Section 337 and National Treatment under GATT: A Proposal for Legislative Reform

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Abstract

This Article discusses the GATT panel reports on Section 337, the U.S. reaction to the GATT findings and possible amendments to Section 337 that would put the United States in compliance with its international obligations. Taking into account the difficult balancing act necessary to change Section 337 the authors attempt to take these requirements into account in suggesting ways out of the quandary in which the United States and its trading partners now find themselves.
SECTION 337 AND NATIONAL TREATMENT UNDER GATT: A PROPOSAL FOR LEGISLATIVE REFORM

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INTRODUCTION

On November 7, 1989, the United States announced the adoption of a 1988 panel report of the Council of the General Agreement on Tariffs and Trade ("GATT") on section 337 of the Tariff Act of 1930 ("Section 337"). Until the November 7 announcement, the United States had blocked the adoption of the 1988 GATT panel report (the "1988 GATT Panel Report"), despite heavy criticism from other states party to the agreement. The reasons for the U.S. concern with the 1988 GATT Panel Report on Section 337, the prime weapon used by the United States to block importation of goods that infringe U.S. intellectual property rights, were contained in a statement made by U.S. Trade Representative Carla Hills.

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4. Statement by Ambassador Hills on Section 337 and Enforcement of Intellec-
Ambassador Hills stated:

Section 337 of the Tariff Act of 1930, as amended, is one of our strongest tools for the enforcement of intellectual property rights against infringing imports. Because of special difficulties in enforcing rights against unfairly traded imports, we have procedural rules that apply only to imports. We believe that these procedural rules are necessary to effectively enforce our intellectual property laws against imports.⁵

Indeed, Section 337 has been an important trade statute. In seeking to prevent unfair practices in the import trade, Section 337 gives the U.S. International Trade Commission (the “ITC” or the “Commission”) the power to exclude articles from entry into the United States⁶ and to order persons over whom the Commission has jurisdiction to cease and desist from unfair practices.⁷ While the statute contains broad language involving “unfair acts,”⁸ Congressional reports noted that one U.S. Government Accounting Office study found that at least ninety-five percent of Section 337 cases involved intellectual property rights.⁹

From the complainant’s point of view, Section 337 provides a strong tool. In addition to remedies available in federal district court, complainants are able to get a “second bite at the apple” at the ITC. Significantly, complainants receive this second bite at the apple with strict statutory time limits—twelve months, or in more complicated cases, eighteen months¹⁰—and with few problems of personal jurisdiction.¹¹

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⁷ Id. § 1337(f)-(g).
⁸ Id. § 1337(a).
It is no wonder that the United States vigorously defends this weapon of U.S. companies.

This Article discusses the GATT panel reports on Section 337, the U.S. reaction to the GATT findings, and possible amendments to Section 337 that would put the United States in compliance with its international obligations. In proposing changes to Section 337, the authors are aware of the difficult balancing act that is necessary. On the one hand, an attempt must be made to comply with a sometimes confusing GATT panel decision. On the other hand, any legislative changes must take into account the popularity of Section 337 with U.S. companies and with U.S. government officials, and with the consequent need for an amended statute to provide timely and effective remedies against infringing imports. The authors have attempted to take these requirements into account in suggesting ways out of the quandary in which the United States and its trading partners now find themselves.

I. THE GATT PANELS' DECISIONS ON SECTION 337

The event that triggered the November 7, 1989, announcement by the Office of the U.S. Trade Representative (the "USTR") regarding Section 337 was the 1988 GATT Panel Report that found Section 337 to be in violation of U.S. obligations under Article III:4 of the GATT because Section 337 did not provide national treatment for imported goods. The National Treatment doctrine is one of the cornerstones of GATT. Article III:4 of GATT states that

[t]he products of the territory of any contracting party imported into the territory of any other contracting party shall be accorded treatment no less favourable than that accorded to like products of national origin in respect of all laws, regulations and requirements affecting their internal sale, offering for sale, purchase, transportation, distribution, or use.
goods.14 This 1988 GATT Panel Report, however, was not the first GATT panel to address Section 337. In 1983, another GATT panel had adopted a report that upheld the U.S. application of Section 337.15 While many of the same arguments were made to the GATT panels in the 1983 and 1988 cases, those panels came to diametrically opposed results regarding the conformity of Section 337 to GATT requirements. A first step in analyzing the U.S. obligations under GATT must be to understand the bases of the two GATT panel decisions.

A. The 1983 GATT Panel Report—Certain Automotive Spring Assemblies

The GATT panel that considered the Spring Assemblies case16 grew out of a request by the Government of Canada.17 The terms of reference of the GATT panel were

[t]o examine, in light of the relevant GATT provisions, the exclusion of imports of certain automotive spring assemblies by the United States under Section 337 of the United States Tariff Act of 1930 and including the issue of the use of Section 337 by the United States in cases of alleged patent infringement.18

The Canadian government made clear that its objective in bringing the case was not just to seek redress in the particular spring assemblies case, but to attack generally the differential treatment of imports under Section 337.19 Among the specific


16. See id. at 109-11, ¶¶ 8-13 (providing background of Spring Assemblies case).
For prior history of this case, see In the Matter of Spring Assemblies and Computers, USITC Pub. 1172, Inv. No. 337-TA-88 (Aug. 1981) (issuance of general exclusion order excluding all infringing spring assemblies).
18. Id.
19. Id. at 111, ¶ 14.
complaints raised by the Canadian authorities were the duplication of proceedings with federal district court litigation, the different rules of evidence at the ITC, statutory time limits in Section 337 cases that do not exist in district court patent litigation, and the unavailability of counterclaims for respondents appearing at the ITC.

In response to the arguments of Canada, the United States maintained that Article XX(d) of GATT—the "necessity clause"—provided a general exception from the obligations of GATT for the adoption or enforcement of measures which were necessary to secure compliance with domestic laws and regulations. The necessity of Section 337 was said to result from the difficulty in obtaining jurisdiction over foreign parties in enforcing judgments against them in U.S. courts.

In light of the arguments made by the parties, the conclusions of the GATT panel were strangely silent on important issues. The framework of the reasoning of the panel was set out as follows:

The Panel came to the conclusion that its first step should be to consider whether or not the exception provision of Article XX(d) applied in this case. The Panel considered that if Article XX(d) applied, then an examination of the question of the consistency of the exclusion order with the other GATT provisions cited above would not be required.

20. Id. at 111-12, ¶ 16.
21. Id. at 113, ¶ 19.
22. Id.
23. Id.
24. The relevant part of Article XX(d) provides:
   Subject to the requirement that such 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, nothing in this Agreement shall be construed to prevent the adoption or enforcement by any contracting party of measures . . . necessary to secure compliance with laws or regulations which are not inconsistent with the provisions of this Agreement, including those relating to customs enforcement, the enforcement of monopolies . . . , the protection of patents, trade marks and copyrights, and the prevention of deceptive practices.
GATT, supra note 1, art. XX(d), 61 Stat. (pt. 5) at A60-61, T.I.A.S. No. 1700, at 57, 55 U.N.T.S. at 262 (emphasis added).
26. Id.
27. Id. at 124, ¶ 50.
In other words, the panel did not examine whether each of the Section 337 issues raised by Canada, such as the statutory time limits, had merit, but instead addressed only whether the remedy, the exclusion order before it, was necessary. This approach is in sharp contrast to the reasoning found in the 1988 Panel Report.

In reaching its conclusion that an exclusion order was necessary, the panel examined whether "a satisfactory and effective alternative existed under civil court procedures which would have provided . . . a sufficiently effective remedy." The panel concluded that had the ITC complainant pursued its relief only in district court, it could have prevented only parties to the action, and not unknown users, from utilizing infringing spring assemblies. In view of "the relatively simple manufacturing process used to produce automotive spring assemblies," the panel found that relying only upon district court remedies would have created major difficulties for the complainant. In making its determination, the panel cautioned that there could be situations in which it would be practical to resort to federal court remedies alone, without the need for an exclusion order.

The *Spring Assemblies* decision was a victory for the United States, but barely so. By narrowly focusing on the remedy issue and the necessity of an exclusion order in the particular case before it, the GATT panel simply refused to address several of the major complaints raised by Canada—the issues that foreign companies find most disturbing—concerning ITC procedure, time limits, and dual proceedings. Yet even while

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28. *Id.* at 124-28, ¶¶ 49-73 (noting panel's conclusions).
29. *See infra* notes 36-52 and accompanying text.
31. *Id.* at 126, ¶ 59.
32. *Id.*
33. *Id.* at 126, ¶ 60.
34. *Id.* at 127, ¶ 66. The report stated:

The Panel did not, therefore, exclude the strong possibility that there might be cases, for example, involving high-cost products of an advanced technical nature and with a very limited number of potential users in the United States, where a procedure before a United States court might provide the patent holder with an equally satisfactory and effective remedy . . . .

*Id.*
35. As to duplication of proceedings at the ITC and in the district court, the Panel merely "observed that there might be merit in consideration being given to
upholding the exclusion order in this particular case, the panel plainly was concerned with the possible misuse of broad ITC exclusion orders in cases where the necessity of exclusion orders was not readily apparent. Because of the failure to address these crucial concerns, a new GATT challenge to Section 337 was almost inevitable.


The new challenge to Section 337 under GATT came about as a result of an exclusion order issued against Akzo N.V. of the Netherlands, based upon infringement of a process patent held by E.I. du Pont de Nemours and Company of the United States.36 The European Community requested a GATT panel to make findings regarding Section 337 in general and in the Certain Aramid Fiber case in particular.37 However, as a result of a settlement agreement between Akzo and DuPont, the European Community later withdrew its request for specific findings in that case.38

The scope of the complaint addressed by the GATT panel encompassed whether the United States had failed to carry out its obligation to grant national treatment, by providing goods of non-U.S. origin less favorable treatment than U.S. goods en-

simplifying and improving the legal procedures for patent infringement cases.” Id. at 128, ¶ 75.

The possibility of a foreign corporation having to defend in two fora, with time limits only at the ITC evoked the loudest complaints because the result of this “double jeopardy” was to provide a major tactical advantage to complainants. Canada was clearly concerned with this double jeopardy issue, arguing that

[a]s regards patent infringement by domestic producers, the remedy open to a patent holder was to sue in the United States federal courts. This recourse was also available in respect of foreign producers, in addition to bringing a complaint under Section 337, and could be pursued before, during or after a Section 337 investigation. Foreign producers and others engaged in the import trade were thus not only subject to an inherently discriminatory process under Section 337 but were exposed to double jeopardy.

Id. at 112, ¶ 16.


38. Id.
joyed in U.S. federal district courts. The panel found that the United States had failed to fulfill this obligation. In rendering its decision, the panel reversed the logic used by the Spring Assemblies panel. The Aramid Fiber panel refused to examine the necessity clause prior to deciding whether the U.S. practice met the general requirement of national treatment under Article III:4. The panel noted that the necessity clause was a limited and conditional exception. It found that more was required than merely determining that Section 337 as a system was necessary.

The panel noted that Article III:4 makes no distinction between substantive and procedural laws and regulations. Not surprisingly, the panel gave short shrift to the U.S. argument that Article III should be interpreted in a manner that would allow a country to take away procedurally what it had supposedly given substantively.

The panel found that the United States did not accord national treatment under Section 337 in patent-based cases, for the following reasons:

(i) the availability to complainants of a choice of forum in which to challenge imported products, whereas no corresponding choice is available to challenge products of United States origin;

(ii) the potential disadvantage to producers or importers of challenged products of foreign origin resulting from the tight and fixed time-limits in proceedings under Section 337, when no comparable time-limits apply to producers of challenged products of United States origin;

(iii) the non-availability of opportunities in Section 337 proceedings to raise counterclaims, as is possible in proceedings in federal district court;

(iv) the possibility that general exclusion orders may result

39. Id.
40. Id. at 58, ¶ 5.20.
41. Id. at 50, ¶ 5.9.
42. Id.
43. Id. at 60, ¶ 5.27. The report stated: "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." Id.
44. Id. at 50, ¶ 5.10.
from proceedings brought before the USITC under Section 337, given that no comparable remedy is available against infringing products of United States origin;

(v) the automatic enforcement of exclusion orders by the United States Customs Service, when injunctive relief obtainable in federal court in respect of infringing products of United States origin requires for its enforcement individual proceedings brought by the successful plaintiff; and

(vi) the possibility that producers or importers of challenged products of foreign origin may have to defend their products both before the USITC and in federal district court, whereas no corresponding exposure exists with respect to products of United States origin.  

The panel then examined this lack of national treatment in light of the necessity clause. The United States raised the defense of necessity with regard to Section 337 as a whole, rather than making individual "necessity" arguments to counter the European Community's allegations of discrimination based on the national origin of the goods. Apparently, the United States felt constrained in its arguments because Section 337 cases can be brought only by a U.S. industry.

The panel examined the U.S. defenses that were presented and concluded that limited exclusion orders were justified as necessary for imported products and that general exclusion orders could be justified under some circumstances. It also found that automatic enforcement of exclusion orders by the Customs Service was necessary to render orders effective. Finally, the time limits for Section 337 were found not to be necessary under Article XX.

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47. *Id.* at 36.

48. *Id.* at 62, ¶¶ 5.31-32. Limited exclusion orders involve infringing products produced by respondents, while general exclusion orders involve infringing products produced by any person. *Id.* at 56, ¶ 5.19.

49. *Id.* at 62, ¶ 5.33.

50. *Id.* at 63, ¶ 5.34.
recognized that Section 337 relief was only prospective, with the consequent need for an expeditious decision, it found that "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." No justification was found for the tight time-limits allegedly needed to conclude Section 337 cases.

II. THE INTERNATIONAL ASPECT—U.S. DELAY IN IMPLEMENTING THE PANEL DECISION UNDERMINES THE U.S. POSITION ON OTHER ISSUES BEFORE THE GATT

The United States has been, to put it mildly, cautious in its approach to implementation of the 1988 GATT panel findings regarding Section 337. Although the USTR finally adopted the 1988 GATT Panel Report's findings in November 1989, the United States has tied its actions on implementation of the panel report to progress in the Uruguay Round regarding intellectual property rights. While the United States concern for progress on intellectual property rights in the Uruguay Round is understandable, it is a bit difficult to decipher the logical link between Section 337 reform and the Uruguay Round. Is the United States seriously suggesting that national treatment should not be applicable to intellectual property cases? If not, how will any reforms in the Uruguay Round affect changes that must be made in Section 337 to bring it into conformance with GATT? The apparent lack of connection

51. Id.
52. Id.
53. See 6 Int'l Trade Rep. (BNA) No. 45, at 1467 (Nov. 15, 1989) (noting U.S. Ambassador Rufus Yerxa's comments that "[a]doption of the [1988 GATT Panel] report . . . does not automatically change Section 337, and any changes in the law would be affected by ongoing negotiations in the Uruguay Round of trade negotiations"). Senator John Heinz, in a speech before the Washington International Trade Association stated that the United States "would continue enforcing Section 337 without change, pending enactment of legislation amending the section, which could most effectively occur through Uruguay Round implementing legislation." Id. European Community Ambassador Tran Van Tinh noted that he was "unhappy with continued linkage of the issue with the Uruguay Round talks." Id.
between the GATT panel determination and the ongoing negotiations in the Uruguay Round raises another possibility—that delay is being sought by the United States not because of Uruguay Round progress, but for domestic political reasons. Under the “fast track” provisions of the Omnibus Trade and Competitiveness Act of 1988, the implementing bill for a trade agreement coming out of the Uruguay Round will be extremely difficult to amend. By including Section 337 reform in such a trade act, the U.S. Administration may be able to avoid a floor fight in Congress led by members concerned with protecting U.S. businesses.

Another possibility is that the United States will never comply with the 1988 GATT panel determination. The U.S. history of compliance with GATT panel decisions makes this possibility disturbingly likely. A study by Professor Robert E. Hudec analyzes GATT settlement proceedings for the nine years after the end of the Tokyo Round—from January 1980 to December 1988. During that period, the only GATT member with more adverse panel rulings than the United States was the European Community. The eight violations found to have been committed by the United States can be compared with the nine violations committed by the European Community, six by Canada, and the four violations found to have been committed by Japan. Significantly, Professor Hudec found that Japan had substantially complied with all four of the adverse rulings. On the other hand the United States was not in substantial compliance with the adverse rulings in at least half the cases.

A report to the GATT Council, released on December 14, 1989, reached conclusions similar to those of Professor Hudec. This report reviewed the trade policies of the United

56. See id.
57. See id.
58. See id.
States and found that although the United States has historically complied with the majority of GATT rulings, the United States has dragged its feet in bringing its programs into compliance with four recent GATT panel findings—the Superfund report of June 1987, the Customs-User Fee report of February 1988, the Sugar Quota report of June 1989, and the Section 337 case. Ironically, had other countries delayed implementation of a GATT finding similar to the Section 337 report, U.S. law would require retaliation under section 1303 of the Omnibus Trade and Competitiveness Act of 1988, better known as “Special 301.”

In Special 301, the U.S. Congress created a section of law entitled “Identification of Countries that Deny Adequate Protection, or Market Access, for Intellectual Property Rights.” Under the terms of Special 301, the USTR is to identify foreign countries as “priority foreign countries . . . that have the most onerous or egregious acts, policies, or practices that—(i) deny adequate and effective intellectual property rights, or (ii) deny fair and equitable market access to United States persons that rely upon intellectual property protection.”

Congress specified what it meant by denial of adequate or effective protection. It said that


60. GATT Trade Policy Report, supra note 59, at 144.


64. 1988 GATT Panel Report, supra note 2.


[a] foreign country denies adequate and effective protection of intellectual property rights if the foreign country denies adequate and effective means under the laws of the foreign country for persons who are not citizens or nationals of such foreign country to secure, exercise, and enforce rights relating to patents, process patents, registered trademarks, copyrights and mask works. 68

The law goes on to state that a foreign country denies fair and equitable market access if the country denies access through laws, procedures, practices, or regulations which "violate provisions of international law or international agreements to which both the United States and the foreign country are parties, or constitute discriminatory nontariff trade barriers." 69

There can be little doubt that U.S. laws, regulations, and practices under Section 337 deny foreign citizens or nationals adequate and effective means to secure, exercise, and enforce their intellectual property rights. In fact, U.S. laws and practice have been found by a GATT panel to violate provisions of GATT—an international agreement to which the United States and foreign countries are parties. 70 Thus, if the U.S. were to have the same standards applied to it that it applies to the rest of the world, it could expect to be a "priority foreign country" for its denial of intellectual property rights.

Under U.S. law, once a country is identified as a "priority foreign country," the USTR is required to initiate an investigation within thirty days. 71 Within six months of the initiation of an investigation, the USTR shall make a determination if the dispute is not resolved. 72

Of course the U.S. delay in implementing the GATT decision on Section 337 has languished well in excess of the seven months that elapse between the identification of a country as denying adequate and effective intellectual property rights and the determination of the USTR. Thus, if the world intellectual property regime that the United States envisions emerging out of the Uruguay Round bears any resemblance to the U.S. law, U.S. Section 337 practice would be a prime example of the

68. Id. § 2242(d)(2) (emphasis added).
69. Id. § 2242(d)(3)(A)-(B).
72. Id. § 2414(a)(3)(A).
practice that would require retaliation. Under these circumstances the U.S. tying of Section 337 reform to Uruguay Round practice can only be described as bizarre.

III. POSSIBLE SOLUTIONS TO THE SECTION 337 QUANDARY

There is little doubt that the GATT panel finding regarding Section 337 will require major changes in U.S. law if the United States is to bring itself into compliance with its GATT commitments. Any attempt to reform Section 337 must meet the U.S. political requirement that the law remain as expeditious and effective as possible for intellectual property rights holders, while meeting the objectives for change set out in the 1988 GATT Panel Report.73

The authors address the following issues and suggest why reforms would or would not be advisable in an attempt to meet those requirements:

1. Opening up Section 337 to all intellectual property rights holders, not just to U.S. companies;
2. Placing time limits only on the temporary relief phase of a Section 337 determination, not on the final determination;
3. Allowing counterclaims at the ITC; and
4. Choosing alternative fora.

While the authors’ conclusions, as set out below, do not meet all of the objections of the GATT panel, point by point, the changes may be enough to overcome the fundamental charge—discrimination based on national origin—found in the 1988 GATT Panel Report. With these changes, it would be possible for the United States to argue persuasively that any differences between the treatment of imports under Section 337 and the treatment of goods in domestic commerce are “necessary,” because of the greater difficulties that are inherent in international commerce. While there is no guarantee that a new GATT panel would accept such a U.S. argument, it

73. Because of the need for expeditious relief and the political difficulties in removing Section 337 jurisdiction from the ITC, the authors have focused their suggestions on Section 337 reform on changes that would leave jurisdiction at the ITC yet put the United States in a strong position to defend any new case regarding Section 337 before a GATT panel.
appears to have a fairly good chance of success based on the realities of international trade.

A. Opening Up Section 337 to All Intellectual Property Rights Holders

Under the current Section 337, as amended by the 1988 Omnibus Trade Act, a Section 337 case may be brought by a holder of a U.S. patent, copyright, trademark, or semiconductor mask work, only if that holder meets certain criteria regarding economic activity in the United States. The economic activity required concerns: (a) significant investment in plant and equipment, (b) significant employment of labor or capital, or (c) substantial investment in the property right’s exploitation, including engineering, research and development, or licensing. The requirements, however, are more stringent for Section 337 actions based on unfair practices outside of the intellectual property rights mentioned above. In such cases, the complainant must show that the unfair method of competition or unfair act has the threat or effect of destroying or substantially injuring an industry in the United States, preventing the establishment of such an industry in the United States, or restraining or monopolizing trade and commerce in the United States.

While the criteria for intellectual property holders are more relaxed than those for other Section 337 actions, neither set of requirements can be said to confer national treatment on potential foreign complainants. For example, if a Japanese company with a U.S. patent wishes to utilize Section 337 to stop the flow of infringing imports from another Far Eastern country, it could do so only if it had a U.S. subsidiary and that subsidiary could meet the significant investment or employment test specified in the statute. On the other hand, if the same patent holder chose to import the merchandise from Japan and had no U.S. subsidiary, it probably would have no standing under Section 337. This distinction, based solely

75. Id. § 1337(a)(1)(A).
76. See supra note 74 and accompanying text.
77. 19 U.S.C. § 1337(a)(1)(A) (1988). It is theoretically possible that, even without a U.S. subsidiary, a company could have enough activity involving the property right’s exploitation, such as licensing, to qualify as a domestic industry. This out-
on the national origin of the goods, plainly is a violation of the U.S. obligation to provide national treatment for foreign merchandise. As long as the United States fails to provide national treatment to intellectual property right holders, it will be difficult for the United States to argue that Section 337 is "necessary" to protect its intellectual property system. With discrimination based on the national origin of the property holder, it is apparent that it is not the intellectual property system that is being protected, but U.S. companies.

Although the potential controversy that may result from opening up Section 337 to purely foreign producers should not be underestimated, the realities of Section 337 practice make it unlikely that a massive increase in cases would occur. As a practical matter, Section 337 already has been greatly liberalized as a result of the 1988 amendments. However, while the 1988 Omnibus Trade Act expands the ability of foreign complainants to bring Section 337 actions, it is not expansive enough to overcome objections based on national treatment. Thus, in a sense, the United States now has the worst of all possible worlds.

Most Section 337 cases involve relatively low technology items. Of the nineteen investigations decided or settled in some manner in 1989, for example, only five appear to be relatively high technology cases. The other fourteen investigations appear to involve relatively low technology products. This fact is not surprising, since it is precisely these low tech-
nology products that create significant problems of enforce-
ment because they can be produced easily abroad.

The foreign holders of the largest number of U.S. patents,
however, are generally high technology companies. Thus,
unless foreign holders of patents are much more litigious than
U.S. companies, it seems unlikely that we will see a flood of
Section 337 actions brought by foreign-based companies
under a reformed Section 337.

B. Time Limits on Temporary Relief Would Accompish Most U.S.
Goals and Meet GATT Requirements

The European Community argued that the short time lim-
its under Section 337 put respondents in a worse position than
complainants, pointing to the limited time which respondents
are given to prepare adequately. Section 337 relief, however,
is prospective in nature. Unlike an action in federal district
court, which can result in the award of money damages that
covers past harm, relief under Section 337 can result only in an
exclusion order or in a cease and desist order, which are
forms of relief that act only in futuro.

Because Section 337 relief is future oriented, relief that is
not expeditious may well be worthless. As a result of jurisdic-
tional problems with foreign respondents, relief that is delayed
may result in a complainant having no effective remedy against
infringing goods, particularly if the import is a product that has
a short life span, such as a toy, a video game, or increasingly,
even some high technology products. The United States,
therefore, has a legitimate interest in expeditious treatment of
Section 337 cases in order to protect its intellectual property
system.

The 1988 GATT panel found as follows regarding the
ITC time limits:

337-TA-288; (13) Electronic Dart Games, Inv. No. 337-TA-283; and (14) Venetian

80. In 1988, only two of the ten companies that secured the most patents in the
United States were U.S. companies. The eight largest foreign-owned patent holders
were Hitachi, Toshiba, Canon, Fuji Photo, U.S. Philips, Siemens, Mitsubishi, and
Bayer. ECONOMIST, at 74 (Oct. 28, 1989). These foreign holders of U.S. patents
plainly have fewer rights to enforce their patents under Section 337 than do U.S.-
based holders of U.S. patents.


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.\textsuperscript{83}

Based upon this panel finding, it appears that a reformed Section 337 that establishes time limits only for temporary relief would pass GATT muster. With such a change, the final determination of the ITC could take as long as necessary, as in a U.S. district court proceeding. Under the provisions of Section 337(e) and (f), the mechanism is already in place to provide temporary relief generally within 90 days after the notice of investigation is published or 150 days in a more complicated case.\textsuperscript{84}

At least two problems, however, exist regarding the use of time limits for only the temporary relief phase of the investigation. First, if temporary relief were not granted in a case where it was later found that permanent relief was justified, a complainant would be severely damaged. The chances of such an occurrence would be greatly diminished, however, if the U.S. Congress were to specify standards that would be consistent with district court practice regarding temporary relief, taking into account the balance of hardship if relief is improvidently denied.

A second problem regarding the use of time limits only during the temporary relief phase arises from the GATT panel requirement that there be necessary safeguards to protect importers' interests in the event that the product proves to be non-infringing.\textsuperscript{85} At present, temporary relief under Section 337 entails a simple requirement that the importer post a bond to cover entries.\textsuperscript{86} The Commission may, pursuant to the current law, also require a complainant to post a bond as a prerequisite to the issuance of a temporary exclusion order.\textsuperscript{87} The bonds posted by both complainants and respondents would cover amounts owed to the U.S. government and would not be

\textsuperscript{83} 1988 GATT Panel Report, supra note 2, at 63, ¶ 5.34.
\textsuperscript{84} 19 U.S.C. § 1337 (e)-(f) (1988).
\textsuperscript{85} See supra note 84 and accompanying text.
\textsuperscript{86} 19 U.S.C. § 1337(c)(1).
\textsuperscript{87} Id. § 1337(e)(2).
paid to the opposing party. If this requirement became too burdensome on importers, it could discourage legitimate requests for relief. Yet meeting the GATT requirement should not be insurmountable. A change in Section 337 law to require that bonds go to the injured party, rather than to the U.S. government, could help to provide an effective temporary relief mechanism compatible with GATT.

A respondent's bond under an amended Section 337 could be posted in an amount that would compensate the complainant for losses during the pendency of the Section 337 action. If a respondent chooses to continue to export goods to the United States after the issuance of a temporary exclusion order, it would be liable for losses caused to complainants who prevail. Such losses often would be in the amount of lost profits.

On the other hand, if respondents ultimately prevail after the issuance of a temporary exclusion order, complainants would be required to compensate respondents for their losses. Those losses most often would be the cost of the bond that respondents were required to post.

A requirement that the bonded amounts be paid to the opposing party, rather than to the government, would create a more equitable temporary relief system that would avoid the pitfalls of the current system, which is divorced from the economic effect on the opposing party. More importantly, a reform of the bonding provision could meet requirements that temporary relief measures protect the interest of both parties by providing quick and effective relief while protecting the legitimate interest of respondents.

C. Allowance of Counterclaims at the ITC

The 1988 GATT Panel Report also found that the inability of a respondent to raise counterclaims in a Section 337 action, a right a defendant has in federal district court actions, constituted less favorable treatment within the meaning of Article III of the GATT. In order to bring U.S. law into compliance with GATT, it appears that changes are necessary to remedy the inability to bring counterclaims.

A simple solution to the counterclaim problem appears to be allowing counterclaims by respondents at the ITC, with any determinations against complainants enforceable in federal district court. The 1988 GATT Panel Report appears to hold that complainants' tactical advantage in not having to defend against counterclaims is what constitutes less favorable treatment.\(^{89}\)

Nevertheless, allowing counterclaims at the ITC could create serious problems. For example, if counterclaims were allowed, with the possibility of money damages, there would seem to be no need for the strict time limits for temporary relief that are necessary when the relief requested is an exclusion order. As a result, relief would be likely to move at a very different pace for any counterclaims. Moreover, if counterclaims were allowed at the ITC, there still would be a need to enforce an award of money damages in federal district court. Such enforcement would appear to be a needless duplication of effort. It is unclear from the 1988 GATT Panel Report whether a broader Section 337 that is available to all intellectual property owners could disallow counterclaims and still be GATT-compatible based on the necessity clause.

Allowing counterclaims, either in the context of reformed Section 337 cases brought at the ITC or reformed Section 337 cases brought in U.S. district court, could seriously undermine the effectiveness of the Section 337 remedy. If cases remain at the ITC, allowing counterclaims would provide respondents with a greater remedy than the remedy available to complainants because complainants only have cause and desist orders and exclusion orders available as remedies under Section 337.

GATT panel reports have twice upheld the use of exclusion orders as necessary to enforce intellectual property rights, despite the fact that such exclusion orders by their very nature can apply only to imports.\(^{90}\) ITC respondents already have the right to bring actions against ITC complainants in federal district courts. On the other hand, if counterclaims are allowed at the ITC, money damages would be available in that forum to

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\(^{89}\) Id. The panel noted that the lack of counterclaims at the ITC "deprives the respondent of an option that is available where products of United States origin rather than imported products are concerned." Id.

only one party. Some might argue that U.S. district courts should have jurisdiction over all Section 337 cases. But a statutory referral of Section 337 cases to U.S. district courts with time limits may be subjected to constitutional scrutiny.\textsuperscript{91} Under these conditions, the United States should be able to make a strong argument that not allowing counterclaims at the ITC is a necessary part of providing an effective Section 337 statute that is designed to protect the intellectual property system rather than U.S. producers, and thus the United States should be able to defend the lack of counterclaims before any new GATT panel.

D. Choice of Forum

Finally, the GATT Panel Report found that Section 337 was inconsistent with Article III of GATT because only complainants had a choice of forum.\textsuperscript{92} This could lead to the possibility that foreign producers or importers of challenged products of foreign origin may have to defend their products both before the ITC and in federal district court. While there is little doubt that the possibility of dual defenses is a difference based on the origin of the goods, it appears to be necessary for an effective remedy. Because of the need for expeditious relief, it is necessary that Section 337 relief be placed at the ITC, which does not face the potential constitutional problems with time limits or preliminary relief that are faced in the district courts. Because it is necessary to place Section 337 at the ITC for effective relief, it inevitably follows that the possibility of litigating in two fora will exist. Yet this possibility seems necessary for effective relief under a new, revitalized Section 337. If it is necessary under Article XX(d), it should pass muster before any new GATT panel.

CONCLUSION

The 1988 GATT Panel Report on Section 337 presents a major dilemma for U.S. trade policy in the intellectual prop-


\textsuperscript{92} 1988 GATT Panel Report, \textit{supra} note 2, at 58, ¶ 5.20(i).
erty area. The United States has the dual interests of upholding the principle of national treatment while preserving an effective mechanism for expeditious relief. Major revisions of Section 337 will be necessary to accomplish these goals, and, as a result, much political controversy lies ahead.