark infringement in violation of the common law and the Lanham Act, 15 U.S.C. §1051 *et seq.*, false designations of origin in violation of 15 U.S.C. §1125(a), and deceptive trade practices in violation of the Texas Deceptive Trade Practice Act, Tex. Bus. & Corn. Code Ann. §§ 17.41-.63 (Vernon Supp. 1980-81). ARI’s complaint sought preliminary and permanent injunctive relief, loss of profits, damages, and costs. An evidentiary hearing on the plaintiff’s motion for a preliminary injunction was held on February 5, 1982, and on March 2 the motion was granted, enjoining the defendant from the use of certain trademarks and trade dress in connection with the sale of rice in Saudi Arabia. The district court concluded its memorandum opinion and order by finding:

that plaintiff has presented evidence demonstrating its substantial likelihood of success at trial on the merits. Likelihood of confusion is due to the introduction of the red, yellow and black Bint al-Arab and the Gulf Girl labels. Defendant packages and sells the same product, rice, as plaintiff does. They both reach the same market. They both use the same advertising approach, although plaintiff has introduced a significant number of promotional

3. Riceland has obtained a registration for its Twin Girl mark in the United States, and the district court did not find that use of this mark constituted an infringement.

4. Riceland attempted to register the Bint al-Arab mark for use on rice by filing a trademark application in the United States Patent and Trademark Office in November 1978. ARI opposed the application, and the opposition proceeding was stayed pending the outcome of this litigation.

items. There is some evidence of defendant's intent. There is some evidence of actual confusion. The designs of all three labels have similar characteristics. In light of the consuming public, careful distinction between the brands of a common product probably would not be expected. Thus, plaintiff has carried its burden on this element in regard to these two labels.

532 F. Supp. at 1388. The district court also enjoined the defendant from using its green Bint al-Arab label because it, too, was similar to the plaintiff's Abu Bint mark, and its continued use would permit Riceland to retain part of the goodwill misappropriated from ARI.

II

The Lanham Act provides a trademark registrant a civil right of action against "[a]ny person who shall . . . use in commerce" a colorable imitation of a registered mark in connection with the sale, offering for sale, or distribution of goods. 15 U.S.C. §1114(l)(a). "Commerce" is sweepingly defined as "all commerce which may lawfully be regulated by Congress." *Id.* §1127. Section 1121 provides the federal courts with subject matter jurisdiction over causes of action arising under the Act.

The extraterritorial reach of American law is no new subject to federal courts. It has been examined extensively in the context of the Sherman Act, 15 U.S.C. §~1 & 2, and courts have proposed a variety of tests for determining when district courts should entertain claims involving extraterritorial conduct. . . .

Although cases brought under the Lanham Act have been fewer than those under the Sherman Act, we are not without guidance in determining when a federal court has jurisdiction to entertain an infringement action involving commerce between the United States and a foreign market. The leading case is *Steele v. Bulova Watch Co.*, 1952, 344 U.S. 280. . . .

Bulova stands for the proposition that "a United States district court has jurisdiction to award relief to an American corporation against acts of trademark infringement and unfair competition consummated in a foreign country by a citizen and resident of the United States." 344 U.S. at 281. Because Steele's Mexican trademark was cancelled before the case was decided, the Supreme Court did not reach the question whether enjoining use of Steele's mark would be an affront to Mexican sovereignty. The Court did note, however, that the Lanham Act did not constrict prior law, and cited the earlier case of *George W. Luft Co., Inc. v. Zande Cosmetic Co., Inc.*, 2 Cir. 1944, 142 F.2d 536, *cert. denied*, 1944, 323 U.S. 756. There, both parties were engaged in the manufacture and sale of cosmetics, and the defendant's mark, "Zande", first used in 1935, was found to infringe the plaintiff's mark, "Tangee", introduced in 1920. The district court granted a broad injunction, and prohibited the defendant from showing its right, established under foreign laws, to use the trade-name. The Second Circuit modified the breadth of the injunction, and held that such evidence would prohibit the district court from affecting the defendant's shipment to those countries where it had established a *superior* right to the trademark. As the Court stated:

Nor can we perceive upon what theory a plaintiff can recover damages for acts in the United States resulting in a sale of merchandise in a foreign country under a mark to which the defendant has established, over the plaintiff's opposition, a legal right of use in that country. Consequently, neither the injunction nor the accounting should cover activities of the defendants, either here or abroad, concerned with sales in countries where the defendants have established rights superior to the plaintiff's.

142 F.2d at 541.

We conclude that under *Bulova* and *Luft* certain factors are relevant in determining whether the contracts and interests of the United States are sufficient to support the exercise of extraterritorial jurisdiction. These include the citizenship of the defendant, the effect on United States commerce, and the existence of a conflict with foreign law. See *Vanity Fair Mills v. T. Eaton Co.*, 2 Cir. 1956, 234 F.2d 633, 642, *cert. denied*, 1956, 352 U.S. 871. The absence of any one of these is not dispositive. Nor should a court limit its inquiry exclusively to these considerations. Rather, these factors will necessarily be the primary elements in any balancing analysis.

Riceland contends that the district court erred when it found that it was not deprived of the power to issue equitable relief, even though the ultimate sale of the defendant's Bint al-Arab and Gulf Girl brands occurred in Saudi Arabia and none of its products found their way back into the United States. Our reading of *Bulova* and *Luft* convinces us that no error was committed. It is undisputed that the defendant is an American corporation, based in Stuttgart, Arkansas, engaged in both interstate and foreign commerce. It is also clear, contrary to Riceland's assertions, that the defendant's Saudi Arabian sales had more than an insignificant effect on United States commerce. Each of Riceland's activities, from the processing and packaging of the rice to the transportation and distribution of it, are activities within commerce. And by unlawfully selling its products under infringing marks in Saudi Arabia, Riceland diverted sales from ARI, whose rice products are also processed, packaged, transported, and distributed in commerce regulated by Congress. Merely because the consummation of the unlawful activity occurred on foreign soil is of no assistance to the defendant. As the Supreme Court stated in *Bulova*, "we do not deem material that petitioner affixed the mark 'Bulova' in Mexico City rather than here, or that his purchases in the United States when viewed in isolation do not violate any of our laws. They were essential steps in the course of business consummated abroad; acts in themselves legal lose that character when they become part of an unlawful scheme." 344 U.S. at 287. There is also no requirement that the defendant's products bearing the infringing marks make their way back into the United States. See *Paco Rabanne, Etc. v. Norco Enterprises, Inc.*, 2 Cir. 1982, 680 F.2d 891; *Hecker H—O Co. v. Holland Food Corp.*, 2 Cir. 1929, 36 F.2d 767.

Riceland argues that even if its sales adversely affected commerce, the district court should have refrained from issuing an injunction because its acts were lawful in Saudi Arabia. The mark Bint al-Arab was created and is owned in that country by the merchant Alamoudi. It has been in use since 1978 for rice, when Riceland became a private label supplier to Alamoudi, and since 1977 for cooking oil. Under the Saudi Arabian Trade Marks Registration Code, any individual who uses a mark for more than a year before its registration by anyone else has at least a concurrent right to use that mark. Because ARI's Abu Bint mark is as yet unregistered in Saudi Arabia, the defendant points out, and because Alamoudi used the Bint al-Arab mark for more than one year, Alamoudi has a vested right to use the mark, and through him, Riceland. The district court's decision to enjoin the defendant's use of the infringing marks, therefore, interferes with the laws of another nation and runs contrary to the principles of international comity.

We cannot accept the defendant's contention. At best, Riceland has shown that Alamoudi, not it, has a concurrent right to use the Bint al-Arab mark. According to the defendant's own translation of the Saudi Arabian Trade Marks Registration Code, any right which Alamoudi may have acquired is "personal, non-inheritable and non-

transferable to third parties”.¹⁰ Even were we to accept Riceland’s contention that it possesses a concurrent right to use the mark, that right is not superior, as *Luft* requires, to the plaintiff’s right. See *Luft*, 142 F.2d at 541. The defendant has not established, over the plaintiff’s opposition, a legal right of use in Saudi Arabia. ARI has sought a Saudi registration for its Abu Bint mark since 1972, and the application is currently before that country’s courts. Absent a determination by a Saudi court that Riceland has a legal right to use its marks, and that those marks do not infringe ARI’s Abu Bint mark, we are unable to conclude that it would be an affront to Saudi sovereignty or law if we affirm the district court’s injunction prohibiting the defendant from injuring the plaintiff’s Saudi Arabian commerce conducted from the United States.

Riceland’s reliance on *Vanity Fair Mills, Inc. v. T. Eaton Co.*, 2 Cir. 1956. 234 F.2d 633, is misplaced. There the defendant, a Canadian corporation, registered in 1915 the trademark “Vanity Fair” in Canada. The plaintiffs, holders of the same trademark in the United States since 1914, and doing business under that name in Canada since 1917, attempted to register the mark in Canada in 1919. The application was rejected, however, because of the defendant’s prior registration. In 1954, the plaintiffs brought suit in New York to enjoin the Canadian use of the name. The only contact the defendant had with the United States was a sales office in New York, and except for a few mail order sales into the United States through this office, the passing off occurred in Canada. “The crucial issue in the case was the validity of the defendant’s Canadian trademark registration under Canadian trademark law”. 234 F.2d at 646. Although the defendant’s conduct had a substantial effect on American commerce, the Court found *Bulova* distinguishable and held that Congress did not intend that the Lanham Act reach “acts committed by a foreign national in his home country under a presumably valid trademark registration in that country”. 234 F.2d at 642. In refusing to determine the validity of the Canadian registration, the court followed the act of state doctrine, applicable when exclusive rights are conferred by the act of a foreign sovereign, the ramifications of which we may avoid. Here, unlike in *Vanity Fair*, the defendant possesses no superior foreign right to use the trademarks in question. And here, unlike in *Vanity Fair*, the defendant is an American corporation. “No principle of international law bars the United States from governing the conduct of its own citizens upon the high seas or even in foreign countries when the rights of other nations are not infringed. Congress has the power to prevent unfair trade practices in foreign commerce by citizens of the United States, although some of the acts are done outside the territorial limits.” *Scotch Whisky Association v. Barton Distilling Co.*, 7 Cir. 1973, 489 F.2d 809, 812. See also Kerios, *Territoriality and International Copyright Infringement Actions*, Copyright Law Symposium No. 22, at 53, 65 (1977).

10. Chapter 2, Paragraph 19 of the Saudi Trade Marks Code provides as follows:

Anyone whose trade mark is registered shall be deemed to be its sole owner, and the right of calling the ownership of such a trade mark into question shall abate if the person who registers the said trade mark uses it continually for at least five years as of the date of registration, provided that no proper legal action is brought against such person in regard to such registration. *However, if anyone proves that he has the said trademark and utilized it, continually for one year prior to registration, before anybody else, then he shall acquire the right to take hold of such a trademark, and such right shall be personal, non-inheritable and non-transferable to third parties.* (emphasis added.)

QUESTIONS

1. Under what principle of patent law would Deepsouth have been liable if it had completed manufacture of the machines in the United States? What if it had sold them to someone who used them in the United States?

2. Assume that Laitram, which has a U.S. monopoly and invented the machine, charges a significantly higher price for U.S. sales of its machine than does Deepsouth for foreign sales. As a result, foreign shrimp fishers and packers may be able to underprice domestic ones. Any relief for the U.S. firms? For Laitram, which may be forced to lower its prices in the United States (where it has patent protection) as well as abroad (where it does not have patent protection)?

3. Suppose the patent in *Deepsouth* were on the method rather than on the machine itself. Could Deepsouth have assembled the machines in the United States without infringing the patent, (as long as it didn't test them)? For an affirmative answer in such a situation, see *John Mohr & Sons v. Vacudyne*, 354 F. Supp. 1113 (N.D. Ill. 1973).

4. Are *Wells Fargo* and *Deepsouth* consistent? *American Rice* and *Deepsouth*?

5. To the extent these cases differ, how might you explain those differences? Specific factors? A patent versus trademark distinction?

6. In *Bulova*, discussed in both *Wells Fargo* and *American Rice*, why did Bulova brave the jurisdictional questions of that case rather than pursue its right (to be examined later in this chapter) to have imports of the watches stopped at the border?

7. Is *Wells Fargo* fair in its interpretation of *Timberlane*? Of *Bulova*?

8. Is it wise to extend the jurisdictional flexibility of *Timberlane* to this area?

9. In both *Wells Fargo* and *American Rice*, the U.S. court appeared ready to contradict a foreign decision on a trademark question in the foreign nation. Is this wise? Unavoidable? What would you do if you represented a firm that appeared about to be caught in the middle of inconsistent decrees? In *Wells Fargo*, the Ninth Circuit declined to employ the "substantial" effects test adopted by the Second Circuit, opting for the more expansive "some" effects test, *Wells Fargo*, 556 F.2d at 428, which was expressly rejected by the Second Circuit. See *King v. Allied Vision, Ltd.*, 807 F.Supp. 300 (S.D.N.Y.), *aff'd in part, rev'd in part*, 976 F.2d 824 (2d Cir.1992) (finding appeal of extraterritorial injunction "without merit"); *Aerogroup International, Inc. v. Marlboro Footworks, Ltd.*, 955 F.Supp. 220, 227-228 & nn.11-12 (S.D.N.Y. 1997) (criticizing *Wells Fargo* and *American Rice*). See also *Nintendo of Am., Inc. v. Aeropower Co., Ltd.*, 34 F.3d 246, 251 (4th Cir.1994) (vacating injunction against foreign defendant's conduct abroad that had a significant impact on United States commerce for failure to consider, *inter alia*, the defendant's citizenship).

10. *Deepsouth* no longer reflects the applicable statutory law, as a result of 1988 amendments to U.S. patent law. According to *Bayer AG v. Housey Pharmaceuticals, Inc.*, 340 F.3d 1367, 1373-1376 (Fed. Cir. 2003):

[35 U.S.C.] Section 271(g) was not enacted on an entirely blank slate. Rather, it was designed to provide new remedies to supplement existing remedies available from the International Trade Commission ("ITC") under 19 U.S.C. § 1337 (2000). See H.R. Rep. No. 100-60 at 8-9. Section 1337 (Section 337 of the Tariff Act of 1930) defines "[u]nfair methods of competition" in import trade. 19 U.S.C. § 1337(a)(1)(A) (2000). One of these statutory "unfair methods of competition" is the "[t]he importation into the United States, the sale for importation, or the sale within the United States after importation by the owner, importer, or consignee, of articles that ... are made, produced, processed, or mined under,

or by means of, a process covered by the claims of a valid and enforceable United States patent." 19 U.S.C. § 1337(a)(1)(B); *see also* 19 U.S.C. § 1337(a)(1)(A) (referring to "unfair acts in the importation of articles"). When enacting § 271(g), Congress recognized the availability of redress from the ITC, but noted that the remedies available thereunder were insufficient to fully protect the owners of process patents. H.R.Rep. No. 100-60 at 8-9. Thus, the legislative history suggests that section 271(g) was intended to address the same "articles" as were addressed by section 1337, but to add additional rights against importers of such "articles." . . .

[A] provision similar to section 271(g) as enacted was proposed as part of an earlier bill in both the House of Representatives and the Senate in 1983. H.R. 4526, 98th Cong. § 1 (1983); S. 1535, 98th Cong. § 1 (1983). Two new acts of infringement were to be created by the proposed legislation: 1) infringement by importation, sale, or use "of a product made in another country by a process patented in the United States" (the precursor to section 271(g)); and 2) infringement by supplying "the material components of a patented invention ... intending that such components will be combined outside the United States" (the provision that became section 271(f)). *Id.* The second new act of infringement was a response to the Supreme Court's decision in *Deepsouth Packing Co. v. Laitram Corp.*, 406 U.S. 518 (1972), which held that the intentional exportation of components to be combined into a patented article was not an act of infringement. 130 Cong. Rec. 28,069 (1984). Together, the two new statutory acts of infringement were intended "to avoid encouraging *manufacturing* outside the United States."¹⁰ *Id.* (emphasis added.)

A subsequent bill in the following year again proposed a precursor of section 271(g): "[i]f the patent invention is a process, whoever without authority uses or sells within, or imports into, the United States during the term of the patent therefor a product produced by such process infringes the patent." S.Rep. No. 98-663 at 30 (1984) (discussing S. 1535, 98th Cong. § 2 (1984)). According to the Senate Report, a principal aim of S. 1535 was "[t]o declare it to be patent infringement to import into, or to use or sell in the United States, a product *manufactured by a patented process.*" *Id.* at 1 (emphasis added).

Again in 1986, language was proposed substantially similar to section 271(g) as it now exists. H.R.Rep. No. 99-807, at 1-2 (1986). The House report reasoned that:

The failure of American patent law to make unlawful the *importation of goods made using an American process patent* has deep historical roots. American patent law—like the law of other nations—does not have an extraterritorial effect.... With respect to process patents, courts have reasoned that the only act of infringement is the act of making through the use of a patented process; therefore, there can be no infringement if that act occurs outside the United States. Although the courts are correctly construing current law, this rationale is inadequate public policy because it ignores the reality that the offending act is the importation of a product made through the use of a protected process patent or its subsequent sale within the United States.

Id. at 5 (emphasis added). Here, the report equates products with physical "goods."

A 1987 Senate report on substantially identical legislation also supports limiting the statute to manufactured tangible products. According to the report "[t]he primary target of the U.S. process patentholder will naturally be *the manufacturer, who is practicing the process and importing the resulting goods into the United States.*" S.Rep. No. 100-83, at 39 (1987) (emphasis added). In discussing potential infringers, the report stated that "three types of infringers" were envisioned:

(1) *[t]he manufacturer ...* (2) *[a]n infringing importer, user or seller who had knowledge before the infringement that a patented process was used by the manufacturer to make the product ...*

¹⁰ The precursor language to section 271(g) was subsequently deleted from the Senate version of the legislation so that issues regarding its scope could be addressed. 130 Cong. Rec. 31,834 (statement of Sen. Mathias). The remaining sections of the bill became the Patent Law Amendments Act of 1984, Pub.L. No. 98-622, 98 Stat. 3833.

(3)[a]n innocent (i.e.unknowing) infringing retailer or importer, user or seller who does not himself use the process, [and] is entitled to take advantage of the limitations on damages and other remedies available.

Id. at 40 (emphasis added). The "manufacturer" was referred to as the "preferred defendant because of its direct knowledge of the process." *Id.* at 39. The proposed statute also permitted suit against "the persons receiving the goods in this country in the belief that they may be in the best position, apart from the manufacturer, to determine *how the goods were made.*" *Id.* (emphasis added). Here again, there is no indication of any intent to reach products other than tangible products produced by manufacturing processes.

Housey urges that section 271(g) was enacted "to provide protection to process patent owners which is *meaningful and not easily evaded.*" . . . However, this broadly stated purpose hardly suggests that the statute covers information. A similar statement was made earlier in the report as follows:

The purpose of this bill is to provide meaningful protection to owners of patented processes. Under current patent law, owners of such patents have remedies for unauthorized use of the process only if the process was used in the United States. As a consequence, while a *domestic manufacturer* using the patented process would infringe the process patent, a *foreign manufacturer* who imports the product would not.

H.R.Rep. No. 100-60 at 3. This passage clearly reflects concern over competition between domestic and foreign *manufacturers*. The report further provides:

The value of new manufacturing techniques is reflected in the resulting new products. A new process may enhance the quality of the product produced, or the new process may permit the product to be made much more economically. In some cases, for example biotechnology, the new process may be the only method of producing a new product. In all of these instances, the advantage to the process patent owner is realized by suing or selling the product, or licensing others to do so. As a consequence, the unfettered ability of others to import, sell or use a product made by the patented process, severely diminishes the value of a U.S. process patent.

Id. Thus, Congress was concerned with tangible products and not mere information. Here again, "process patent" was interpreted as synonymous with "manufacturing technique."

B. THE TREATY STRUCTURE

There is an international treaty structure designed to tie together the rights to territorial intellectual property protection. The key provision, found in a host of treaties for different kinds of intellectual property, is that nationals of each treaty party are guaranteed the right to apply for protection in any nation as if they were nationals of that nation. This provision is supplemented by minimum standards for the particular type of intellectual property involved.

This treaty structure makes it possible for a firm to obtain coverage in a number of different nations—but the firm must, in general, apply separately in each nation. The global structure has proceeded only a little beyond this point. The Paris Convention for the Protection of Intellectual Property gives an inventor a defined period to file in a series of nations without having its first filings count as publication that would, under some nations' laws, disqualify the invention from patentability. And the Patent Cooperation Treaty of 1970 (28 U.S.T. 7645, T.I.A.S. No. 8733), implemented in the United States by Pub. L. No. 94-131 (codified at 35 U.S.C. §§ 351-376) is beginning to

move toward ways to avoid having to repeat the search of prior inventions from nation to nation. Moreover, Europe is moving toward greater unity. Even there, however, when one obtains a “European patent,” available with a single application, what is received is in essence a bundle of national patents, for the nations were unable to agree upon a precise common alignment of the content to be given the patent right. *See* Beier, *The European Patent System*, 14 VAND. J. TRANSNAT’L L. 1 (1981).

The following materials provide excerpts from the Paris Convention, one of the international treaties, and from *Vanity Fair*, which interprets that convention.

PARIS CONVENTION FOR THE PROTECTION OF INDUSTRIAL PROPERTY OF MARCH 20, 1883 [PARIS UNION]

As revised at Stockholm on July 14, 1967, T.I.A.S. No. 6923 (1970)

Article 1 [Establishment of the Union; Scope of Industrial Property]

(1) The countries to which this Convention applies constitute a Union for the protection of industrial property.

(2) The protection of industrial property has as its object patents, utility models, industrial designs, trademarks, service marks, trade names, indications of source or appellations of origin, and the repression of unfair competition.

(3) Industrial property shall be understood in the broadest sense and shall apply not only to industry and commerce proper, but likewise to agricultural and extractive industries and to all manufactured or natural products, for example, wines, grain, tobacco leaf, fruit, cattle, minerals, mineral waters, beer, flowers, and flour.

(4) Patents shall include the various kinds of industrial patents recognized by the laws of the countries of the Union, such as patents of importation, patents of improvement, patents and certificates of addition, etc.

Article 2 [National Treatment for Nationals of Countries of the Union]

(1) Nationals of any country of the Union shall, as regards the protection of industrial property, enjoy in all the other countries of the Union the advantages that their respective laws now grant, or may hereafter grant, to nationals; all without prejudice to the rights specially provided for by this Convention. Consequently, they shall have the same protection as the latter, and the same legal remedy against any infringement of their rights, provided that the conditions and formalities imposed upon nationals are complied with. . . .

Article 3 [Same Treatment for Certain Categories of Persons as for Nationals of Countries of the Union]

Nationals of countries outside the Union who are domiciled or who have real and effective industrial or commercial establishments in the territory of one of the countries of the Union shall be treated in the same manner as nationals of the countries of the Union.

Article 4 [A to I. Patents, Utility Models, Industrial Designs, Marks, Inventors’ Certificates, Right of Priority; G. Patents: Division of the Application]

A. (1) Any person who has duly filed an application for a patent, or for the registration of a utility model, or of an industrial design, or of a trademark, in one of the countries of the Union, or his successor in title, shall enjoy, for the purpose of filing in the other

countries, a right of priority during the periods hereinafter fixed.

(2) Any filing that is equivalent to a regular national filing under the domestic legislation of any country of the Union or under bilateral or multilateral treaties concluded between countries of the Union shall be recognized as giving rise to the right of priority.

(3) By a regular national filing is meant any filing that is adequate to establish the date on which the application was filed in the country concerned, whatever may be the subsequent fate of the application.

B. Consequently, any subsequent filing in any of the other countries of the Union before the expiration of the periods referred to above shall not be invalidated by reason of any acts accomplished in the interval, in particular, another filing, the publication or exploitation of the invention, the putting on sale of copies of the design, or the use of the mark, and such acts cannot give rise to any third-party right or any right of personal possession. Rights acquired by third parties before the date of the first application that serves as the basis for the right of priority are reserved in accordance with the domestic legislation of each country of the Union.

C. (1) The periods of priority referred to above shall be twelve months for patents and utility models, and six months for industrial designs and trademarks.

(2) These periods shall start from the date of filing of the first application; the day of filing shall not be included in the period.

(3) If the last day of the period is an official holiday, or a day when the Office is not open for the filing of applications in the country where protection is claimed, the period shall be extended until the first following working day.

Article 4^{bis} [Patents: Independence of Patents Obtained for the Same Invention in Different Countries]

(1) Patents applied for in the various countries of the Union by nationals of countries of the Union shall be independent of patents obtained for the same invention in other countries, whether members of the Union or not.

(2) The foregoing provision is to be understood in an unrestricted sense, in particular, in the sense that patents applied for during the period of priority are independent, both as regards the grounds for nullity and forfeiture, and as regards their normal duration.

(3) The provision shall apply to all patents existing at the time when it comes into effect.

(4) Similarly, it shall apply, in the case of the accession of new countries, to patents in existence on either side at the time of accession.

(5) Patents obtained with the benefit of priority shall, in the various countries of the Union, have a duration equal to that which they would have, had they been applied for or granted without the benefit of priority.

Article 4^{quater} [Patents: Patentability in Case of Restrictions of Sale by Law]

The grant of a patent shall not be refused and a patent shall not be invalidated on the ground that the sale of the patented product or of a product obtained by means of a patented process is subject to restrictions or limitations resulting from the domestic law.

Article 5 [A. Patents: Importation of Articles; Failure to Work or Insufficient Working; Compulsory Licenses; B. Industrial Designer Failure to Work; Importation of Articles; C. Marks: Failure to Use; Different Forms; Use by Co-proprietors; D. Patent; Utility Models, Marks, Industrial Designs: Marking]

A. (1) Importation by the patentee into the country where the patent has been granted of articles manufactured in any of the countries of the Union shall not entail forfeiture of the patent.

(2) Each country of the Union shall have the right to take legislative measures providing for the grant of compulsory licenses to prevent the abuses which might result from the exercise of the exclusive rights conferred by the patent, for example, failure to work.

(3) Forfeiture of the patent shall not be provided for except in cases where the grant of compulsory licenses would not have been sufficient to prevent the said abuses. No proceedings for the forfeiture or revocation of a patent may be instituted before the expiration of two years from the grant of the first compulsory license.

(4) A compulsory license may not be applied for on the ground of failure to work or insufficient working before the expiration of a period of four years from the date of filing of the patent application or three years from the date of the grant of the patent, whichever period expires last; it shall be refused if the patentee justifies his inaction by legitimate reasons. Such a compulsory license shall be non-exclusive and shall not be transferable, even in the form of the grant of a sub-license, except with that part of the enterprise or goodwill which exploits such license.

Article 5^{quater} [Patents: Importation of Products Manufactured by a Process Patented in the Importing Country]

When a product is imported into a country of the Union where there exists a patent protecting a process of manufacture of the said product, the patentee shall have all the rights, with regard to the imported product, that are accorded to him by the legislation of the country of importation, on the basis of the process patent, with respect to products manufactured in that country.

Article 9 [Marks, Trade Names: Seizure, on Importation, etc., of Goods Unlawfully Bearing a Mark or Trade Name]

(1) All goods unlawfully bearing a trademark or trade name shall be seized on importation into those countries of the Union where such mark or trade name is entitled to legal protection.

(2) Seizure shall likewise be effected in the country where the unlawful affixation occurred or in the country into which the goods were imported.

(3) Seizure shall take place at the request of the public prosecutor, or any other competent authority, or any interested party, whether a natural person or a legal entity, in conformity with the domestic legislation of each country.

(4) The authorities shall not be bound to effect seizure of goods in transit.

(5) If the legislation of a country does not permit seizure on importation, seizure shall be replaced by prohibition of importation or by seizure inside the country.

(6) If the legislation of a country permits neither seizure on importation nor prohibition of importation nor seizure inside the country, then, until such time as the legislation is modified accordingly, these measures shall be replaced by the actions and remedies available in such cases to nationals under the law of such country.

Article 10^{bis} [Unfair Competition]

(1) The countries of the Union are bound to assure to nationals of such countries effective protection against unfair competition.

(2) Any act of competition contrary to honest practices in industrial or commercial

matters constitutes an act of unfair competition.

(3) The following in particular shall be prohibited:

1. all acts of such a nature as to create confusion by any means whatever with the establishment, the goods, or the industrial or commercial activities, of a competitor;
2. false allegations in the course of trade of such a nature as to discredit the establishment, the goods, or the industrial or commercial activities, of a competitor;
3. indications or allegations the use of which in the course of trade is liable to mislead the public as to the nature, the manufacturing process, the characteristics, the suitability for their purpose, or the quantity, of die goods.

VANITY FAIR MILLS, INC. v. T. EATON CO.
234 F.2d 633 (2d Cir. 1956), *cert. denied* 352 U.S. 871

WATERMAN, J. . . .

Plaintiff, Vanity Fair Mills, Inc., is a Pennsylvania corporation, having its principal place of business at Reading, Pennsylvania. It has been engaged in the manufacture and sale of women's underwear under the trade-mark "Vanity Fair" since about the year 1914 in the United States, and has been continuously offering its branded merchandise for sale in Canada since at least 1917. Plaintiff has publicized its trade-mark "Vanity Fair" on feminine underwear in the United States since 1914, and since 1917 has regularly expended large sums of money in advertising and promoting its trade-mark both in the United States and Canada. As a result of the high quality of plaintiff's merchandise, and its extensive sales promotion and advertising, the name "Vanity Fair" has become associated throughout the United States and Canada with plaintiff's products.

Beginning in 1914 plaintiff has protected its trade-mark rights by registrations with the United States Patent Office of the trade-mark "Vanity Fair" as applying to various types of underwear. It has been continuously manufacturing and selling feminine underwear under these trade-mark registrations since about the year 1914.

Defendant, The T. Eaton Company, Limited, is a Canadian corporation engaged in the retail merchandising business throughout Canada, with its principal office in Toronto, Ontario. It has a regular and established place of business within the Southern District of New York. On November 3, 1915, defendant filed with the proper Canadian official an application for the registration in Canada of the trade-mark "Vanity Fair," claiming use in connection with the sale of "Women's, Misses' and Children's Coats, Suits, Cloaks, Waists, Dresses, Skirts, Corsets, Knitted Goods, Gloves, Hosiery, Boots & Shoes, Outer Garments, and other Wearing Apparel." On November 10, 1915, the proper Canadian official granted defendant's application for the registration of that mark. Plaintiff asserts that this registration applies only to feminine outerwear, and that in any event it is merely a "paper registration" because of non-use. In 1919 plaintiff sought to register the trade-mark "Vanity Fair" in Canada for "ready made underwear," but its application was rejected as a matter of course because of the prior registration of defendant. In 1933 defendant, in reply to a request of the Canadian Registrar of Trade-Marks, listed "women's underwear, corsets, girdles and other foundation garments" as the goods in connection with which it had actually been using the mark "Vanity Fair," and its registration was modified accordingly. Plaintiff alleges that defendant, by this informal procedure, amended its trade-mark registration in Canada to include, for the first time, feminine underwear.

During the years 1945-1953 the defendant ceased to use its own “VanityFair” trade-mark, purchased branded merchandise from the plaintiff, and sold this merchandise under advertisements indicating that it was of United States origin and of plaintiff’s manufacture. These purchases by defendant from plaintiff were made through defendant’s New York office. In 1953 defendant resumed the use of its own trade-mark “Vanity Fair” and, simultaneously, under the same trade-mark, sold plaintiff’s branded merchandise and cheaper merchandise of Canadian manufacture. Defendant at this time objected to plaintiff’s sales of its branded merchandise to one of defendant’s principal competitors in Canada, the Robed Simpson Company. The Simpson Company discontinued purchases of plaintiff’s branded merchandise after being threatened with infringement suits by defendant.

Plaintiff alleges that these acts constitute a conspiracy on the part of the corporate defendant and its officers and agents to appropriate for their own benefit plaintiff’s registered and common-law trade-mark. It asserts that defendant, by purchasing plaintiff’s branded merchandise for a period of years and advertising and selling such merchandise as plaintiff’s goods, attempted to associate plaintiff’s trade-mark with itself, and, that purpose having been accomplished, defendant then began using the trade-mark “Vanity Fair” in connection with its own inferior feminine underwear, discontinued purchases from plaintiff, and threatened its competitors in Canada with infringement suits if they continued to sell plaintiff’s branded merchandise in Canada.

Finally, plaintiff asserts that defendant has advertised feminine underwear in the United States under the trade-mark “Vanity Fair,” and that it has sold such underwear by mail to customers residing in the United States.

The complaint seeks injunctive relief against the use by defendant of the trade-mark “Vanity Fair” in connection with women’s underwear both in Canada and the United States, a declaration of the superior rights of the plaintiff in such trade-mark, and an accounting for damages and profits. . . .

I. The International Convention

Plaintiff asserts that the International Convention for the Protection of Industrial Property (Paris Union), 53 Stat. 1748 (1883, as revised 1934), T.S. No. 941, to which both the United States and Canada are parties, is self-executing; that by virtue of Article VI of the Constitution it is a part of the law of this country which is to be enforced by its courts; and that the Convention has created rights available to plaintiff which protect it against trade-mark infringement and unfair competition in foreign countries. Plaintiff would appear to be correct in arguing that no special legislation in the United States was necessary to make the International Convention effective here, but it erroneously maintains that the Convention created private rights *under American law* for acts of unfair competition occurring in foreign countries.

The International Convention is essentially a compact between the various member countries to accord in their own countries to citizens of the other contracting parties trade-mark and other rights comparable to those accorded their own citizens by their domestic law. The underlying principle is that foreign nationals should be given the same treatment in each of the member countries as that country makes available to its own citizens. In addition, the Convention sought to create uniformity in certain respects by obligating each member nation “to assure to nationals of countries of the Union an effective protection against unfair competition.”^a

a. Paris Convention for the Protection of Intellectual Property, Article 10^{bis}. – Eds.

The Convention is not premised upon the idea that the trade-mark and related laws of each member nation shall be given extraterritorial application, but on exactly the converse principle that each nation's law shall have only territorial application. Thus a foreign national of a member nation using his trade-mark in commerce in the United States is accorded extensive protection here against infringement and other types of unfair competition by virtue of United States membership in the Convention. But that protection has its source in, and is subject to the limitations of, American law, not the law of the foreign national's own country. Likewise, the International Convention provides protection to a United States trade-mark owner such as plaintiff against unfair competition and trade-mark infringement in Canada—but only to the extent that Canadian law recognizes the treaty obligation as creating private rights or has made the Convention operative by implementing legislation. Under Canadian law, unlike United States law, the International Convention was not effective to create any private rights in Canada without legislative implementation. However, the obligations undertaken by the Dominion of Canada under this treaty have been implemented by legislation, most recently by the Canadian Trade Marks Act of 1953, 1-2 Elizabeth II, Chapter 49. If plaintiff has any rights under the International Convention (other than through §44 of the Lanham Act, discussed below), they are derived from this Canadian law, and not from the fact that the International Convention may be a self-executing treaty which is a part of the law of this country. [Discussion of those Lanham Act extraterritorial application of trademark issues described in *Wells Fargo* and *American Rice* omitted here.]

B. Section 44 of the Lanham Act

Plaintiff's alternative contention is that §44 of the Lanham Act, which is entitled "International Conventions," affords to United States citizens all possible remedies against unfair competition by foreigners who are nationals of convention countries, including the relief requested in this case. Subsection (b) of §44 specifies that nationals of foreign countries signatory to certain named conventions (including the Paris Union signed by Canada) are "entitled to the benefits . . . [of the Act] to the extent . . . essential to give effect to [the Conventions]." Subsection (g) then provides that the trade names of persons described in subsection (b), *i.e.*, nationals of foreign countries which have signed the conventions, "shall be protected without the obligation of filing or registration whether or not they form parts of marks", and subsection (h) provides that the same persons "shall be entitled to effective protection against unfair competition. . . ." Finally, subsection (i) provides that "citizens or residents of the United States shall have the same benefits as are granted by this section to persons described in subsection (b). . . ." Thus §44 first implements the international agreements by providing certain foreign nationals with the benefits contained in those agreements, then, in subsection (i), places American citizens on an equal footing by providing them with the same benefits. . . . [The court reviewed the specific benefits provided by §44.] It will be noted that all of these benefits are internal to the United States in the sense that they confer on foreign nationals certain rights in the United States. None of them could have extraterritorial application, for all of them relate solely to the registration and protection of marks within the United States.

We now come to the two remaining benefits specified in §44, and the ones upon which plaintiff relies: the provision in subsection (g) protecting trade-names without the obligation of filing or registration, and the provision in subsection (h) entitling eligible foreign nationals "to effective protection against unfair competition" and making available "the remedies provided in this chapter for infringement of marks ... so far as

they may be appropriate in repressing acts of unfair competition.” Here again, we think that these benefits are limited in application to within the United States. It is true that they are not expressly so limited, but it seems inconceivable that Congress meant by this language to extend to all eligible foreign nationals a remedy *in the United States against unfair competition occurring in their own countries*. Moreover, if §44 were so interpreted, it would apply to commerce which is beyond the Congressional power to regulate, and a serious constitutional question would be created. In the absence of any Congressional intent to provide remedies of such extensive application, we interpret §44 in a manner which avoids constitutional questions and which carries out the underlying principle of the International Conventions sought to be implemented by §44—the principle that each nation shall apply its national law equally to foreigners and citizens alike. Since United States citizens are given by subsection (1) of § 44 only the same benefits which the Act extends to eligible foreign nationals, and since the benefits conferred on those foreign nationals have no extraterritorial application, the benefits accorded to citizens by this section can likewise have no extraterritorial application.

NOTES AND QUESTIONS

1. Is *Vanity Fair*'s interpretation of the convention and its implementation correct? The position may be changing. In *London Film Productions v. Intercontinental Communications*, 580 F. Supp. 47 (S.D.N.Y. 1984), alleged infringement in Chile of British copyright was held triable in New York. *But see C-Cure Chemical Co. v. Secure Adhesives*, 571 F. Supp. 808 (W.D.N.Y. 1983), following *Vanity Fair*. The Second Circuit has more recently made it clear that *Vanity Fair* should not be applied mechanically. *Sterling Drug, Inc. v. Bayer AG*, 14 F.3d 733 (2d Cir.1994) (declining to apply mechanically *Vanity Fair* to preclude extraterritorial application of Lanham Act to extent that foreign use of a trademark has "significant trade-mark impairing effects on United States commerce").

2. Why didn't *Vanity Fair* bring its lawsuit in Canada?

3. Suppose a trademark "pirate" goes to a foreign nation and registers a trademark before the "legitimate" holder goes to the trouble of filing. Later, when the legitimate holder seeks to develop that market, it finds itself faced with a suit for infringement, which, can, of course, be settled for a price. What recourse does it have?

4. What if the situation posed by question 3 were to occur in the United States, to the detriment of a foreign legitimate trademark holder? You probably want to begin with 15 U.S.C. §§ 1052(d), 1091 and 1126; and with *Toho Co. v. Sears, Roebuck*, 645 F.2d 788 (9th Cir. 1981).

5. What changes are required for the law to be able to work reasonably in the situation described in questions 3 and 4?

6. How might the law handle the more innocent situation—which has happened—in which two firms, starting in different nations, use trademarks that can be easily confused with each other and expand their marketing areas until, all of a sudden, a problem arises? See *Pioneer Hi-Bred Corn v. Hy-Line Chicks*, [1978] 2 N.Z.L.R., 50.

7. What if you cannot be sure whether a situation is piracy or innocent confusion?

C. IMPORT RESTRICTIONS

For a major invention, an inventor (often through his or her employer) applies for parallel patents in several different jurisdictions. The inventor may then transfer a license—the right to practice the monopoly in a particular nation—to another firm or to one of its affiliates or subsidiaries. This license may be exclusive (the only one granted) or nonexclusive (one of several that are or may be granted) and it may be royalty-free or for a stated royalty.

1. Patented or Trademarked Products

The following case presents an example of this pattern, and develops its implication—that the holder of the patent in one jurisdiction can use that patent to exclude goods from another jurisdiction, even though they were made legitimately in that jurisdiction.

GRIFFIN v. KEYSTONE MUSHROOM FARM, INC.
453 F. Supp. 1283 (E.D. Pa. 1978)

LORD, J.

Plaintiff in this patent infringement suit is the holder of United States Patents Nos. 3,386,705 and 3,791,593 for a composting machine and certain parts of composting machinery, respectively. Defendant, which has counterclaimed for declaratory judgment with regard to the patent suit and for breach of contract, now moves for partial summary judgment on the infringement claims and on its counterclaim for declaratory judgment of non-infringement. Accepting as the factual record the account of events presented by the defendant in its affidavits and exhibits, we find the defense to infringement deficient as a matter of law and will deny the motion.

The plaintiff holds patents for these inventions in Italy as well as in the United States. He had granted before 1975 an exclusive license to Longwood Manufacturing Corporation to make, use and sell the patented composting machine in the United States, and he granted on July 28, 1975, an exclusive license to Celeste Carminati to practice in Italy and in other European Economic Community nations the art patented under the laws of Italy. The defendant's president purchased a composting machine from Carminati, *fo.b. Genoa*, in late 1975, and the defendant purchased two more machines from Carminati in 1976, *fo.b. Genoa*. The defendant, a mushroom grower and supplier of equipment and materials to mushroom farmers in Pennsylvania, has used the first-purchased of these composters in its own business and has sold the other two. Infringement of the United States patent is alleged on the basis of the use and sale of these three machines.

Defendant concedes for purposes of this motion that the United States patents in suit are valid and enforceable, that the three machines embody the patented inventions and that the plaintiff had granted an exclusive licensing agreement for practicing them in this country. It has advanced two legal grounds for this motion, both of which rely on its purchase of the machines in Italy from Carminati to defeat the plaintiff's infringement action.

The defendant's first contention is that its purchase of the machines from Carminati,

who was authorized under Italian law to sell them, released these articles from the patent monopoly. In support of this argument the defendant relies on the clear and indisputable proposition that “upon familiar principles the authorized sale of an article which is capable of use only in practicing the patent is a relinquishment of the patent monopoly with respect to the article sold” *United States v. Univis Lens Co.*, 316 U.S. 241, 249 (1942). . . .

We find this case to be controlled by the decision in *Boesch v. Graft*, 133 U.S. 697 (1890). There Graft who held patents relating to lamp burners both in this country and in Germany, sued the defendant Boesch for infringement of the United States patent by selling infringing burners in the United States. Boesch defended on the ground that he had bought at least some of the burners in Germany from one Hecht before importing them into the United States, The Supreme Court acknowledged that Hecht was authorized to make and sell these burners in Germany because he had made preparations for manufacturing them before Graft applied for the patent and because the Imperial Patent Law of Germany at that time permitted persons who had already used or prepared to use an invention at the time application for a patent for that invention was made to continue to practice the patented art notwithstanding the granting of the patent. Boesch contended that Hecht’s authorization freed the burners manufactured by him from the patent monopoly and that he therefore purchased them free of that monopoly. The Court deemed Hecht’s authorization under German law immaterial and concluded that the right granted him thereunder could not authorize “purchasers from him . . . to sell the articles in the United States in defiance of the rights of patentees under a United States patent.” *Id.* at 703.

Defendant seeks to distinguish *Boesch* by limiting the scope of its authority to its precise facts, *i.e.*, Hecht’s permission to manufacture as a pre-patent application producer, which status does not exist under the United States patent laws. The defendant concedes that the Supreme Court’s decision was correct in deciding against one whose right did not come from a patentee, as it must in this country, but it asserts that the *Boesch* rationale does not extend to this case because it obtained its authority to practice the patented art from Carminati, who was a licensee under the Italian patent.

This distinction between the ways in which Hecht and Carminati became authorized to practice the patent art is untenable under the *Boesch* opinion because the Court considered the question before it to be:

. . . whether a dealer residing in the United States can purchase in another country articles patented there, from a person authorized to sell them, and import them to and sell them in the United States, without the license or consent of the owners of the United States patent.

Id. at 702. The source of the alleged infringer’s authorization under foreign law thus was without significance in the Court’s reasoning. Accordingly, the Second Circuit concluded in a somewhat more recent case that a “sale by a German patentee of a patented article may take it out of the monopoly’ of the German patent” but could not protect the defendant from an allegation of infringement by use in the United States. *Daimler Manufacturing Co. v. Conklin*, 170 F. 70, 72 (2d Cir. 1909). *cert. denied*, 216 U.S. 621 (1910).

The second string to defendant’s bow in this motion is that the “special facts” of this case take it out of the general rule of *Boesch*. The heart of this argument is that the plaintiff owned concurrent United States and Italian patents and had entered into

analogous licensing agreements concerning the same inventions, and that holding the sale and use of the three imported composting machines at issue to infringe the United States patents in this case would give plaintiff a windfall “double recovery.”

The “double recovery” theory advanced by the defendant fails principally in that it misconceives the underlying theory of patent infringement under the United States patent laws. The conceptual basis of that system is that the patentee has a certain bundle of rights—*i.e.*, to exclude others from making, using or selling the patented invention, and to control at the first stage the exceptions to that exclusion by the granting of licenses. Infringement of that right “is essentially a tort” against the patentee. . . . The sale or use of each machine in both countries represents potentially two separate torts against the plaintiff and infringes potentially on two separate sets of rights held by him (assuming the conceptual underpinnings of the Italian patent law to conform to those of our own). The non-tortiousness of defendant’s conduct in Italy cannot enter into an adjudication of the plaintiff’s rights in this country. That the plaintiff has been or can be compensated by Carminati, thereby making the sale and defendant’s acts in Italy non-tortious, therefore cannot compromise his discrete right to exclusive practice of the patented art in the United States.

The defendant further argues that judgment for the plaintiff would unjustly enrich him by allowing recovery of two royalties, but this argument miscasts the analogy. If the plaintiff had arranged for ownership of the Italian and American patents to be vested in two different persons (most conveniently, by setting up a corporation in each nation to own the patents granted under that country’s laws), the facts here presumably would create a right under *Boesch* and *Daimler Manufacturing Co. v. Conklin* to two different royalties—one due the Italian patentee from Carminati, the other owing to the American patentee from the defendant for use and/or sale here. Defendant’s second theory apparently would create no exception to this doctrine under those facts. We fail to perceive why the plaintiff’s ownership of both bundles of rights should compromise those rights, nor do we see why this fact should award a windfall, the avoidance of liability for infringement in the United States, to defendant.

Furthermore, there is nothing in the defendant’s argument which would undercut the basic thrust of the *Boesch* decision, *i.e.*, that the “sale of articles in the United States under a United States patent cannot be controlled by foreign laws,” 133 U.S. at 703. The Court itself has recently reaffirmed and in fact broadened this doctrine in *Deepsouth Packing Co., Inc. v. Laitram Corp.*, . . . where it stated that a foreign patent system can have no effect in American markets generally.

Griffin represents a somewhat settled area of patent law; the following decision (and the appeals court decision vacating it) represents the much less settled question for trademark law. For further background, see Takamatsu, *Parallel Importation of Trade-marked Goods: A Comparative Analysis*, 57 WASH. L. REV. 433 (1982).

BELL & HOWELL: MAMIYA CO. v. MASEL SUPPLY CO. (I)
548 F. Supp. 1063 (E.D.N.Y. 1982)

NEAHER, J.

This trademark case brings into sharp focus the commercially significant question of whether an American company, which is engaged on an exclusive basis in the business

of importing and selling trademarked goods of foreign manufacture under United States trademark rights owned by it, may enjoin another's unauthorized, competitive sale in the United States of the same identically trademarked goods, which were made and placed in the stream of international commerce by the foreign manufacturer, who did not intend that such goods be sold here. The action is now before the Court on plaintiff's motion for a preliminary injunction, following the issuance of a temporary restraining order, which has remained in effect with the consent of the parties. Based upon the facts which do not appear to be seriously disputed, the Court is of opinion that a preliminary injunction should be granted.

Plaintiff, formerly named Bell & Howell: Mamiya Company, and now named Osawa & Co., is a Delaware corporation. It is the registered owner of United States trademark registrations for three "MAMIYA" marks, and, on a purportedly exclusive basis, it imports and sells in this country medium format photographic equipment under these marks. The equipment is manufactured in Japan by the Mamiya Camera Co. ("Mamiya Co."), a Japanese company, sold by Mamiya Co. to a Japanese trading company, J. Osawa & Co. Ltd. ("Osawa Japan"), and then sold by the latter to plaintiff.

By agreement with Mamiya Co., Osawa Japan holds the exclusive right to distribute MAMIYA medium format equipment worldwide, except in Japan, which Mamiya Co. has reserved for itself. By a further oral agreement with plaintiff, Osawa Japan has named it the exclusive American distributor of these cameras. Osawa Japan owns all of the stock of Osawa & Co. (USA), Inc. ("Osawa USA"), a New York corporation which owns 93% of plaintiff's stock. Mamiya Co. of Japan holds the remaining 7%.

It appeared from the papers, and is now established that defendant Masel Supply Co. and another company had imported from Hong Kong (without opposition by U.S. Customs) non-counterfeit MAMIYA medium format cameras which they purchased from someone other than plaintiff and then resold in the United States, without authorization from plaintiff. There is no question that the equipment sold by defendant was made by Mamiya Co. and distributed by Osawa Japan. Defendant simply contends that no likelihood of confusion, dilution or unfair competition can arise from its sales of imported MAMIYA cameras in competition with plaintiff's sales of the same goods.

Despite the importance of the question raised, there are only a few certain landmarks. These are Justice Holmes' brief decision for the Supreme Court in *A. Bourjois & Co. v. Katzel Co.*, 260 U.S. 689 (1923), *rev'g*, 275 F. 539 (2d Cir. 1921), *rev'g*, 274 F. 856 (S.D.N.Y. 1920), and the two congressionally imposed restrictions on the importation of trademarked goods contained in the Act of September 21, 1922, ch. 356, title iv, §526, 42 Stat. 975, *superseded* by section 526 of the Tariff Act of 1930 (codified at 19 U.S.C. §1526), and in section 42 of the Lanham Act (codified at 15 U.S.C. § 1124). Understandably, these have been subjected to extremely close scrutiny by practitioners and scholars, who have expressed widely divergent views about their significance. With the important exception of *United States v. Guerlain, Inc.*, 155 F. Supp. 77 (S.D.N.Y. 1957), *vacated and remanded*, 358 U.S. 915 (1958), *action dismissed*, 172 F. Supp. 107 (S.D.N.Y. 1959), the legal journals have been the main battleground. Now this case has brought the sufficiency of those views to the fore.

In essence, plaintiff relies on the fact that it is the registered owner of the United States trademark registrations for the MAMIYA marks and on an unrestrictive reading of *Bourjois v. Katzel*, *supra*. Apart from its particular facts, the significance of which has fueled much of the debate, the *Bourjois* decision undeniably established for American trademark law the principle of the territoriality of trademarks, *viz.*, that

the protection of a trademark in a certain country depends exclusively on the law of that country, and that the effects of a trademark ownership by use or registration in a country do not reach beyond the borders of that country, II S. Ladas, Patents, Trademarks, and Related Rights 1340 (1975),

and thus rejected the principle of trademark “universality” which the Second Circuit had sustained in decisions going back to *Appollinaris Co., Ltd. v. Scherer*, 27 F. 18 (C.C.S.D.N.Y. 1886). Under the “universality” principle, goods manufactured abroad under a trademark and then imported and sold in the United States were held not to infringe the rights of the owner of the American trademark, simply because the goods were genuine and the public, therefore, was undecieved. In *Bourjois v. Katzel* the Supreme Court held that an exclusive American distributor of a foreign-made, trademarked product, who possessed the American trademark rights by assignment from the foreign manufacturer, could maintain an infringement suit against one who imported and sold the foreign manufacturer’s product under the trademark in competition with the plaintiff.

Defendant acknowledges the continued validity of *Bourjois v. Katzel*, but focusing on its facts, and one in particular, contends that the case does not render the situation here a true case of trademark infringement. Defendant points out that the plaintiff in *Bourjois v. Katzel* was apparently unconnected with the foreign manufacturer and originator of the trademark, beyond having been the manufacturer’s exclusive American distributor and having acquired from it the American trademark rights. Defendant contrasts this with the more extensive affiliations that exist among plaintiff, its ultimate parent Osawa Japan, and Mamiya Co., which relate to the manufacture and worldwide distribution of MAMIYA medium format photographic equipment. Piercing the “veils” of Osawa USA’s 93% ownership of plaintiff and Osawa, Japan’s sole ownership of Osawa USA, it argues in essence that where the American trademark owner is subject to common ownership or control with the owner and users of the trademark in foreign nations, or forms part of a unified international enterprise engaged in the production and worldwide distribution of the trademarked product—descriptions it urges fit plaintiff—there can be no likelihood of confusion, false designation of origin, dilution or unfair competition for which relief can be granted.

For support, defendant relies on the reasoning of the district court in *United States v. Guerlain, Inc.*, *supra*, which upheld the government’s antitrust, Sherman Act § 2 monopolization claims against three trademark owners who were the exclusive United States distributors for three French perfumers, and who utilized the customs statute, 19 U.S.C. § 1526, *supra*, to block the importation of perfumes from the French companies to which they were related. Defendant also draws on the somewhat similar reasoning apparent in the United States Customs Service’s current interpretation and administration of the related customs and trademark laws, 15 U.S.C. § 1124 and 19 U.S.C. § 1526, which are directed against the importation of foreign-made goods bearing trademarks registered in the United States, 19 C.F.R. Part 133 (1980). See J. Atwood, *Import Restrictions on Trademarked Merchandise—The Role of the United States Bureau of Customs*, 59 T.M.R. 301 (1969).

That leaves the case, then, to be decided upon the fundamental question of trademark law, whether or not the defendant’s use of the MAMIYA marks on medium format photographic equipment is likely to cause confusion with the plaintiff’s use of the mark.

It is clear that such a substantial likelihood of confusion exists in this case. The business of selling MAMIYA goods in the United States is the plaintiff’s business. It is

the legitimate owner of the MAMIYA marks. Its ownership of those marks, conversely, “indicates in law,” *Bourjois v. Katzel, supra*, 260 U.S. at 692 that the goods came from plaintiff. It is plaintiff that defines the warranty and provides the repair services for the cameras it sells. The cameras defendant sells lack that warranty. No proof supports defendant’s contention that the public associates the MAMIYA marks with the Japanese manufacturer, even assuming that such proof could alter the legal consequence of the assignment of the marks to plaintiff. For it must be recognized that plaintiff is not a mere shell but the legitimate and actual owner of the business of selling MAMIYA medium format products in this country.

There remains the contention that there can be no likelihood of confusion because plaintiff is part of an international organization distributing MAMIYA products. The business of the plaintiff in this country is different from that of Osawa Japan elsewhere in the world and that of Mamiya Co. in Japan. It is plaintiff’s warranty and assurances of quality that are signified by the MAMIYA marks in this country. Defendant’s use of those marks carries with it none of these assurances.

Accordingly, this Court concludes that a substantial likelihood of confusion has been demonstrated and that an injunction against defendant’s sale of trademarked MAMIYA cameras should issue. The parties are directed to settle the form of the preliminary injunction on or before October 15, 1982.

BELL & HOWELL: MAMIYA CO. v. MASEL SUPPLY CO. (II)

719 F.2d 42 (2d Cir. 1983)

PIERCE, J. . . .

To obtain a preliminary injunction in this circuit, a party must make “a showing of (a) irreparable harm and (b) either (1) likelihood of success on the merits or (2) sufficiently serious questions going to the merits to make them a fair ground for litigation and a balance of hardships tipping decidedly toward the party requesting the preliminary relief.” *Jackson Dairy, Inc. v. H.P. Hood & Sons, Inc.*, 596 F.2d 70, 72 (2d Cir. 1979) (per curiam). . . .

Applying these principles to the instant case, we hold that the district court’s grant of preliminary injunctive relief must be vacated. As stated above, the district court concluded that “a substantial likelihood of confusion exists in this case.” *Bell & Howell: Mamiya Co.* [I], 548 F. Supp. at 1079. However, there is an absence of factual support in the district court’s opinion for this conclusion which apparently related to the irreparable injury prong of the preliminary injunction test. Whether irreparable injury exists is a determination to be made in the first instance by the district court. On the basis of the present record, irreparable injury may well not be present herein since there would appear to be little confusion, if any, as to the origin of the goods and no significant likelihood of damage to BHMC’s reputation since thus far it has not been shown that Masel’s goods, which have a common origin of manufacture with BHMC’s goods, are inferior to those sold by BHMC and are injuring BHMC’s reputation. Further, it does not appear that the lack of warranties accompanying MAMIYA cameras sold by Masel amounts to irreparable injury, since the consumer can be made aware by, among other things, labels on the camera boxes or notices in advertisements as to whether the cameras are sold with or without warranties. Thus, less drastic means would appear to be available to avoid the claimed confusion. Further, should there be an ultimate

decision in BHMC's favor, it could seek relief through a permanent injunction, an accounting, or an award of damages. For purposes of our review, it suffices that thus far irreparable injury has not been demonstrated, and, consequently, it was an abuse of discretion for the district court to issue the preliminary injunction.

NOTES AND QUESTIONS

1. Is the *Griffin* result economically rational? Is the *Bell & Howell* result?
2. Are the two situations distinguishable on policy grounds? Consider the following excerpt from *Osawa & Co. v. B & H Photo*, 589 F. Supp. 1163, 1972 (S.D.N.Y. 1984), a case that granted an injunction:

The universality principle upon which the older cases had been decided was flawed in several related respects. First, it failed to recognize that legal rights within one sovereignty are creatures of that sovereignty's law. The establishment by A of legal rights to exclusivity in one country could obviously not satisfactorily be squared with B's establishment of exclusive right in a second country, if either right (much less if both) were thought to extend across the world universally. The principle was perhaps based on an idealistic view of the world as a single marketplace. That view, however, did not conform to reality or to international treaty. While it might have been possible to imagine the development of a unified world marketplace, organized on the same set of assumptions that have dominated the creation of a single marketplace among the United States, the development between nations did not occur in that fashion.

A second flaw, an outgrowth of the first, is the failure to recognize that, within one country, a mark may represent a factually different goodwill from that which the mark signifies elsewhere. A few examples illustrate the importance of the distinction between the goodwill associated simply with the product name and that of the domestic distributor.

(a) Suppose a manufacturer makes in Japan and sells under his trademark X a fine computer; the reputation of the X mark is high in the country of manufacture and in certain other countries, where it is distributed and serviced under equally high standards. However, the U.S. distributor and owner of mark X conducts its business in a shoddy way: fails to inspect the equipment for damage upon importation; handles it without care in distribution; fails to stock and make available a broad inventory of needed parts and attachments; fails to provide user instruction programs; establishes no maintenance and repair service; provides grudging, slow and incompetent warranty service or no warranty at all. It is readily perceived that mark X will have an altogether different value and significance in the U.S. than elsewhere, because the mark does not merely identify the manufacturer; it signifies the goodwill (or in this example the badwill) of the U.S. owner.

(b) Keeping the same basic example but altering certain facts, suppose the local owner of the X mark earned an excellent reputation not only by selling quality equipment under the mark but also by conscientiously providing all the peripheral services whose absence was noted in (a). Then the mark will come to represent an excellent public reputation. It is easy to see, in connection with the present dispute, how the reputation attached to the mark of a conscientious domestic distributor could be seriously injured if strangers were free to import and sell the computer under its brand name. For they would be trading on X's earned *domestic* reputation and would have no incentive to insure the continuing goodwill of the mark. Purchasers from the grey market importers, although buying essentially the same equipment, might receive damaged goods, unsatisfactory warranty protection or inadequate service, etc. The reputation of the X mark would inevitably be damaged at the markholder's expense for deficiencies over which he had no control.

(c) The point is still more clearly made if the foreign markholder and the domestic markholder seek to develop the goodwill in different directions. Suppose that the mark had

originally applied to conservative, costly, French high fashions and continued to be used only in that manner in the U.S. with great success, but that in the meantime the French trademark owner finds for whatever reasons that his profits are dwindling in the French market and decides to use the famous mark on a new line of low-priced clothes of daring fashion catering to the young and wild. Third parties then import the cheap, young and wild clothes bearing their “genuine” French mark to the U.S., where the mark has been developed by its local owner as a status symbol catering to the wealthy and conservative. If the U.S. mark owner were powerless to prevent the marketing of the new French line in the U.S. under his mark, he would promptly suffer a destruction, or in any event a drastic alteration, of the goodwill associated with his U.S. mark.

These examples illustrate that a mark may have not only a separate legal basis but also a different factual significance in each separate country where the local mark owner has developed an independent goodwill. That is the basis of the territoriality principle recognized by Justice Holmes in the *Bourjois* decisions. The principle has become still more solidly implanted in United States law by the 1962 amendment to § 32 of the Lanham Act, 15 U.S.C. 1114, which repealed the requirement that a plaintiff in a trademark action show confusion as to “source of origin” of the goods. See *Syntex Laboratories, Inc. v. Norwich Pharmacal Co.*, 437 F.2d 566, 568 (2 Cir. 1971).

The universality decisions were superficially and deceptively consistent with the trademark doctrine of “exhaustion.” Under this doctrine, as applied within the borders of a sovereignty, a markholder may no longer control branded goods after releasing them into the stream of commerce. After the first sale, the brand-holder’s control is deemed exhausted. Down-the-line retailers are free to display and advertise the branded goods. Secondhand dealers may advertise the branded merchandise for resale in competition with the sales of the markholder (so long as they do not misrepresent themselves as authorized agents). See *Prestonettes, Inc. v. Coty*, 264 U.S. 359 (1924); *Trail Chevrolet, Inc. v. General Motors Corp.*, 381 F.2d 353 (5 Cir. 1967); *Chrysler Corp. v. Thayer Plymouth Center, Inc.*, 303 F. Supp. 543 (C.D.Cal. 1969). See generally 3A R. Callman, *The Law of Unfair Competition, Trademarks, and Monopolies* §21.17 (4 ed. 1983). The application of the exhaustion concept to international trade seemed to suggest that once the original mark owner had lost control of the marked goods by releasing them into commerce, his assignee in a foreign country could not logically own rights superior to those of the assignor. The right of control seemed exhausted.

This reasoning is flawed, however, where the assignee of the mark in the second country has developed a separate, factually independent goodwill. If no such independent goodwill has been developed, then in spite of recognition of territorial limits, arguably there might be no infringement. If the U.S. mark represents nothing more than a foreign outpost of the goodwill associated with the original mark, it might well be argued that exhaustion has taken place with the release into commerce and that no infringement occurs on unauthorized importation. See Derenberg, [Territorial Scope and Status of Trademarks and Good Will, 47 Va. L. Rev. 753 (1961)] But where, as here, the U.S. assignee has developed a separate goodwill factually independent from that of the mark originator, whatever exhaustion occurred with the original release into commerce was the exhaustion of a legally distinct and factually different mark.

3. Do you think the courts adequately consider the antitrust issues in these situations? (The antitrust issues will be discussed in detail in Chapter XVI.)

4. How would you now advise a client in the *Bell & Howell* or “gray market” situation? Note that, in 1984, the Customs Service and the Patent and Trademark Office began a new study of the area. See Request for Economic Data on Parallel Imports, 49 Fed. Reg. 21,453 (1984). To further complicate the issue, the Court of International

Trade has claimed jurisdiction over the issue and upheld the Customs Service's rules permitting gray market imports under some circumstances. See *Vivitar Corp. v. United States*, 585 F. Supp. 1419 (Ct. Intl. Trade 1984) (jurisdiction) and 593 F. Supp. 420 (Ct. Intl. Trade 1984) (merits); 761 F.2d 1552 (Fed. Cir. 1985) (customs regulations permitting entry of goods valid but not controlling; plaintiff free to pursue parallel remedy in U.S. district court and to seek exclusion order if that remedy wanted). Although imports were also permitted in *El Greco Leather Prod. v. Shoe World*, 599 F. Supp. 1380 (E.D.N.Y. 1984), these rules were questioned in *Osawa, supra*. The ITC moreover, has held that such imports may violate §337, Certain Alkaline Batteries, Investigation 337-7A-165, U.S.I.T.C. Pub. 1616 (Nov. 1984). The ITC *Batteries* decision was, however, disapproved by the president on January 4, 1985. 50 Fed. Reg. 1655 (1985).

5. Suppose a foreign firm is attempting to sell a product that may—the issue isn't clear—infringe a U.S. patent. As a result of the *Boesch/Griffin* doctrine, no U.S. distributors will buy the product. What form of action can the firm bring to test the U.S. patent? See *Enka B.V. of Arnhem, Holland v. El. duPont de Nemours*, 519 F. Supp. 356 (D. Del. 1981) (suit for declaratory judgment that patent not infringed dismissed on basis of lack of case or controversy).

2. Products of a Patented Process

Until 1988, import restrictions associated with process patents presented special issues. Under U.S. patent law, infringement did not lie against an imported product that was made abroad by means of a patented process.¹ Nevertheless, a proceeding to exclude could be brought before the International Trade Commission under 19 U.S.C. §§ 1337 and 1337a.² This may strike you as highly protective of the U.S. patent holder, but U.S. firms holding process patents generally believed that the ITC remedies were less effective than infringement proceedings, and sought changes in the patent laws to allow infringement to be brought against the product of a process patent. The laws of many nations permit such infringement suits, but a provision authorizing them in the United States was dropped at the last minute from the 1984 Patent Law Amendments Act for unspecified reasons.³

NOTES AND QUESTIONS

1. Can you find any basis, besides statutory quirk, for the difference in approach between U.S. patent and trade law? In thinking about this question, note that the two statutes implied somewhat different remedies, and also use different decisionmakers.

2. Are you troubled by the fact that §337 asks the ITC—whose expertise is in determining injury to U.S. business—to evaluate patent infringement? (Consider that the courts find something like 40 percent of all patents they review to be invalid.) How else might you set up the statutory structure? There is a voluminous history here—and there

1. *University Patents, Inc. v. Questor Corp.*, 517 F. Supp. 676 (D. Colo. 1981).

2. *Sealed Air Corp. v. U.S. International Trade Commission*, 645 F.2d 976 (C.C.P.A. 1981). For discussion of a comparable issue in Great Britain, see *Beecham Group v. Bristol Laboratories*, [1978] Pat. Cas. 153, 204, which contains dicta suggesting that a patent on a pharmaceutical intermediate would be infringed by foreign use of that intermediate "in the manufacture of [an imported] semi-synthetic penicillin, but not of a wholly different product like, say, glue."

3. See 130 CONG. REC. 14248-14249 (1984).

were even periods when the ITC excluded goods on patent infringement grounds while the validity of the patent was being tested in litigation in the regular courts.⁴

3. A further complication arises when we consider the consistency of this dual system of protection with the GATT. In 1987, the European Economic Community (the Community) requested GATT Article XXIII:1 consultations with the United States concerning the application of section 337, but these consultations did not lead to a satisfactory resolution. The Community therefore requested the establishment of a panel. The panel report on the dispute is excerpted below.

UNITED STATES - SECTION 337 OF THE TARIFF ACT OF 1930 adopted on 7 November 1989, L/6439-36S/345, 1989 WL 587604 (Jan. 16, 1989)

I. Introduction

...

1.2 The following terms of reference and composition of the Panel were communicated by the Chairman of the Council on 4 January 1988 (C/153).

Terms of reference

"To examine, in the light of the relevant GATT provisions, the matter referred to the CONTRACTING PARTIES by the European Economic Community in document L/6198, and to make such findings as will assist the CONTRACTING PARTIES in making the recommendations or rulings provided for in paragraph 2 of Article XXIII."

1.3 The matter referred to the CONTRACTING PARTIES by the European Economic Community was described . . . as follows:

"On 22 April 1987 the European Community requested consultations with the United States under Article XXIII:1 of the General Agreement concerning the application of Section 337 of the US Tariff Act 1930. . . .

"The request for consultations resulted from an examination of a specific case where for the purpose of enforcing private intellectual property rights imported goods were subjected to a separate and distinct procedure solely by virtue of their non-US origin. The EC considered that a denial of national treatment within the meaning of Article III of the General Agreement resulted from the different rules applicable under Section 337 and that this denial does not fall within the provisions of Article XX(d) of the General Agreement. The EC therefore considers the benefits accruing to it under the General Agreement are being nullified and impaired through the application of the provisions of Section 337."

1.4 At the Council meetings of 15 July and 7 October 1987, Canada, Hong Kong, Japan, the Republic of Korea and Switzerland each reserved its right to make a submission to the Panel. The Panel offered these contracting parties the opportunity to make both a written submission and an oral presentation. Canada, Japan, the Republic of Korea and Switzerland availed themselves of this opportunity. . . .

1.6 The Panel was informed on 10 May 1988 that the parties to the "specific case" referred to by the Community in its complaint had executed on that day a private

4. For useful general discussion of §337 issues, see *Symposium: Section 337 and the International Trade Commission*, 10 AM. PAT. L. ASSN Q. J. 111(1982); *Symposium*, 8 GA. J. INTL. & COMP. L. 27 (1978); and Fisher, *Protection Against Unfair Foreign Competition: Section 337 of The Tariff Act of 1930*, 13 VA. J. INT'L L. 158 (1972).

settlement agreement between them (see paragraph 2.9 below).

1.7 Since the Panel began its work, Section 337 of the United States Tariff Act has been amended. . . . The present report . . . is based on Section 337 as it was when the decision to establish the Panel was taken in October 1987.

II. Factual Aspects

(i) Section 337

2.1 This Section describes relevant United States legislation and practice as at the time of the Council decision to establish the Panel in October 1987. Section 337 has been amended by the Omnibus Trade and Competitiveness Act of 1988. The same Act also amended the protection accorded under United States patent law in respect of products produced by a process patented in the United States. . . .

2.2 Under Section 337 of the United States Tariff Act of 1930 unfair methods of competition and unfair acts in the importation of articles into the United States, or in their sale, are unlawful if these unfair acts or methods of competition have the effect or tendency to (i) destroy or to substantially injure an industry efficiently and economically operated in the United States, (ii) prevent the establishment of such an industry, or (iii) restrain or monopolise trade and commerce in the United States. The unfair acts and methods of competition in question include the importation or sale of goods that infringe valid United States patents. Section 337a specifically applies Section 337 to the importation or sale of products produced abroad by a process covered by a United States patent. Since it was revised in the Trade Act of 1974, the majority of investigations under the Section 337 have concerned alleged infringements of patents. . . .

2.3 Remedies available under Section 337, in the event of a violation of the Section, consist of orders excluding the articles concerned from importation into the United States (exclusion orders) and/or cease and desist orders directing parties violating Section 337 to stop the act or method of competition found to be unfair. The exclusion order may be a general order covering all imports that, in a patent-based case, infringe the United States patent in question, or may be limited to goods produced by a respondent in the case.

(ii) The USITC and the decision-making process in Section 337 cases

2.4 Investigations under Section 337 are carried out by the United States International Trade Commission (USITC). The USITC is an independent administrative agency of the United States Government. The USITC is not created as a court under Article III of the United States Constitution, but is authorised and directed by Congress to conduct proceedings under Section 337 which are similar to court proceedings. Section 337 proceedings are subject to the Administrative Procedure Act, which governs similar "quasi-judicial proceedings" conducted by numerous agencies of the United States Federal Government.

2.5 In Section 337 proceedings, three component parts of the USITC—the Commission itself, the administrative law judge designated by the Office of Administrative Law Judges, and the Office of Unfair Import Investigations—are required to perform separate roles. Section 554(d) of the Administrative Procedure Act requires strict separation of functions performed by various divisions of the USITC.

—Final determinations on violation of Section 337 and on any remedies are made by the Commission. The Commission is composed of six Commissioners, who are appointed by the President of the United States with the advice and consent of the United States Senate. Statutory qualifications demanded of Commissioners are that they be United States citizens and, in the judgment of the President, possess qualifications requisite for developing expert

knowledge of international trade problems and efficiency in administering the duties and functions of the Commission. Not more than three of the Commissioners may be members of the same political party and, in making appointments, it is required that members of different political parties be appointed alternately as nearly as may be practicable. The Chairman and the Vice-Chairman of the Commission are designated by the President from among the members. Commissioners are appointed for a term of nine years, and are not normally eligible for reappointment.

–The final determination of the Commission of the USITC in Section 337 investigations is made on the basis of an initial determination by an administrative law judge. The administrative law judge conducts the discovery phase of the investigation and the subsequent hearing. In taking evidence and considering written and oral legal arguments, the administrative law judge is required to exercise independent judgment and is not under the direction of the Commission in the conduct of Section 337 proceedings or in the issuance of initial determinations in any particular case. In order to protect their independence, the Administrative Procedure Act provides that administrative law judges may not be removed except for cause or under a reduction in force based on seniority. The USITC's say in the recruitment of administrative law judges is limited to choosing one out of three names put forward by an independent agency (the Office of Personnel Management). No ex parte contacts are permitted in connection with a particular case between the administrative law judge and his or her staff, on the one hand, and the Commissioners and their staff advising them on the case, on the other.

–An investigative attorney of the Office of Unfair Import Investigations of the USITC acts as, and is treated as, a full party in all Section 337 investigations. The investigative attorney's role is to represent the public interest. The Commission investigative attorney is required to operate in any given Section 337 proceeding independently of the direction of the Commission. The investigative attorney may support the complainant or the respondent, or may support complainant on some issues and respondent on others. The investigative attorney may also raise issues not raised by either complainant or respondent. No ex parte contacts with the Commissioners or the administrative law judge are allowed once the Commission votes to initiate an investigation. Prior to initiation of the investigation, the Office of Unfair Import Investigations advises the Commissioners on whether the papers submitted by the complainant comply with the requirements for initiation of investigations and is available to the complainant to assist in the formulation of the complaint.

(iii) Outline of Section 337 proceedings

2.6 The main steps in a Section 337 proceeding under the USITC may be summarised as follows:

(a) A Section 337 complaint is initiated by filing a complaint with the USITC. Before filing its complaint, the complainant may confer with the Office of Unfair Import Investigations of the USITC to ensure that the complaint is in proper form.

(b) If the complaint is properly filed, the USITC must decide within thirty days of filing whether to institute an investigation. During this period both the complainant and potential respondents may consult with, or may be consulted by, the Office of Unfair Import Investigations. The USITC decides by vote and, if the decision is affirmative, notice of the investigation is published in the United States Federal Register. The statutory time-limits for the investigation commence from the date of publication of such notice.

(c) A response to the complaint is required from all named respondents within twenty days of publication of the notice of investigation (thirty days in the case of respondents outside the United States).

(d) Once instituted, the investigation is assigned to one of the administrative law judges of the USITC for the collection of evidence, a hearing, and an initial determination. ©

The discovery phase begins on institution of the investigation, and generally lasts five to six months, unless the case is designated by the USITC as "more complicated".

(f) Following the close of discovery, a hearing is held before the administrative law judge which generally lasts about two weeks. All legal and equitable defences that would be relevant to patent infringement actions in federal district courts may be raised by a respondent. In addition, certain defences unique to Section 337 may be raised, such as a lack of a United States industry efficiently and economically operated, or lack of injury to that industry.

(g) Within nine months of publication of the notice in the Federal Register (fourteen months in more complicated cases), the administrative law judge is required to issue an initial decision, comprising, in patent-based cases, findings of fact and conclusions of law about the validity and enforceability of the patent in question, the infringement of the patent if it is found valid, and on whether any such violation has the effect or tendency (i) to destroy or substantially injure an industry efficiently and economically operated in the United States, or (ii) to prevent the establishment of such an industry.

(h) Within ten days of the initial determination, any party (except a defaulting party) can request review by the Commission of any issue relevant to the initial determination. The Commission may also order review on its own initiative. Review will be granted if at least one member of the Commission votes to order review. If the Commission does not elect to review the case, the administrative law judge's initial determination stands as the final determination of the USITC on the question of violation. If the Commission reviews the initial determination, it may make its own findings and conclusions of law, based on the evidentiary record prepared by the administrative law judge. The parties are given the opportunity to submit briefs and, in appropriate cases, present oral arguments on the issues under review.

(i) If the Commission determines that there has been a violation of Section 337 (or lets the determination of the administrative law judge to that effect stand), it then considers the relief, if any, that should be provided. It must consider the effect of any such relief on (i) public health and welfare, (ii) competitive conditions in the United States economy, (iii) the production of like or directly competitive articles in the United States, and (iv) United States consumers. It may deny or limit relief on the basis of these public interest considerations. Its final determination must be made within twelve months (eighteen months in more complicated cases) of the publication of notice of investigation in the Federal Register.

(j) If the Commission grants relief to the complainant, the President has sixty days to review the USITC determination and order for policy reasons. If an exclusion order has been made, the goods concerned may still be imported during the period of Presidential review, subject to the posting of a re-exportation bond in an amount fixed by the USITC. Disapproval by the President renders the order without force or effect. Otherwise the order comes into full force on the date when the USITC receives notice of formal approval or, if no Presidential action is taken, on the day after the expiry of the sixty day period.

(k) Any person adversely affected by a final determination of the Commission can appeal the determination and order to the United States Court of Appeals for the Federal Circuit, the same court that hears appeals from decisions of United States federal district courts in patent cases.

2.7 If the complainant seeks a temporary exclusion order under Section 337, an evidentiary hearing with respect to temporary relief must be held and the initial determination of the administrative law judge as to whether temporary relief should be granted must be completed within four months of the notice of investigation. For temporary relief to be granted, it must be determined that there is reason to believe there is a violation of Section 337 and certain discretionary factors must be considered. If the administrative law judge's initial determination on temporary relief is not reviewed by

the Commission, it becomes the determination on temporary relief within thirty days, subject to consideration of the public interest factors referred to in Section 337(e). If the Commission decides to review it, the review must be completed within sixty days. As with final determinations of the Commission, the President has sixty days in which to disapprove a Commission determination on temporary relief. Temporary exclusion orders are effective for the remaining duration of an investigation. While a temporary exclusion order is in effect, importation of the articles concerned may only take place on the posting of a bond in an amount determined by the USITC.

(iv) Differences between Section 337 and federal district court proceedings

2.8 Much of the argumentation developed before the Panel concerned the relationship and differences between patent-based Section 337 actions and litigation in federal district courts under United States patent law. The following are the main features of this relationship and of these differences as understood by the Panel:

(a) The forum: Section 337 cases are conducted by the USITC. Litigation under United States patent law is brought before federal district courts.

(b) Decision-makers: The decision in a Section 337 case is taken, by majority vote, by the Commissioners of the USITC on the basis of an initial determination of an administrative law judge of the USITC. In federal district court patent proceedings, decisions are taken by a federal judge or by a jury.

(c) Applicable procedures: Section 337 investigations must conform to the requirements of the adjudicatory provisions of the Administrative Procedure Act and the USITC's Section 337 rules of procedure. Federal district court procedures are those of the Federal Rules of Civil Procedure.

(d) Jurisdiction:

(i) The USITC has jurisdiction only over unfair practices in import trade, such as patent infringement, that have stated effects on an industry (or trade and commerce) in the United States. Thus in order to have standing to bring a complaint the complainant, whether a United States or foreign national, must be using the patented invention in question for an industrial activity in the United States. Complaints of infringement of United States patents may be filed before federal district courts by any owner or exclusive licensee of a United States patent, whether or not the plaintiff is using the patent in manufacturing in the United States (or anywhere else), and whether or not injury, as defined in Section 337, is claimed.

(ii) A Section 337 action may be brought only in respect of imports of articles alleged to infringe a United States product or process patent - that is the actual importation or the subsequent sale of those articles. A federal district court patent action may be brought in respect of imported goods and/or domestically produced goods, with one exception: as the law stood in October 1987, the owner of a United States process patent could not bring a cause of action in a federal district court against imports of products that are produced outside the United States by a process patented in the United States, based solely on alleged infringement of the process patent.

(iii) In cases over which the two fora have jurisdiction, the complainant has the right to file a complaint in either forum or in both. This may be done either simultaneously or consecutively, with one exception - a final negative finding on the patent (invalidity/non-infringement) by a federal district court precludes a subsequent Section 337 investigation on the same cause of action. A negative Section 337 determination, even when based on the patent issues, does not, at least formally, preclude relitigation of the same issues under United States patent law, because USITC determinations are not formally considered to have *res judicata* or collateral estoppel effect. For the same reasons, a disappointed respondent in a Section 337 case is not, at least formally, prevented from relitigating defences on patent issues before a federal district court, by seeking a declaratory judgment of invalidity of the complainant's patent.

(iv) Under Section 337, it is not necessary to establish in personam jurisdiction over all parties, as is required for federal district court litigation, except with respect to cease and desist orders directed against a party. The jurisdiction of federal district courts under existing law extends only to parties that can be served with valid process in accordance with Rule 4 of the Federal Rules of Civil Procedure. Under Section 337, the proceeding is initiated by publication of the notice of the institution of the investigation in the Federal Register. In addition, copies of the complaint and of the notice in the Federal Register are mailed to all respondents named in the notice and to the government of each country of foreign respondents.

(e) Default: Under a Section 337 proceeding, if a respondent fails to respond to a complaint the complainant is required to establish a prima facie case of violation of Section 337 for relief to be ordered. Federal district courts have the authority to enter a judgment by default to establish patent infringement.

(f) Time-limits: The USITC is required by statute to complete Section 337 investigations and make its final determination within twelve months or, in cases designated by the USITC as "more complicated", within eighteen months, of the date of publication of the notice of investigation. The maximum time allowed from filing to disposition of a Section 337 case, including the period between filing and initiation and the period for Presidential review, is thus fifteen months (twenty one months in more complicated cases). Patent litigation in federal district courts does not proceed according to a statutorily determined time-schedule, and the period taken varies considerably from case to case. In the year 1 July 1986 - 30 June 1987, the average time for disposition of the patent cases in federal district courts that completed trial was thirty-one months. This included time for separate hearings in some cases on damages, counterclaims and other claims that might be joined to the patent infringement action.

(g) Protective orders on confidential information: It is standard practice in Section 337 cases for the administrative law judge to issue a "protective order", which sets forth the terms under which confidential information is produced by each side for the benefit of the administrative law judge and counsel for the parties without being disclosed to management of the other party or to the outside world. Typically a protective order provides that confidential information provided by one party is made available to outside counsel of the other party but not to management. While in-house counsel may sometimes be permitted access to such information upon agreeing not to share it with management, the more usual practice is to deny access to all persons, including in-house counsel, connected with the management of a party. The USITC explains this practice as a way to secure voluntary compliance with discovery requests without challenge. Protective orders are also obtainable in district court litigation under Rule 26(c) of the Federal Rules of Civil Procedure, including orders "that a trade secret or other confidential research, development, or commercial information not be disclosed or be disclosed only in a designated way" - for instance only to outside counsel. However, while such orders are frequently issued in patent litigation, they are not automatic and their scope is subject to the discretion of the judge after hearing both sides. The orders may be tailored to individual discovery requests in particular cases.

(h) Counterclaims: The USITC does not have jurisdiction in Section 337 proceedings to entertain counterclaims. In federal district court proceedings, counterclaims, whether or not related to the principal claim, may be raised in the same legal action. Assertions which constitute defences to patent infringement, for example inequitable conduct or antitrust violations, may, however, be raised as defences in Section 337 proceedings.

(i) Economic requirements: The complainant in a Section 337 action has to show that the effect or tendency of the patent infringement is to destroy or to substantially injure an industry efficiently and economically operated in the United States, or to prevent the establishment of such an industry. No comparable requirement exists in patent litigation in federal district courts.

(j) Public interest considerations: Before issuing an order under Section 337, the USITC is required to consider the effect of its order on: public health and welfare; competitive conditions in the United States; the production of like or directly competitive articles in the United States; and United States consumers. No comparable requirement exists in litigation in federal district courts.

(k) Presidential review: The President of the United States is authorised to disapprove orders of the USITC under Section 337 on policy grounds, within sixty days of their issuance. No Presidential review exists for federal district court decisions.

(l) Remedies: The principal remedy available under Section 337 is an in rem exclusion order, either limited to the goods of named respondents or applicable to all imports of infringing goods, even those produced by non-parties. The Commission may also issue cease and desist orders, typically to parties in the United States such as importers or vendors. In patent actions in federal district courts remedies operate in personam, i.e. against persons who have been served in the action or have participated therein. The main remedies are injunctions, accounting for profits, and damages, either compensatory or, in case of wilful infringement, multiple. In exceptional cases, attorney's fees may be awarded in federal district court litigation e.g. in cases of wilful infringement by the defendant or inequitable conduct by the patentee.

(m) Enforcement of remedies: Section 337 exclusion orders are enforced, without any further action by the complainant, by the United States Customs Service at ports of entry into the United States. A cease and desist order by the USITC may be addressed directly to a party over which it has in personam jurisdiction, such as an importer or distributor. Sanctions for violation of such an order, including civil penalties and mandatory injunctions (enforceable by contempt proceedings), may be enforced in a civil action brought by the USITC in a federal district court. In federal district court patent actions, injunctions may be enforced through a contempt proceeding in that court usually initiated by the plaintiff.

(n) Preliminary relief: Preliminary relief under Section 337 consists of a temporary exclusion order (or a temporary cease and desist order). Such relief lasts only as long as the investigation. Importation of goods covered by a temporary exclusion order is permitted only against the posting of a bond of an amount fixed by the USITC. In federal district court litigation, preliminary injunctions may be issued against an alleged infringer and normally cannot be suspended by the posting of a bond by the defendant; however, the plaintiff is required to post a bond which can be used to compensate the defendant in the event that the defendant ultimately prevails. Under Section 337, the complainant is not required to post a bond and no damages for any losses to legitimate interests resulting from a temporary exclusion order can be recovered where the respondent prevails in the final determination.

(o) Judicial review: Both USITC Section 337 determinations and federal district court decisions are subject to judicial review, on appeal, by the Court of Appeals for the Federal Circuit. The Court of Appeals applies the same standard of review for issues of law to decisions of either forum. On questions of fact, USITC determinations are reviewed on the basis of the "substantial evidence" standard, i.e. whether the factual findings are supported by substantial evidence. The same standard is used to review the factual findings of juries in federal district court litigation; factual findings by federal district judges are subject to a "clearly erroneous" standard.

(v) The Certain Aramid Fibre case

2.9 The "specific case" referred to by the European Economic Community in its complaint to the GATT Council (paragraphs 1.3 and 1.6 above) was a Section 337 investigation entitled "In the Matter of Certain Aramid Fiber". On 18 April 1984, E.I. du Pont de Nemours and Company (Du Pont) filed a complaint with the USITC under Section 337 alleging the importation, sale and marketing in the United States of certain

aramid fibre produced by Akzo N.V. (Akzo) in the Netherlands by a process for which Du Pont had received a patent in the United States. On 25 November 1985, following completion of proceedings under Section 337 within the eighteen month period provided for more complicated cases, the USITC held that Du Pont's process patent was valid and infringed and that imports of the infringing product had a tendency to injure an industry efficiently and economically operated in the United States. The USITC issued a limited exclusion order prohibiting the entry of aramid fibre in the form of fibre, yarn, pulp, staple, chopped fibre, paper, felt or fabric made abroad by Akzo, or any related business entities, using the patented process in question, for the remaining life of the patent (i.e. until 23 October 1990). The President did not disapprove the USITC's determination. The public version of the record of the investigation (No. 337-TA-194) was published in USITC publication 1824 of March 1986, entitled "In the Matter of Certain Aramid Fiber". Akzo appealed the USITC determination to the Court of Appeals for the Federal Circuit which, in a ruling of 22 December 1986, affirmed the exclusion order (*Akzo N.V. v. USITC*, 808 F.2d 1471 (Fed.Cir.1986)). Akzo thereafter applied for review to the Supreme Court. By order of 1 June 1987, the Supreme Court declined to review the judgment of the Court of Appeals (*Akzo N.V. v. USITC*, 107 Supreme Court Reporter 2490.) On 10 May 1988, following litigation in several other countries, Du Pont and Akzo executed a settlement agreement on aramid fibre, including a licence granted by Du Pont to Akzo to import limited quantities of aramid fibre into the United States during the remaining term of the patent. . . .

V. Findings

(i) Scope of findings

5.1 The Panel's terms of reference refer both to the application of Section 337 in general and to its application in the case concerning Certain Aramid Fibre which prompted the European Economic Community to submit its complaint to the CONTRACTING PARTIES. During the course of the Panel's proceedings, the parties to the Certain Aramid Fibre case reached a settlement (see paragraph 2.9 above), and thereafter the Community withdrew its request to the Panel to make findings in respect of that case. The Panel therefore limited its examination to Section 337 as such, plus the related Section 337a which the Council clearly intended to be covered by the Panel's term of reference since it was the provision applicable in the Certain Aramid Fibre case. (Hereinafter references to Section 337 should therefore be understood as references to both Section 337 and Section 337a.)

5.2 During the course of the Panel's work, Section 337 was amended by the Omnibus Trade and Competitiveness Act of 1988. The Panel's findings are based on Section 337 as it was at the time that the Panel was established by the Council, in October 1987. . . .

5.3 Section 337 is not limited to patent disputes; indeed, except in Section 337a, it does not even mention patents but merely speaks of "unfair methods of competition and unfair acts in the importation of articles into the United States". It has also been used in disputes concerning alleged infringement by imported products of other United States intellectual property rights, including trademarks and copyrights, as well as in disputes outside the field of intellectual property. While many of the observations that follow may be relevant to such cases as well, the complaint in this case, as well as the submissions of the parties, concentrated on the application of Section 337 to patent-based cases, and the Panel's findings and conclusions are limited to such cases.

5.4 The central and undisputed facts before the Panel are that, in patent infringement cases, proceedings before the USITC under Section 337 are only applicable to imported

products alleged to infringe a United States patent; and that these proceedings are different, in a number of respects, from those applying before a federal district court when a product of United States origin is challenged on the grounds of patent infringement. The Community maintained that the differences between the two proceedings are such that the treatment accorded to imported products is less favourable than that accorded to like products of United States origin, inconsistently with Article III:4 of the General Agreement, and that this less favourable treatment cannot be justified under Article XX(d) of the General Agreement. The United States maintained that Section 337 is justifiable under Article XX(d) and, in any event, is not inconsistent with Article III:4 since it does not accord imported products less favourable treatment than that accorded to like products of United States origin.

5.5 The United States suggested that the scope of the complaint was confined to matters of legal procedure, and that the issues raised by the Community concerning in rem general exclusion orders and the possibility of imported products being subject to simultaneous proceedings under Section 337 and in federal district courts are not matters of procedure. However, the Panel noted that its terms of reference refer without limitation to "the different rules applicable under Section 337" to which imported products are subject. Accordingly, it determined that these issues fall within its terms of reference. The term "procedure" is used hereinafter in a broad sense that encompasses these issues.

5.6 In its deliberations, the Panel took into account the Report of the Panel on United States Imports of Certain Automotive Springs Assemblies (BISD 30S/107), in the light of the understanding on which it had been adopted by the Council that its adoption "shall not foreclose future examination of the use of Section 337 to deal with patent infringement cases from the point of view of consistency with Articles III and XX of the General Agreement". . . .

(ii) Relevant provisions of the General Agreement

5.7 The main provisions invoked by the parties to the dispute are Article III:4 and Article XX(d). . . . [Article III:4] is supplemented by an interpretative note, the relevant part of which reads:

"... any law, regulation or requirement ... which applies to an imported product and to the like domestic product and is ... enforced in the case of the imported product at the time or point of importation, is ... subject to the provisions of Article III."

. . .

(iii) Relation of Article III to Article XX(d)

5.8 The parties to the dispute agreed that Article III:4 applies to substantive patent law, since such law affects the "internal sale, offering for sale, purchase, transportation or use" of imported and domestic products. They also agreed that the consistency of the substantive provisions of United States patent law with the General Agreement is not at issue. Further, the parties agreed that Section 337, when applied in cases of alleged patent infringement, is a means to secure compliance with United States patent law in respect of imported products. They disagreed, however, on the question of whether a measure to secure compliance with patent laws—in contrast to the substantive patent law itself—is covered by Article III:4. In the view of the United States, measures to secure compliance with patent legislation are covered only by Article XX(d). The Community took the position that Article III:4 requires national treatment also for procedures designed to enforce internal legislation, and that Article XX(d) provides for an exception to be considered only after conduct inconsistent with another provision of the General

Agreement has been established.

5.9 The Panel noted that Article XX is entitled "General Exceptions" and that the central phrase in the introductory clause reads: "nothing in this Agreement shall be construed to prevent the adoption or enforcement ... of measures ...". Article XX(d) thus provides for a limited and conditional exception from obligations under other provisions. The Panel therefore concluded that Article XX(d) applies only to measures inconsistent with another provision of the General Agreement, and that, consequently, the application of Section 337 has to be examined first in the light of Article III:4. If any inconsistencies with Article III:4 were found, the Panel would then examine whether they could be justified under Article XX(d).

(iv) Article III:4

(a) Meaning of "laws, regulations and requirements" in Article III:4

5.10 The Panel then examined Section 337 in the light of Article III:4. The Panel first addressed the issue of whether only substantive laws, regulations and requirements or also procedural laws, regulations and requirements can be regarded as "affecting" the internal sale of imported products. The positions of the United States and the Community on this were different. . . . The Panel noted that the text of Article III:4 makes no distinction between substantive and procedural laws, regulations or requirements and it was not aware of anything in the drafting history that suggests that such a distinction should be made. A previous Panel had found that "the selection of the word 'affecting' would imply ... that the drafters of the Article intended to cover in paragraph 4 not only the laws and regulations which directly governed the conditions of sale or purchase but also any laws or regulations which might adversely modify the conditions of competition between the domestic and imported products on the internal market."¹ In the Panel's view, enforcement procedures cannot be separated from the substantive provisions they serve to enforce. If the procedural provisions of internal law were not covered by Article III:4, contracting parties could escape the national treatment standard by enforcing substantive law, itself meeting the national treatment standard, through procedures less favourable to imported products than to like products of national origin. The interpretation suggested by the United States would therefore defeat the purpose of Article III, which is to ensure that internal measures "not be applied to imported or domestic products so as to afford protection to domestic production" (Article III:1). The fact that Section 337 is used as a means for the enforcement of United States patent law at the border does not provide an escape from the applicability of Article III:4; the interpretative note to Article III states that any law, regulation or requirement affecting the internal sale of products that is enforced in the case of the imported product at the time or point of importation is nevertheless subject to the provisions of Article III. Nor could the applicability of Article III:4 be denied on the ground that most of the procedures in the case before the Panel are applied to persons rather than products, since the factor determining whether persons might be susceptible to Section 337 proceedings or federal district court procedures is the source of the challenged products, that is whether they are of United States origin or imported. For these reasons, the Panel found that the procedures under Section 337 come within the concept of "laws, regulations and requirements" affecting the internal sale of imported products, as set out in Article III of the General Agreement.

1. Panel on Italian Discrimination Against Imported Agricultural Machinery (BISD 7S/60, paragraph 12), adopted on 23 October 1958.

(b) The "no less favourable" treatment standard of Article III:4

5.11 The Panel noted that, as far as the issues before it are concerned, the "no less favourable" treatment requirement set out in Article III:4, is unqualified. These words are to be found throughout the General Agreement and later agreements negotiated in the GATT framework as an expression of the underlying principle of equality of treatment of imported products as compared to the treatment given either to other foreign products, under the most favoured nation standard, or to domestic products, under the national treatment standard of Article III. The words "treatment no less favourable" in paragraph 4 call for effective equality of opportunities for imported products in respect of the application of laws, regulations and requirements affecting the internal sale, offering for sale, purchase, transportation, distribution or use of products. This clearly sets a minimum permissible standard as a basis. On the one hand, contracting parties may apply to imported products different formal legal requirements if doing so would accord imported products more favourable treatment. On the other hand, it also has to be recognised that there may be cases where application of formally identical legal provisions would in practice accord less favourable treatment to imported products and a contracting party might thus have to apply different legal provisions to imported products to ensure that the treatment accorded them is in fact no less favourable. For these reasons, the mere fact that imported products are subject under Section 337 to legal provisions that are different from those applying to products of national origin is in itself not conclusive in establishing inconsistency with Article III:4. In such cases, it has to be assessed whether or not such differences in the legal provisions applicable do or do not accord to imported products less favourable treatment. Given that the underlying objective is to guarantee equality of treatment, it is incumbent on the contracting party applying differential treatment to show that, in spite of such differences, the no less favourable treatment standard of Article III is met.

5.12 The Panel noted the differing views of the parties on how an assessment should be made as to whether the differences between Section 337 and federal district court procedures do or do not accord imported products less favourable treatment than that accorded to products of United States origin (paragraphs 3.15-3.20 above). In brief, the United States believed that this determination could only be made on the basis of an examination of the actual results of past Section 337 cases. It would follow from this reasoning that any unfavourable elements of treatment of imported products could be offset by more favourable elements of treatment, provided that the results, as shown in past cases, have not been less favourable. The Community's interpretation of Article III:4 would require that Section 337 not be capable of according imported products less favourable treatment; elements of less and more favourable treatment could thus only be offset against each other to the extent that they always would arise in the same cases and necessarily would have an offsetting influence on each other.

5.13 The Panel examined these arguments carefully. It noted that a previous Panel had found that the purpose of the first sentence of Article III:2, dealing with internal taxes and other internal charges, is to protect "expectations on the competitive relationship between imported and domestic products".² Article III:4, which is the parallel provision of Article III dealing with the "non-charge" elements of internal legislation, has to be construed as serving the same purpose. Article III:4 would not

2. Report of Panel on United States - Taxes on Petroleum and Certain Imported Substances (L/6175, paragraph 5.1.9), adopted by the Council on 17 June 1987.

serve this purpose if the United States interpretation were adopted, since a law, regulation or requirement could then only be challenged in GATT after the event as a means of rectifying less favourable treatment of imported products rather than as a means of forestalling it. In any event, the Panel doubted the feasibility of an approach that would require it to be demonstrated that differences between procedures under Section 337 and those in federal district courts had actually caused, in a given case or cases, less favourable treatment. The Panel therefore considered that, in order to establish whether the "no less favourable" treatment standard of Article III:4 is met, it had to assess whether or not Section 337 in itself may lead to the application to imported products of treatment less favourable than that accorded to products of United States origin. It noted that this approach is in accordance with previous practice of the CONTRACTING PARTIES in applying Article III, which has been to base their decisions on the distinctions made by the laws, regulations or requirements themselves and on their potential impact, rather than on the actual consequences for specific imported products.³

5.14 The Panel further found that the "no less favourable" treatment requirement of Article III:4 has to be understood as applicable to each individual case of imported products. The Panel rejected any notion of balancing more favourable treatment of some imported products against less favourable treatment of other imported products. If this notion were accepted, it would entitle a contracting party to derogate from the no less favourable treatment obligation in one case, or indeed in respect of one contracting party, on the ground that it accords more favourable treatment in some other case, or to another contracting party. Such an interpretation would lead to great uncertainty about the conditions of competition between imported and domestic products and thus defeat the purposes of Article III.

(c) Appraisal of Section 337 in terms of Article III:4

Contentions by the United States that more favourable treatment is accorded to imported products

5.15 The United States contended (paragraphs 3.47-3.54; see also paragraphs 2.8(e), (i), (j) and (k)) that Section 337 accords imported products more favourable treatment than that accorded to domestic products in district court proceedings because of:

- the substantive economic elements relating to injury and industry that a Section 337 complainant has to prove and that do not have to be proved in patent litigation in federal district courts;
- the possibility that relief under Section 337 might be modified or not applied on public interest or policy grounds, which possibility does not exist in federal district courts; and
- certain procedural differences from federal district court procedures that accord Section 337 respondents more favourable treatment.

The Panel examined whether these elements of claimed more favourable treatment could within the meaning of Article III:4 offset any elements of less favourable treatment of imported products alleged by the Community.

5.16 As has already been stated above, an element of more favourable treatment

3. For example: Working Party on Brazilian Internal Taxes (BISD II/184-5, paragraph 13-16); Panel on Italian Discrimination against Imported Agricultural Machinery (BISD 7S/63-64, paragraphs 11-12); Panel on EEC - Measures on Animal Feed Proteins (BISD 25S/65, paragraph 4.10); Panel on Canada - Administration of the Foreign Investment Review Act (BISD 30S/167, paragraph 6.6); Panel on United States - Taxes on Petroleum and Certain Imported Substances (L/6175, paragraphs 5.1.1-5.1.9).

would only be relevant if it would always accompany and offset an element of differential treatment causing less favourable treatment. The Panel had no difficulty in recognising that the economic requirements and the possibility of denial or limitation of relief on public interest or policy grounds could decisively influence the outcome of certain Section 337 cases in favour of imported products, as might the requirement on a complainant to make a prima facie case in a default situation, and that no equivalent advantages are enjoyed by defendants in federal district court litigation in respect of products of United States origin.⁴ However, the Panel found, on the one hand, that these requirements may involve the respondent in litigation, defence and discovery of business secrets unrelated to the underlying patent issue; and, on the other hand, there is no reason to believe that such dispositive influences would always operate in each individual case where a negative effect on the respondent might result from the operation of an element of less favourable treatment claimed by the Community. Further, the Panel noted that, in each case over which both the USITC and federal district courts have jurisdiction, the complainant has the choice whether to proceed before the USITC or before the regular courts (see paragraph 5.18 below).

5.17 The Panel noted that some of the procedural advantages that, according to the United States . . . , are given to respondents could operate in all cases. The Panel also recognised that the substantive economic requirements put procedural burdens not only on the respondent but also on the complainant, which has the burden of proof on these matters, and that these procedural burdens could operate in all cases. The Panel took these factors into account to the extent that they might be capable of exerting an offsetting influence in each individual case of less favourable treatment resulting from an element cited by the Community.

Contentions by the Community that less favourable treatment is accorded to imported products

5.18 In cases concerning imported products over which both federal district courts and the USITC have jurisdiction, the complainant has the choice of which forum to use, or possibly to initiate a complaint in both fora; no equivalent choice of forum is available to a plaintiff in a case concerning products of United States origin. This option was referred to on numerous occasions by the Community and by third contracting parties making submissions. The Panel found that, given the differences between the proceedings of the USITC and of federal courts, to provide the complainant with the choice of forum where imported products are concerned and to provide no corresponding choice where domestically-produced products are concerned is in itself less favourable treatment of imported products and is therefore inconsistent with Article III:4. It is also a reason why in practice Section 337 is more likely to be employed in those cases where the specific elements that might accord less favourable treatment to imported products are significant. The complainant will tend to avoid recourse to Section 337 in cases where elements of more favourable treatment of the respondent than that accorded in federal district court litigation might play a role, for example where public interest or policy considerations might be expected to intervene.

5.19 The Panel considered the specific differences between Section 337 proceedings and those in federal district courts referred to by the Community to assess whether they

4. The Panel noted that several of the elements said to give advantages to respondents—notably the requirement that a complainant must show injury to an industry and the requirement that a complainant must show that the industry was being “efficiently and economically operated”—were repealed, at least as far as certain intellectual property based cases are concerned, by the Omnibus Trade and Competitiveness Act adopted by the United States in the Summer of 1988. . . .

accord less favourable treatment to imported products than that accorded to products of United States origin in patent-based cases:

–Time-limits. . . . The Panel found that the relatively short and fixed time-limits for the completion of proceedings under Section 337 could put the respondent in a significantly less favourable position than it would have been in before a federal district court where no fixed time-limits apply, both because the complainant has a greater opportunity than the respondent to prepare his case before bringing the complaint and because defence in general benefits from delay. It is true that the short time-limits might benefit the respondent in cases where a negative finding is made, since any damage to his business resulting from the uncertainty generated by the litigation would be ended more quickly, but this does not justify the less favourable treatment in other cases. The Panel did not accept the argument of the United States that the appropriate comparison with Section 337 time-limits is the time taken for issuing preliminary injunctions in federal district courts. A Section 337 final order is not comparable to a preliminary injunction since it is not subject to review by the same forum nor is it accompanied by the safeguards usually attached to preliminary orders to protect the legitimate interests of defendants. The Panel noted the arguments of the United States that a complainant was required to provide more detailed information in a Section 337 complaint—a point contested by the Community—and that an additional ten days was given to foreign respondents for service by mail, but concluded that these factors could not significantly offset the disadvantage that the respondent could suffer from the tighter Section 337 time-limits.

–Inadmissibility of counterclaims. . . . The Panel found that the inability of the respondent to make counterclaims in a Section 337 action—a right that the defendant has in federal district court proceedings—deprives the respondent of an option that is available where products of United States origin rather than imported products are concerned. Moreover, the existence of this option, which applies to unrelated as well as related counterclaims, could act as a dissuasive factor on a potential complainant in filing a complaint in the first place. The Panel noted the observation of the United States that many of the points that might be the subject of a related counterclaim in court proceedings could be made in USITC proceedings by way of defence. However, the complainant runs no risk of an affirmative adverse finding on these points, or of adverse findings or need to litigate in respect of unrelated issues, and in the Panel's view this gives complainants before the USITC advantages that might well be significant. The Panel therefore found that the non-availability of the opportunity to raise counterclaims constitutes less favourable treatment of imported products within the meaning of Article III:4.

–In rem exclusion orders. . . . The Community and some third contracting parties raised two issues concerning in rem exclusion orders. One of these issues—enforcement of orders—concerns both limited exclusion orders (orders directed only to products produced by respondents and found to be infringing—the more common type of exclusion order) and general exclusion orders (orders applicable to products found to be infringing produced by any person). While such exclusion orders are automatically enforced by the United States Customs Service, enforcement of an injunction ordered by a federal district court, the equivalent relief in respect of products of United States origin, requires individual proceedings brought by the successful plaintiff. The Panel found that this difference results in less favourable treatment of imported products within the meaning of Article III:4 of the GATT. In respect of the second issue, which concerns general exclusion orders only, the Panel noted that relief against persons other than the parties to a proceeding is not generally available to successful plaintiffs in actions against domestic infringers. This difference therefore results in less favourable treatment of imported products within the meaning of Article III:4 of the General Agreement.

–Double proceedings. . . . The Community raised the question of the possibility of simultaneous proceedings. Canada and Korea raised similar points. . . . Under United States

law, where a product patent is involved and the jurisdictional requirements of federal district court litigation and Section 337 investigations are met, imported products might be faced with double proceedings under Section 337 and before federal district courts, whereas like products of United States origin can only be challenged in proceedings in federal district courts.⁵ The Panel found that, while the likelihood of having to defend imported products in two fora is small, the existence of the possibility is inherently less favourable than being faced with having to conduct a defence in only one of those fora. It therefore subjects imported products to less favourable treatment within the meaning of Article III:4 of the General Agreement.

–Treatment of confidential information. . . . Apart from what has been said in paragraph 5.16, the Panel did not find that the techniques used under Section 337 to protect confidential information are effectively different from those generally employed in federal district courts in the United States. It therefore did not find that they disadvantage imported products.

–Decision-making under Section 337. . . . The Community contended that USITC Commissioners are less qualified than federal district court judges to adjudicate legal issues in patent disputes. The Panel examined this contention but did not find that the difference in decision-makers between the USITC and federal district courts is such as to lead intrinsically to less-favourable treatment of imported products in respect of patent adjudication. The Panel noted also that there is at least a nominal difference in the standard used by the Court of Appeals for the Federal Circuit to review, on the one hand, findings of fact by the USITC, which like findings by juries in federal district courts can only be overturned if not supported by "substantial evidence", and on the other hand findings of fact by federal judges, which can be set aside if found to be "clearly erroneous". However, the Panel did not find that this difference in the standard of review in itself results in less favourable treatment of imported products in terms of Article III:4. . . .

(v) Article XX(d)

(a) The conditions attached to the use of Article XX(d)

5.22 Having found . . . elements of Section 337 . . . to be inconsistent with Article III:4, the Panel considered whether these inconsistencies can be justified under Article XX(d). The Panel noted that the parties to the dispute agreed that, for the purposes of Article XX(d), Section 337 can be considered as "measures to secure compliance with" United States patent law. It then examined whether, in respect of the elements of Section 337 found to be inconsistent with Article III:4 of the General Agreement, the conditions specified in Article XX(d) to justify measures otherwise inconsistent with the GATT are met. These are:

–that the "laws or regulations" with which compliance is being secured are themselves "not inconsistent" with the General Agreement;

–that the measures are "necessary to secure compliance" with those laws or regulations;

–that the measures are "not applied in a manner which would constitute a means of arbitrary or unjustifiable discrimination between countries where the same conditions prevail, or a disguised restriction on international trade".

5.23 The Panel noted that each of these conditions must be met if an inconsistency with another GATT provision is to be justifiable under Article XX(d). A measure which

5. As a result of the Omnibus Trade and Competitiveness Act of 1988, this possibility now also applies where process patents are concerned. . . .

does not meet any one of these conditions, for example the condition that it must be "necessary to secure compliance" with a law consistent with the GATT, cannot be justified under Article XX(d).

5.24 The Panel noted that in the dispute before it the "laws or regulations" with which Section 337 secures compliance are the substantive patent laws of the United States and that the conformity of these laws with the General Agreement is not being challenged. The Panel then considered whether the inconsistencies with Article III:4 are "necessary" to secure compliance with these laws, this being the issue on which the discussion had mainly concentrated.

(b) The "necessary to secure compliance" condition

5.25 The Panel noted that the United States and the Community interpret the term "necessary" differently. They differ as to whether it requires the use of the least trade-restrictive measure available. They also differ as to whether "necessity" to use measures that accord less favourable treatment to imported products can be created by a contracting party's choice, in its national legislation, of enforcement measures against domestic products that would not be effective against imports. . . .

5.26 It was clear to the Panel that a contracting party cannot justify a measure inconsistent with another GATT provision as "necessary" in terms of Article XX(d) if an alternative measure which it could reasonably be expected to employ and which is not inconsistent with other GATT provisions is available to it. By the same token, in cases where a measure consistent with other GATT provisions is not reasonably available, a contracting party is bound to use, among the measures reasonably available to it, that which entails the least degree of inconsistency with other GATT provisions. The Panel wished to make it clear that this does not mean that a contracting party could be asked to change its substantive patent law or its desired level of enforcement of that law, provided that such law and such level of enforcement are the same for imported and domestically-produced products. However, it does mean that, if a contracting party could reasonably secure that level of enforcement in a manner that is not inconsistent with other GATT provisions, it would be required to do so.

5.27 Bearing in mind the foregoing and that it is up to the contracting party seeking to justify measures under Article XX(d) to demonstrate that those measures are "necessary" within the meaning of that provision,⁶ the Panel considered whether the inconsistencies that it had found with Article III:4 can be justified as "necessary" in terms of Article XX(d). The Panel first examined the argument of the United States that the Panel should consider not whether the individual elements of Section 337 are "necessary" but rather whether Section 337 as a system is "necessary" for the enforcement of United States patent laws. . . . The Panel did not accept this contention since it would permit contracting parties to introduce GATT inconsistencies that are not necessary simply by making them part of a scheme which contained elements that are necessary. In the view of the Panel, what has to be justified as "necessary" under Article XX(d) is each of the inconsistencies with another GATT Article found to exist, i.e. in this case, whether the differences between Section 337 and federal district court procedures that result in less favourable treatment of imported products within the meaning of Article III:4, as outlined above (paragraph 5.20), are necessary.

(c) The necessity of the specific inconsistencies with Article III:4

6. See Report of the Panel on Canada - Administration of the Foreign Investment Review Act, paragraph 5.20 (BISD 30S/164), adopted on 7 February 1984.

5.28 The United States suggested that Section 337 can be justified because, under United States law, it provides the only means of enforcement of United States patent rights against imports of products manufactured abroad by means of a process patented in the United States. . . . The Panel considered that, even if it were accepted that a different scheme for imports alleged to infringe process patents is necessary, this could not in itself justify as "necessary" in terms of Article XX(d) any of the specific inconsistencies with Article III:4. . . . In any event, the Panel did not consider that a different scheme for imports alleged to infringe process patents is necessary, since many countries grant to their civil courts jurisdiction over imports of products manufactured abroad under processes protected by patents of the importing country. The Panel noted that, in the 1988 Omnibus Trade and Competitiveness Act, the United States has in fact amended its law to this effect. . . .

5.29 The United States also suggested that certain features of Section 337 are necessary in order to permit Presidential review, which is in the interests of respondents. . . . The Panel did not believe that this provided an argument for necessity in terms of Article XX(d), since Presidential review is not necessary in order to secure compliance with United States patent legislation; it is not, of course, available in United States patent litigation involving challenged products of domestic origin.

5.30 The United States suggested that Section 337 is needed because of difficulties with service of process on and enforcement of judgments against foreign manufacturers. . . . As regards service of process, the difference in procedures between Section 337 and federal district courts was not itself alleged to be inconsistent with any GATT provision; and the Panel did not see why any of the inconsistencies with Article III:4 are a necessary accompaniment of arrangements for effective service of process where imported products are concerned. However, as noted in paragraph 5.19 above, the Panel found the differences in procedures for the enforcement of judgments to be inconsistent with Article III:4 in that they provide for the possibility of in rem general exclusion orders against imported products when no equivalent remedy is available against products of United States origin; and that they provide for automatic customs enforcement of exclusion orders while the enforcement of a court injunction requires the initiation of proceedings by the successful party.

5.31 The United States stressed the importance to its system of enforcement of in rem orders, and the Panel considered this question at some length. The Panel agreed with the United States that taking action against infringing products at the source, that is at the point of their production, would generally be more difficult in respect of imported products than in respect of products of national origin: imported products are produced outside the jurisdiction of national enforcement bodies and it is seldom feasible to secure enforcement of the rulings of a court of the country of importation by local courts in the country of production. In personam action against importers would not in all cases be an adequate substitute for action against the manufacturer, not only because importers might be very numerous and not easily brought into a single judicial proceeding, but also, and more importantly, because as soon as activities of known importers were stopped it would often be possible for a foreign manufacturer to find another importer. For these reasons the Panel believed that there could be an objective need in terms of Article XX(d) to apply limited in rem exclusion orders to imported products, although no equivalent remedy is applied against domestically-produced products.

5.32 A limited in rem order applying to imported products can thus be justified, for the reasons presented in the previous paragraph, as the functional equivalent of an injunction enjoining named domestic manufacturers. However, these reasons do not

justify as "necessary" in terms of Article XX(d) the inconsistency with Article III:4 found in respect of general exclusion orders; this is that such orders apply to products produced by persons who have not been named as respondents in the litigation, while no equivalent measure applicable to non-parties is available where products of United States origin are concerned. The United States informed the Panel that the situations which under Section 337 could justify a general exclusion order against imported products are a widespread pattern of unauthorised use of the patented invention or process and a reason to infer that manufacturers other than respondents to the investigation might enter the United States market with infringing products. However, the Panel saw no reason why these situations could not also occur in respect of products produced in the United States. Nevertheless, the Panel did not rule out entirely that there could sometimes be objective reasons why general in rem exclusion orders might be "necessary" in terms of Article XX(d) against imported products even though no equivalent measure was needed against products of United States origin. For example, in the case of imported products it might be considerably more difficult to identify the source of infringing products or to prevent circumvention of orders limited to the products of named persons, than in the case of products of United States origin. Of course, the United States could bring the provision of general exclusion orders into consistency with Article III:4 by providing for the application in like situations of equivalent measures against products of United States origin.

5.33 As noted above, the Panel found an inconsistency with Article III:4 in the fact that Section 337 exclusion orders are automatically enforced by the Customs Service, whereas the enforcement of injunctions against products of United States origin requires the successful plaintiff to bring individual proceedings. However, in this case the Panel accepted the argument of necessity in terms of Article XX(d). A United States manufacturer which has been enjoined by a federal district court order can normally be expected to comply with that injunction, because it would know that failure to do so would incur the risk of serious penalties resulting from a contempt proceeding brought by the successful plaintiff. An injunction should therefore normally suffice to stop enjoined activity without the need for subsequent action to enforce it. As far as imported products are concerned, enforcement at the border by the customs administration of exclusion orders can be considered as a means necessary to render such orders effective.

5.34 The Panel considered the argument of the United States that many of the procedural aspects of Section 337 reflect the need to provide expeditious prospective relief against infringing imports (paragraph 3.66). The Panel understood this argument to be based on the notion that, in respect of infringing imports, there would be greater difficulty than in respect of infringing products of domestic origin in collecting awards of damages for past infringement, because foreign manufacturers are outside the jurisdiction of national courts and importers might have little by way of assets. In the Panel's view, given the issues at stake in typical patent suits, this argument could only provide a justification for rapid preliminary or conservatory action against imported products, combined with the necessary safeguards to protect the legitimate interests of importers in the event that the products prove not to be infringing. The tight time-limits for the conclusion of Section 337 proceedings, when no comparable time-limits apply in federal district court, and the other features of Section 337 inconsistent with Article III:4 that serve to facilitate the expeditious completion of Section 337 proceedings, such as the inadmissibility of counterclaims, cannot be justified as "necessary" on this basis.

...

NOTES AND QUESTIONS

1. The GATT panel's report in *Section 337 of the Tariff Act of 1930* has remained an important benchmark, even after the establishment of the WTO and the emergence of GATT 1994 and the TRIPS agreement. *See, e.g., European Communities-Protection of Trademarks and Geographical Indications for Agricultural Products and Foodstuffs*, WT/DS174/R, 2005 WL 704421 (March 15, 2005), ¶¶ 7.133, 7.173 (citing *Section 337 of the Tariff Act of 1930* as authority); *see also id.* ¶ 7.299 (discussing Appellate Body report in *Korea - Various Measures on Beef*, ¶ 166, approving approach taken by *Section 337 of the Tariff Act of 1930*).

2. Recall ¶ 2.9 of the panel report. If *Certain Aramid Fibre* has been resolved, what is the point of continuing the panel's proceedings? (In answering this question, see ¶ 5.1 of the panel report.)

3. The Omnibus Trade and Competitiveness Act of 1988 (OTCA) made significant changes to § 337, including the following:

- (a) The prior § 337 requirement of injury to an industry was removed;
- (b) It was no longer necessary to demonstrate that the industry producing the same or like product is "efficiently and economically operated" (§ 337(a)(1)(B); (2); and (3));
- (c) Federal district courts were given jurisdiction over the importation, use or sale of products made abroad by a process covered by a U.S. process patent, as well as a U.S. product patent;
- (d) The statutory definition of activities that qualify a firm as an industry in the United States for purposes of bringing a § 337 action—*e.g.*, substantial investment in the exploitation of the intellectual property right (including engineering, research and development, or licensing) constitutes sufficient activity to qualify as an industry (§ 337(a)(3)(B));
- (e) The ITC practice of protective orders on confidential information is codified in § 337(n);
- (f) ITC practice was changed to provide for a default procedure where a person fails to respond (§ 337(g));
- (g) The ITC was authorized to prescribe sanctions for abuse of process or abuse of discovery (§ 337(h));
- (h) The ITC was authorized to issue an order for seizure by the Customs Service and forfeiture to the United States of goods subject to an exclusion order when sought to be imported by a person who has previously attempted to import the article in violation of the exclusion order and when notice of impending seizure has been given (§ 337(i));
- (i) The ITC is authorized to issue both cease and desist and exclusion orders in the same case (§ 337(f));

In light of the amendment of § 337, what is the point of continuing the panel's proceedings? (*See* ¶¶ 5.2, 5.28 of the panel report; *cf.* ¶ 5.16 n.4.)

4. What if goods are being imported into the United States that may violate trademark or copyright rights of a U.S. producer? Would § 337 apply? As amended by the OTCA? Does the panel differentiate between patent protection and trademarks or copyrights? (*See* ¶ 5.3 of the panel report.)

5. Recall ¶ 5.10 of the panel report. What is the significance of the dispute over Article III:4 application to substantive or procedural rules? Would the comparative analysis of § 337 and infringement actions have been different if the panel had decided that Article III:4 only applied to substantive rules? (*Cf.* ¶¶ 5.11-5.19 of the panel report.)

6. In ¶ 5.19, the Panel finds that Section 337 is inconsistent with Article III:4 because

of (i) the availability to complainants of a choice of forum in which to challenge imported products, but not products of U.S. origin; (ii) potential disadvantages to producers or importers of challenged products of foreign origin because of tight and fixed time-limits in § 337 proceedings, with no comparable time-limits in court challenges; (iii) non-availability of opportunities in § 337 proceedings to raise counterclaims; (iv) general exclusion orders in § 337 proceedings, but no comparable remedy against infringing products of U.S. origin; (v) automatic enforcement of exclusion orders by Customs; and, (vi) the possibility of dual enforcement actions (*i.e.*, before the ITC and before a federal district court) against challenged products of foreign origin, but not against products of U.S. origin. How significant are these differences? Are they not simply the natural result of the different sources of the offending products? Should that be a valid defense against the Article III:4 claim? On that basis, would the exemption in Article XX(d) apply? (*See* ¶¶ 5.22-5.34 of the panel report.)

7. Do you think that the Panel would have reached the same conclusions if the OTCA-amended § 337 had been the subject of the dispute? In fact, the current version of § 337 is the result of further amendments in 1992, 1994, 1996, 1999, and 2004.⁷ The most significant amendments occurred in 1994. Among other things, the strict time limits for ITC actions were eliminated from § 337(b)(1). Counterclaims were authorized by § 337(c). Forfeiture of the complaining party's bond to the respondent is provided for, under certain circumstances, in § 337(e)(1), (4). (*See also* § 337(f)(1) (providing for requirement of bond.) Review the current § 337, and consider whether it is still vulnerable to the criticisms highlighted by the panel report in *Section 337 of the Tariff Act of 1930*.

8. In January 2000, the EU requested consultations with the United States with respect to § 337 and the ITC's related Rules of Practice and Procedure. The EU alleged that those measures violated Article III of GATT 1994 and TRIPS Agreement Articles 2 (in conjunction with Article 2 Paris Convention), 3, 9 (in conjunction with Article 5 Berne Convention), 27, 41, 42, 49, 50 and 51. *United States - Section 337 of the Tariff Act of 1930 and Amendments Thereto*, WT/DS186. Review the cited provisions of the TRIPS, and consider whether the current version of § 337 is consistent with them.

9. The following cases represent recent practice under § 337. Are these cases consistent with the panel report in *Section 337 of the Tariff Act of 1930*? With the current version of amended § 337?

KINIK CO. v. INTERNATIONAL TRADE COMMISSION

362 F.3d 1359 (Fed. Cir. 2004)

PAULINE NEWMAN, CIRCUIT JUDGE.

This exclusion action was initiated on the complaint of Minnesota Mining and Manufacturing Company and Ultimate Abrasive Systems L.L.C. (collectively "3M") under 19 U.S.C. § 1337(a)(1)(B)(ii), formerly § 1337(a) of the Tariff Act of 1930 as amended (variously called § 337(a)). The International Trade Commission found that the process claimed in United States Patent No. 5,620,489 (the '489 patent), owned by

7. Pub. L. No. 102-563, §§ 3(d), 106 Stat. 4248 (Oct. 28, 1992); Pub. L. No. 103-465, Title II, §§ 261(d)(1)(B)(ii), Title III, §§ 321(a), 108 Stat. 4909, 4943 (Dec. 8, 1994); Pub. L. No. 104-295, §§ 20(b)(11), (12), (c)(2), 110 Stat. 3527, 3528 (Oct. 11, 1996); Pub. L. No. 106-113, Div. B, §§ 1000(a)(9) [Title V, §§ 5005(b)], 113 Stat. 1536, 1501A-594 (Nov. 29, 1999); Pub. L. No. 108-429, Title II, §§ 2004(d)(5), 118 Stat. 2592 (Dec. 3, 2004).

3M, was being used in Taiwan to produce certain abrasive articles that were imported by the Kinik Company into the United States. We conclude that on the correct claim construction the process of the '489 patent was not practiced; the judgment of infringement is reversed.

The Commission's ruling that the defenses available under 35 U.S.C. § 271(g) do not apply to actions under 19 U.S.C. § 1337(a)(1)(B)(ii) is affirmed. . . .

I

35 U.S.C. § 271(g)

The Commission held that the recently enacted defenses to infringement, when the issue is offshore practice of a patented process, do not apply to infringement actions before the International Trade Commission. Kinik states that this ruling is incorrect, and that all defenses to infringement are by statute available in ITC actions. Thus Kinik states that even if its process were found to include all the steps of the '489 claims, the product of those steps is "materially changed by subsequent processes," placing Kinik within the exception provided by § 271(g)(1):

35 U.S.C. § 271(g). Whoever without authority imports into the United States or offers to sell, sells, or uses within the United States a product which is made by a process patented in the United States shall be liable as an infringer, if the importation, offer to sell, sale, or use of the product occurs during the term of such process patent. In an action for infringement of a process patent, no remedy may be granted for infringement on account of the noncommercial use or retail sale of a product unless there is no adequate remedy under this title for infringement on account of the importation or other use, offer to sell, or sale of that product. A product which is made by a patented process will, for purposes of this title, not be considered to be so made after—

- (1) it is materially changed by subsequent processes; or
- (2) it becomes a trivial and nonessential component of another product.

The Commission held that the exceptions set forth in § 271(g)(1) and (2) do not apply as defenses to § 337(a) actions. Kinik challenges this holding, pointing out that 19 U.S.C. § 1337(c) states that "[a]ll legal and equitable defenses may be presented in all cases." See *Lannom Mfg. Co. v. United States Int'l Trade Comm'n*, 799 F.2d 1572, 1578 (Fed.Cir.1986) (the Commission recognizes the same defenses and applies the same burdens of proof as in the courts). Kinik states that Congress did not create an exception for ITC actions upon enactment of § 271(g), and that the Commission incorrectly held otherwise.

The Commission relied for its interpretation on the Process Patent Amendments Act of 1988, which states, in adding § 271(g) to Title 35, that "[t]he amendments made by this subtitle shall not deprive a patent owner of any remedies available ... under section 337 of the Tariff Act of 1930, or under any other provision of law." Pub. L. 100-418, § 9006(c). The Commission held that the new defenses under § 271(g) were not intended to be available in ITC actions, for to hold otherwise would deprive the patent owner of a remedy available under the Tariff Act. The Commission pointed to the explicit statement that the existing scope of § 337 actions would not be diminished, and that § 271(g), in the clause introducing the new defenses to infringement by overseas practice, states that they are "for purposes of this title." Such clause would have been unnecessary unless it served to avert conflict between the Patent Act and the Tariff Act, for the contemporaneous record shows that such conflict was recognized. See *Duncan v. Walker*, 533 U.S. 167, 174 (2001) (it is "a cardinal principle of statutory construction" that "a statute ought, upon the whole, to be so construed that, if it can be prevented, no

clause, sentence, or word shall be superfluous, void, or insignificant").

The enactment of 35 U.S.C. § 271(g) was part of the Omnibus Trade and Competitiveness Act of 1988, Pub. L. No. 100-418, 102 Stat. 1107. It was explained that § 271(g) was intended to provide "patent owners the new right to sue for damages and seek an injunction in Federal district court when someone, without authorization, uses or sells in the United States, or imports into the United States a product made by their patented process." S.Rep. No. 100-83 at 27 (1987). The purpose of § 271(g) was to authorize the district courts to adjudicate and impose liability for infringement based on the overseas practice of processes patented in the United States, upon importation of the products of those processes. Previously, remedy was available only by exclusion action under the Tariff Act.

Since 19 U.S.C. § 1337(c) states that all legal and equitable defenses may be presented in Commission actions, Kinik argues that the new defenses of § 271(g) apply in § 337(a) actions. However, § 9006(c) of the Process Patent Amendments Act, *supra*, states the intent to preserve all existing remedies, as elaborated in the Senate Report:

There is no intention to impose any of these limitations on owners of products or on owners of process patents in suits they are able to bring under existing law. Neither is there any intention for these provisions to limit in any way the ability of process patent owners to obtain relief from the U.S. International Trade Commission.

S.Rep. No. 100-83 at 60-61.

The Commission ruled that the enactment of § 271(g) preserved § 337(a) undiminished by the new defenses provided for § 271(g) actions in district court. To the extent that there is any uncertainty or ambiguity in the interpretation of § 337(a) and its successor § 1337(a)(1)(B)(ii), deference must be given to the view of the agency that is charged with its administration. *Chevron U.S.A., Inc. v. Natural Resources Defense Council*, 467 U.S. 837, 843 (1984). In *Amgen, Inc. v. United States Int'l Trade Comm'n*, 902 F.2d 1532, 1540 n. 13 (Fed.Cir.1990) this court observed that no material changes were made in the text of § 1337(a)(1)(B)(ii) as reenacted in 1988, despite the concurrent enactment of § 271(g), reinforcing the intention to preserve the scope of former § 337a. The *Amgen* court pointed out that § 271(g) expressly limited the new defenses to infringement "for purpose of this title." Although Kinik argues that it is anomalous to create a legislative distinction in the defenses available in different tribunals, before this enactment there was an even greater distinction, for overseas manufacture could not be reached at all in the district courts.

The Commission's interpretation of its statute is supported by the text of the statutes, by the legislative history, and by precedent. We affirm the Commission's ruling that the defenses established in § 271(g) are not available in § 1337(a)(1)(B)(ii) actions. ...

VASTFAME CAMERA, LTD. v. INTERNATIONAL TRADE COMMISSION

386 F.3d 1108 (Fed. Cir. 2004)

Linn, Circuit Judge.

This appeal is one of two related appeals from a decision of the International Trade Commission ("Commission") involving "single-use" or "disposable" 35 mm film cameras, more formally known as "lens-fitted film packages" ("LFFP"). VastFame

Camera, Ltd. ("VastFame") appeals from the Commission's determination that importation of VastFame's LFFPs violates a pre-existing general exclusion order. *In re Certain Lens-Fitted Film Packages*, Inv. No. 337-TA-406 (Int'l Trade Comm'n May 2, 2002) ("*Initial Determination*"). Because the Commission's decision refusing to allow VastFame to present its invalidity defense was contrary to 19 U.S.C. § 1337(c), we vacate the Commission's infringement determination with respect to VastFame and remand for further proceedings consistent with this opinion.

Background

This proceeding arises out of the Commission's investigation, entitled *In re Certain Lens-Fitted Film Packages*, which resulted in the issuance of a general exclusion order on June 9, 1999. Inv. No. 337-TA-406 (Int'l Trade Comm'n June 9, 1999) ("*Initial Investigation*"). The Initial Investigation involved newly made and refurbished LFFPs. The Initial Investigation also involved numerous Fuji Photo Film Co., Ltd. ("Fuji") patents, including U.S. Patent No. 4,884,087 ("the '087 patent"). . . .

VastFame was not a party to the Initial Investigation, and its VN99 and VN991 cameras were not at issue in that investigation. Although VastFame was not a named respondent in the Initial Investigation, it knew that the proceedings were taking place. VastFame was notified of the proceedings in a March 25, 1998 letter from Fuji. The letter informed VastFame that it had been identified as a potential respondent, offered to supply VastFame with a copy of the supplemented complaint, and advised VastFame that whether or not it joined, it would be bound by the decision. VastFame refused to join the proceedings.

After the general exclusion order issued, VastFame obtained a ruling from the U.S. Customs Service¹ ("Customs") that the VN99 and VN991 cameras did not violate the general exclusion order. *Lens-Fitted Film Packages*, Pub. No. 468780, ITC Inv. No. 337-TA-406 (Customs Serv. Mar. 27, 2000). Customs only considered one of the fifteen patents upon which the general exclusion order was based. Nevertheless, having concluded that VastFame's LFFPs did not violate the general exclusion order, Customs allowed the importation of VastFame's VN99 and VN991 cameras beginning in early 2000.

In June 2001, Fuji filed a complaint with the Commission requesting enforcement and advisory proceedings to determine whether VastFame and others had violated the general exclusion order. In those proceedings, VastFame pled as a defense that claim 15 of the '087 patent was invalid under 35 U.S.C. §§ 102 and 103(a) in view of certain prior art references. Vastfame fully briefed the invalidity defense and was prepared to put on its case at the trial, but the Administrative Law Judge ("ALJ") refused to consider invalidity, ruling that the defense could not be raised in the enforcement proceeding. *Initial Determination*, slip op. at 64 n. 33. The ALJ . . . advised the parties that the Commission's order directing the ALJ to conduct the proceedings did not permit him to entertain a validity challenge to the patents underlying the general exclusion order. The ALJ expressed the view that the Commission's order limited him to determining only whether the importation of the enforcement respondents' cameras violated the general exclusion order.

In February 2002, the ALJ conducted an evidentiary hearing on the issues raised in

1. As of March 1, 2003, the U.S. Customs Service became the Bureau of Customs and Border Protection in the Department of Homeland Security. The Department of the Treasury still retains authority over Customs' revenue functions including enforcement of 19 U.S.C. § 1337. Homeland Security Act of 2002, Pub. L. 107-296, §§ 412, 415, 116 Stat. 2135, 2179-81.

Fuji's complaint. On May 2, 2002, the ALJ concluded that the VN99 and VN991 cameras infringed only one claim asserted by Fuji, namely, claim 15 of the '087 patent. *Initial Determination*. Based on the finding of infringement, the ALJ held that the VN99 and VN991 cameras were in violation of the general exclusion order and could no longer be imported. Because Fuji's complaint sought both enforcement and advisory proceedings, the ALJ simultaneously issued separate opinions in the form of an initial determination on enforcement and an advisory opinion regarding violation of the general exclusion order. See *In re Certain Lens-Fitted Film Packages*, Inv. No. 337-TA-406 (Int'l Trade Comm'n May 2, 2002) (advisory opinion).

Upon entry of the ALJ's enforcement initial determination, VastFame petitioned the Commission to remand the case to the ALJ for consideration of the previously excluded invalidity defense. The Commission declined to review the ALJ's decision on this issue leaving the decision as the final determination of the Commission. *In re Certain Lens-Fitted Film Packages*, Inv. No. 337-TA-406 (Int'l Trade Comm'n Aug. 7, 2002). On May 15, 2003, the Commission finalized its proceedings. *In re Certain Lens-Fitted Film Packages*, Inv. No. 337-TA-406 (Int'l Trade Comm'n May 15, 2003). . . .

Discussion

. . .

B. Statutory Basis of the Enforcement Proceeding

As a threshold matter, the parties disagree as to the statutory basis of the enforcement proceeding before the Commission. This is an issue we must decide before we can determine if the Commission erred in not providing VastFame an opportunity to present its invalidity defense. VastFame argues that the enforcement proceeding, which was expressly conducted under 19 C.F.R. § 210.75(b), constituted an investigation under § 1337(b) because that is the only provision that authorizes the type of inquiry engaged in by the Commission in this case. The Commission argues that § 1337 provides the Commission with general authority to enforce its own exclusion orders. It argues that multiple provisions in § 1337 indicate that Congress intended for the Commission to have a role in enforcing its own orders.

Neither party cites express statutory authority for enforcement proceedings, and we have found none. Because the statute is silent with respect to the Commission's authority specifically to conduct enforcement proceedings, the Commission's interpretation of § 1337 may be entitled to deference "if it is reasonable in light of the language, policies and legislative history of the statute." *Enercon*, 151 F.3d at 1381.

The Commission is a creature of statute. *Sealed Air Corp. v. U.S. Int'l Trade Comm'n*, 68 C.C.P.A. 93, 645 F.2d 976, 987 (1981). Thus, it must find authority for its actions in its enabling statute. See *Young Eng'rs, Inc. v. U.S. Int'l Trade Comm'n*, 721 F.2d 1305, 1311-12 (Fed.Cir.1983) ("5 C.F.R. § 211.57 cannot, and does not, provide greater authority than the statute."). The Commission cites 19 U.S.C. § 1335, which gives the Commission authority to "adopt such reasonable procedures and rules and regulations as it deems necessary to carry out its functions and duties." However, this provision does nothing more than provide the Commission with authority to promulgate rules. It does not give the Commission the substantive right to go beyond the express powers provided in § 1337. Similarly, the Commission cites Rule 210.75(b), under which the enforcement proceeding was conducted. However, the Rule itself cannot provide the needed statutory authority. See *Young Eng'rs*, 721 F.2d at 1312. The Commission also cites § 1337(f); however, that section concerns only cease and desist orders and cannot provide the authority for Rule 210.75(b), at least to the extent that the rule relates to the enforcement of a general exclusion order. As VastFame points out, a cease and desist

order was not issued against it in this case.

The Commission also cites § 1337(k)(1), which provides that exclusion orders shall remain in effect until the Commission determines otherwise; and § 1337(k)(2), which provides that a party previously found in violation of § 1337 may petition for a change of an exclusion order. Section 1337(k)(1) says nothing about the Commission's authority to conduct enforcement proceedings. Moreover, it was Fuji, not the Commission, that initiated the present proceedings when it filed its complaint. Section 1337(k)(2) is inapplicable because VastFame had not "previously been found by the Commission to be in violation of" § 1337. 19 U.S.C. § 1337(k)(2) (2000). And that would be true even if VastFame had requested the proceedings. Finally, the Commission cites § 1337(i), which provides that the Commission may order the seizure of goods previously adjudged to be in violation of § 1337 and previously denied entry. But the Commission does not argue that any of these statutory provisions, including § 1337(i), expressly authorizes the enforcement proceeding conducted in this case. The Commission uses § 1337(i) to buttress its argument made with respect to each of these statutory provisions that the authority to promulgate Rule 210.75(b) emanates from the penumbra of § 1337. We cannot agree with the Commission that, if no specific statutory authority exists, the Commission has the inherent authority to conduct enforcement proceedings. Such a view is not reasonable in light of the express powers provided in § 1337 and the fact that the Commission is a creature of statute. *Sealed Air Corp.*, 645 F.2d at 987. Because the Commission's proffered interpretation of the statute is unreasonable, we reject it.

While no statutory provision of § 1337 expressly refers to enforcement proceedings, § 1337(b) gives the Commission general authority to investigate violations of the statute. Section 1337(b)(1) provides, "The Commission shall investigate any alleged violation of this section on complaint under oath or upon its initiative." Section 1337(b), by its language, is not limited to initial complaints and authorizes the Commission to conduct proceedings, including proceedings for the enforcement of general exclusion orders, to "investigate any alleged violation of this section on complaint under oath." In this case, the Commission began its investigation as a result of Fuji's complaint. . . . The statute further provides that "the Commission shall publish notice thereof in the Federal Register." 19 U.S.C. § 1337(b)(1) (2000). Consistent with this requirement, the Commission, in this case, published notice of its investigation in the Federal Register. *In re Certain Lens-Fitted Film Packages*, 66 Fed. Reg. 40,721 (Int'l Trade Comm'n Aug. 3, 2001) (notice of investigation).

Although the Commission seeks to avoid basing its enforcement proceeding on § 1337(b), we hold that the Commission has authority to conduct proceedings to enforce general exclusion orders, and that its authority to conduct such proceedings arises under and is subject to the provisions of § 1337(b).

C. "All Cases"

Having determined that the Commission's authority to conduct an enforcement proceeding is found generally in § 1337(b), we next consider whether the Commission violated § 1337 in not allowing VastFame to present its invalidity defense. The language of § 1337(b)(1) states: "The Commission shall *investigate* any alleged violation of this section on complaint under oath or upon its initiative." 19 U.S.C. § 1337(b)(1) (2000) (emphasis added). *Investigations* are governed by § 1337(c), which states:

The Commission shall determine, with respect to each investigation conducted by it under this section, whether or not there is a violation of this section Each determination under subsection (d) or (e) of this section shall be made on the record after notice and opportunity

for a hearing in conformity with the provisions of subchapter II of chapter 5 of title 5. *All legal and equitable defenses* may be presented in *all cases*.

Id. § 1337(c) (emphases added).

On its face, the statute appears to require the Commission to allow the presentation of all defenses in its investigations. The Commission contends, however, that the nature of a general exclusion order and the considerable burden in establishing the need for such an order support the Commission's view that general exclusion orders may not be collaterally attacked. The Commission argues that § 1337(d)(2) is a codification of the Commission's balancing of the burden on domestic patentees of repeated litigation and the effects on legitimate foreign trade of erroneous determinations as laid down in *Certain Airless Paint Spray Pumps and Components Thereof*, USITC Pub. No. 1199, Inv. No. 337-TA-90 (Nov. 1981). Section 1337(d)(2), however, only addresses the criteria for issuance of general exclusion orders. It does not address whether general exclusion orders may be subject to collateral attack. Section 1337(d)(2), then, provides no support for the Commission's position. Moreover, Congress's intent in adding § 1337(d)(2) was to comply with its obligations under the General Agreement on Tariffs and Trade, not to adopt the Commission's policy objectives as announced in *Certain Airless Paint Spray Pumps*. See S. Rep. No. 103-412, at 120 (1994); H.R. Rep. No. 103-826, at 140-42 (1994) ("The amendments are necessary to ensure that U.S. procedures for dealing with alleged infringements by imported products comport with GATT 1994 'national treatment' rules, while providing for the effective enforcement of intellectual property rights at the border.").

The Commission argues that general exclusion orders are like district court injunctions in that they must be obeyed until they are modified, reversed, or vacated. Thus, in the Commission's view, a general exclusion order, like a district court injunction, should not be subject to collateral attack. However, a general exclusion order is not like a district court injunction with respect to the parties affected. A general exclusion order broadly prohibits entry of articles that infringe the relevant claims of a listed patent without regard to whether the persons importing such articles were parties to, or were related to parties to, the investigation that led to issuance of the general exclusion order. See 19 U.S.C. § 1337(d)(2) (2000) ("The authority of the Commission to order an exclusion from entry of articles shall be limited to persons determined by the Commission to be violating this section unless the Commission determines that"); *Hyundai Elecs. Indus. Co. v. U.S. Int'l Trade Comm'n*, 899 F.2d 1204, 1210 (Fed.Cir.1990) (stating that "in an appropriate case the Commission can impose a general exclusion order that binds parties and nonparties alike and effectively shifts to would-be importers of potentially infringing articles, as a condition of entry, the burden of establishing noninfringement"). By contrast, district court injunctions are generally limited to the parties entering appearances before the court or those aiding and abetting or acting in concert or participation with a party before the court. *Additive Controls & Measurement Sys., Inc. v. Flowdata, Inc.*, 96 F.3d 1390, 1394 (Fed.Cir. 1996) ("Courts do not write legislation for members of the public at large; they frame decrees and judgments binding on the parties before them."). Because of the differing nature of general exclusion orders and district court injunctions, the justification for the prohibition against collateral challenges to injunctions is not directly applicable to general exclusion orders. Thus, the Commission's analogy to district court injunctions is inapposite and unhelpful.

Additionally, the Commission cites *Multi-Level Touch Control Lighting Switches*,

Inv. No. 337-TA-225 (Int'l Trade Comm'n July 16, 1987), as evidence of its long standing policy of not hearing challenges to the validity of a patent underlying a general exclusion order in enforcement or advisory proceedings. It sets forth three public policy arguments to support this position: (1) the difficulty in administering the statute if general exclusion orders are subject to repeated challenges; (2) the necessity of preserving the original complainant's remedy once it has been issued; and (3) the public interest in avoiding uncertainty in the market place. One can argue that all of these policies would be similarly served by preventing subsequent accused infringers in district courts from challenging the validity of a patent that had been previously adjudicated to be not invalid. However, that is not the law. These policies do not justify the Commission's interpretation in the absence of a showing that the statute may be fairly read the way the Commission interprets it. To the contrary, the intent of Congress with respect to this issue is quite clear.

Nevertheless, the Commission argues that the "all cases" language of § 1337(c) only applies to original investigations, not advisory and enforcement proceedings. The Commission argues that the following language of § 1337(c) indicates that the statute only provides for presentation of all defenses in proceedings that lead to determinations under § 1337(d) or (e):

The Commission shall determine, with respect to each investigation conducted by it under this section, whether or not there is a violation of this section Each determination under subsection (d) or (e) of this section shall be made on the record after notice and opportunity for a hearing in conformity with the provisions of subchapter II of chapter 5 of title 5. All legal and equitable defenses may be presented in all cases.

19 U.S.C. § 1337(c) (2000). Because subsections (d) and (e) both relate to the issuance of exclusion orders, the Commission's interpretation would require the Commission to first determine whether a complainant was likely to prevail before deciding whether all defenses may be presented. Moreover, the second sentence quoted above specifically refers to determinations "under subsection (d) or (e)," whereas the "all defenses" rule applies to "all cases." If Congress had intended the "all defenses" provision to only apply to proceedings that lead to determinations under subsections (d) and (e), or even to original proceedings, it could have easily said so. The Commission's proffered interpretation contravenes the clear language of the statute.

VastFame is correct that the "all defenses" provision at least applies to investigations under § 1337(b). The opening sentence of § 1337(c) plainly indicates that investigations under § 1337(b) are governed by § 1337(c). No other language in § 1337(c) modifies the broad reference to "all cases." Thus, we hold that the phrase "all cases" clearly encompasses investigations under § 1337(b). The necessary result, then, is that participants in a proceeding under § 1337(b) must be permitted to raise all defenses.²

The Commission argues that an interpretation of § 1337(c) that makes every

2. Our interpretation of the statutory language should not be read to preclude application of traditional principles of *res judicata* or collateral estoppel. See, e.g., *San Huan New Materials High Tech, Inc. v. Int'l Trade Comm'n*, 161 F.3d 1347, 1357-58 (Fed.Cir.1998) ("There is no denial of due process in applying to San Huan the claim construction that it declined to challenge by offering consent and seeking termination of the investigation."); *Aktiebolaget Karlstads Mekaniska Werkstad v. U.S. Int'l Trade Comm'n*, 705 F.2d 1565, 1578 (Fed.Cir.1983) ("Section 337(c) was not violated; KMW had adequate opportunity to present its legal and equitable defenses, albeit during the first investigation."). However, this is not a case where any form of preclusion is appropriate. Vastfame was not a party to the Initial Investigation before the Commission and, thus, did not have a prior opportunity to raise the invalidity issue it now seeks to present.

Commission proceeding subject to the "all defenses" rule is inconsistent with § 1337(i). Section 1337(i) provides authority for the Commission to issue an order requiring articles imported in violation of § 1337 to be seized and forfeited to the United States if the article was previously the subject of an attempted importation that was denied by reason of an order issued under subsection (d) and upon such denial the party seeking to import was informed of the exclusion order and that any further attempts to import such articles would result in seizure and forfeiture. The Commission's argument misses the mark, however, because VastFame has not asked us to hold that the "all defenses" provision applies to all proceedings in the Commission. VastFame argues that the "all defenses" provision applies to § 1337(b) at a minimum. Thus, whether the "all defenses" provision applies to § 1337(i) is not before us. We hold only that the phrase "all cases" encompasses investigations under § 1337(b). We need not and do not decide what other proceedings may fall within the scope of "all cases." . . .

E. VastFame's Invalidity Defense

As an alternative argument, VastFame asks this court not merely to vacate but to reverse the Commission's final determination if we find, without further need of evidence, that claim 15 of the '087 patent is invalid. The Commission declined to entertain VastFame's invalidity defense; it has not ruled on the merits of this defense. In *Beloit Corp. v. Valmet Oy*, 742 F.2d 1421, 1423 (Fed.Cir.1984), this court held that it "does not sit to review what the Commission has not decided." Accordingly, the court will not consider the merits of the validity defense that was neither heard nor decided by the Commission. Instead, having determined that the Commission erred in excluding the validity challenge, we remand the case to the Commission for consideration of VastFame's invalidity defense in the first instance.

NOTES AND QUESTIONS

1. Are *Kinik* and *VastFame* consistent with each other? Which is more generous on the issue of the availability of defenses in the context of § 337 proceedings? Why?

2. In *VastFrame*, why does the ITC seek to avoid basing its enforcement proceeding on § 1337(b)? According to the Federal Circuit, what are the implications of deciding that the ITC's enforcement proceeding is based on 1337(b)?

3. Assume you are general counsel for the Paradigm Toy Company, which produces and markets in the United States the mind-twisting device known as Kubic's Tube. Your particular task as general counsel is to solve the following trade problem. The Kopykat Toy Company, which is located in Japan, seeing the popularity of Paradigm's product, has begun to market the same kind of mind-twisting device in the United States. Kopykat also calls its device "Kubic's Tube," although it did not invent the device. Assume the following additional facts to be true:

- a. Kopykat's Kubic's Tube is manufactured and exported exclusively from Japan;
- b. Kopykat is receiving a direct cash grant from the government of Japan, the amount to be paid to increase in direct proportion to export sales by Kopykat;
- c. Kopykat is allowed to depreciate its production equipment on an "accelerated depreciation" basis;
- d. Kopykat is given a rebate upon export by the Japanese government equal to the amount of the commodity tax assessed on all its Tubes sold in Japan;
- e. The Government of Japan has a policy of absorbing the losses of all companies that

export through so-called recapitalization;

f. Kopykat sells its Kubic's Tube in Japan for the yen equivalent of \$5.00 per Tube; it sells the same product in the United States for \$4.50 per Tube; its cost of production in Japan is \$3 per Tube; it exports the Tube also to the United Kingdom for \$4.75 per Tube;

g. Paradigm Toy Company obtained a patent from the U.S. Patent Office on the Kubic's Tube in 1999 and a trademark on the Tube in 2001;

h. The U.S. Customs Service classified the Kubic's Tube as an educational device, thus bearing no duty; there is an alternative duty classification, however, for "toys," which bears a duty of 17.5 percent. The headnote for toys in the HTS reads: "items for the amusement of children or adults";

i. Both Japan and the United States are members of the WTO;

j. The market penetration in the United States of Kopykat's product has risen from 0 percent in 2001 to 20 percent of the US. Kubic's Tube market in 2003. Paradigm Toy's net profits since 2001 have increased by 25 percent, despite the increased import penetration. Calculations indicate, however, that employment would have been about 400 workers higher had Paradigm kept the whole Kubic's Tube market.

You have been asked by the president of the Paradigm Toy Company to advise the board of directors in a memorandum on the applicable U.S. remedies to the Kopykat market invasion that might exist pursuant to the foreign patent and trademark laws of the United States. You are expected to address not only the alternative routes for relief that might exist but also the efficacy of the remedies that could be obtained and the likelihood of success. How would your advice differ if the Kubic's Tubes were produced and exported from Taiwan? Hungary?

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