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International Protection of Intellectual Property Under the 1988 Trade Bill

*Lee D. Green**

I. INTRODUCTION

When the Omnibus Trade and Competitive Act of 1988 (Trade Bill) became law, many of the changes that effected foreign regulatory law had some impact, large or small, on intellectual property protection. There are, however, two areas of new legislation set forth in the Trade Bill, which will have a direct and significant impact on the protection of intellectual property rights under U.S. law. These two areas are (a) amendments to section 337 of the Tariff Act of 1930,¹ which actions are known as "section 337 actions," and (b) the expansion of rights associated with U.S. process patents.² This paper will explore the details of the amendments to Section 337 and the expansion of the process patent right. It will also discuss the probable effects and implications of these changes from the point of view of both claimants under U.S. law and foreign exporters.

The U.S. Senate and House of Representatives initially disagreed on many of the provisions ultimately adopted as part of the Trade Bill concerning both section 337 and the process patent amendments. The areas of disagreement are instructive. Thus, this paper will discuss or describe the differing House and Senate versions of various provisions and explain how these differences were resolved in conference.

II. AMENDMENTS TO SECTION 337—THE "NEW 337 ACTIONS"

A. *Comparison of "Old" and "New" Section 337*

At least one commentator has referred to the Trade Bill's section 337 amendments as "minor." Relative to the total corpus of

* Associate, Baker & McKenzie, Palo Alto, California.

1. 19 U.S.C.A. § 1337 (West Supp. 1989), Omnibus Trade and Competitive Act of 1988, Pub. L. No. 100-418 § 1342, 102 Stat. 1212 (1988).

2. 19 U.S.C.A. § 154 (West Supp. 1989), Omnibus Trade and Competitive Act of 1988, Pub. L. No. 100-418 § 9002, 102 Stat. 1563 (1988).

foreign trade regulatory provisions implemented under the Trade Bill, the changes in section 337 are indeed minor. On the other hand, if a company's rights are inadequately protected overseas, and is therefore plagued by imports which infringe rights under U.S. law, or if a company has found 337 actions previously to be prohibitively burdensome and expensive, then the changes in section 337 are both major and welcome.

Overall, the changes in section 337 reduce the burden on complainants and expedite and streamline section 337 proceedings in which complainants seek exclusion and cease and desist orders from the International Trade Commission (ITC). Any person believing that an import infringes upon an intellectual property right may complain to the ITC for orders excluding those goods from the United States or ordering that certain unfair trade practices (such as trademark or copyright infringement) cease. ITC orders are enforceable by United States district courts.

Below is a list of the major changes enacted by the section 337 amendments and a corresponding list of the procedures and law which applied before these amendments:

OLD 337

Proof Required

Complainant required to show:

unfair trade practices *e.g.*, copyright infringement),
tendency of which is to destroy or injure, and
economically and efficiently run U.S. industry or prevent
establishment of such an industry.

NEW 337

Where intellectual property rights are *registered* under U.S. law:

injury need not be shown, and
showing of a U.S. industry is still required, but
requirement of showing of economically and efficiently run
U.S. industry is deleted, and

a U.S. industry is deemed to exist upon a showing of:

- (a) significant investment in plant and equipment,
- (b) significant employment of labor or capital, or
- (c) substantial investment in exploitation of intellectual property rights in question, including engineering, research and development, or licensing.

Termination of Case

No termination of case absent withdrawal of complaint or determination of whether a

violation had occurred.

Preliminary Relief

Relief rarely available in less than seven months.

Default Action

No provision for default. Complainant was required to present a *prima facie* case in order to obtain any relief.

Forfeiture of Goods

No forfeiture of goods.

The ITC may terminate an investigation without determining whether a violation occurred so long as the parties have reached a settlement.

The ITC may grant a temporary exclusion order (TEO) within ninety days (150 days in complicated cases), but may require posting of a bond. No *ex parte* relief.

A default order may be issued:

against a *specific* respondent in the form of exclusion or cease and desist order or both, if respondent has been served but fails to appear and the relief promotes the public good, in the form of *general* exclusion order if no one contests the investigation and violation is established by substantial and credible evidence.

ITC may order forfeiture of goods if import into U.S. was attempted, the article was previously denied entry under an ITC order, and the owner, importer or consignee received notice of the prior order.

Combined Relief

ITC could issue *either* an exclusion order *or* a cease and desist order.

Monetary Penalties

Maximum daily penalty for violation of order was \$10,000 per day or the domestic value of the goods.

Modification of Orders

No provision for modification of exclusion orders.

ITC had no power to punish abuse of discovery.

ITC may issue *both* a cease and desist *and* an exclusion order in the same case.

New maximum penalties of \$100,000 per day or twice the domestic value of the goods.

A violator may petition for modification of or relief from an exclusion order.

ITC may now punish abuse of discovery pursuant to the stan-

dards set out in Rules 11 and 37 of Federal Rules of Civil Procedure.

B. House and Senate Differences

The House of Representatives and the Senate differed in certain emphases and matters of substance concerning the changes in section 337. The following is a summary of those differences and how the differences were resolved in the final legislation.

1. "Industry" Showing

The Senate version of section 337's basic change would have eased the required showing of an affected U.S. industry involving either registered intellectual property rights or rights existing only at common law (e.g., rights claimed in unregistered trademarks, claims of misuse or misappropriation of trade secrets). However, the House version prevailed. It effectively limits the lightened "industry" showing by making it available only to persons who submitted claims based on registered intellectual property rights.

This limitation was likely based on a concern that it would be unfair to expect foreign exporters to know of, or have reason to know, that a product's incorporated rights were not on the public record. From a strict anti-counterfeiting viewpoint, it is not unreasonable to put the burden of ascertaining whether such rights exist on the foreign manufacturer. However, as a matter of basic fairness between the United States and its trading partners with a good history of honoring intellectual property rights, exclusion of unregistered rights from the new section 337 streamlined actions does seem reasonable. It is important to remember that section 337 can be used against foreign exporters both in countries with a good record of honoring intellectual property rights and in countries with a dismal record of persistent disregard of those rights.

2. Disposition of Bond

The House version of the new section 337 preliminary relief/bonding provision required that if a temporary exclusion order was granted and the ITC required a bond, but where the ITC ultimately found that no violation had occurred, the bond was to be forfeited to the respondent. The Senate version of this

provision required that if no violation was found, the bond would be forfeited to the U.S. Treasury. In the end, the Senate position was enacted.

3. *Nature of Injury*

In those cases where a U.S. industry must still show an injury, the Senate wanted to supplement the injury language by requiring a complainant to show an unfair trade practice which tended to destroy, injure, "impair" or prevent the industry's establishment. The House version of this amendment omitted the word "impair." Ultimately, the Senate receded and the word "impair" was omitted from the final language.

It is unclear what the Senate hoped to accomplish by including "impair" in this area. However, the likely effect may well have been to expand the number of complainants entitled to bring section 337 actions. The concept of "injury" is familiar to U.S. courts. It normally relates to monetary damages. Impairment is a much less precise legal term; it also suggests something less than an "injury." It seems reasonable that if the "impair" language was left in the final legislation, claimants unable to show a monetary injury to a U.S. industry may nevertheless have argued that some sort of "impairment" occurred.

The House and Senate conferees probably did the courts a favor by excluding the impairment concept from the injury language.

C. *Effects and Implications*

The foregoing changes in "337 actions" will have the following effects and implications for foreign exporters and persons claiming rights under U.S. law.

1. *Registration of Rights*

Because the "showing of injury" requirement has been deleted only for *registered* intellectual property right actions brought in the United States, and because of the massive expense often associated with showing an injury to a U.S. industry, the section 337 changes encourage intellectual property rights registration. Both U.S. and foreign nationals seeking section 337 protection should register their intellectual property rights in the United States as early as possible. It is important to note that section 337 actions are still available even when an intellec-

tual property right exists but has not been registered or is not registrable (*e.g.*, "common law" trademark rights or rights in unregistered trademarks) or for the misuse or misappropriation of trade secrets. But in such cases, the complainant must allege and prove an injury to a U.S. industry.

Interestingly, the changes to Section 337 encourage registration while the United States' recent membership in the Berne Convention will diminish somewhat the importance of registration as a significant aspect of securing and enforcing copyright under U.S. law.³

2. *Faster, Less Expensive Actions*

At least with registered rights, section 337 actions should now reach the merits, and decisions should issue more quickly than before. Traditionally, section 337 actions have been very expensive, the average cost being approximately \$300,000. Much of the expense and time required to prosecute a 337 action arose from the complainant's burden of proving the existence of an affected and damaged U.S. industry. Now that the injury requirement has been dropped in registered rights actions and the necessity of showing an economical and efficient U.S. industry has been eliminated, both the expense and time required to prosecute 337 actions should be reduced.

3. *More Cases*

Owners of U.S. registered intellectual property rights will most likely bring more 337 actions since the injury requirement has been dropped. In addition, because of the "deemed existence of industry" provisions in the amendments, more "cutting edge" businesses (many of whom may be non-U.S. nationals) will probably bring actions that will not require a showing of an ongoing existing industry with current output of affected product. The only requirement is "substantial" investment in research and development relating to the affected products.

3. At the same time the U.S. is encouraging registration formality as a prerequisite to enhanced protection under section 337, the U.S. Congress has eliminated registration as a prerequisite to copyright enjoyment because the Berne Convention Implementation Act, under which the U.S. joined the Berne convention, eliminates registration as a prerequisite to enjoyment of copyright.

4. *More Settlements*

The combination of new ITC power to terminate cases on settlement, the reduced burdens on the complainant and the accompanying reduction in expense, together with provisions for obtaining temporary relief in a much shorter time, may induce respondents in 337 actions to settle more cases more quickly than before. It is also probable that the new ITC powers given to impose sanctions for discovery abuse will encourage more settlements. Even when cases are not settled, the parties and the ITC may reach the merits of cases much more quickly than in the past.

The overall sense and thrust of the section 337 changes can be fairly summarized as giving greater bargaining power and a better negotiating position to complainants whose rights are claimed under U.S. registration of intellectual property. If the net effect in practical terms is more section 337 cases, and more settlements in coming years, then the apparent congressional intent in enacting these changes will have been satisfied.

5. *Less "Port Shopping"*

Previously, the ITC was powerless to order a forfeiture of goods. Thus, while the ITC could order goods to be excluded from the United States, a respondent importer or foreign exporter would sometimes engage in "port shopping" by bouncing the relevant goods from port to port in the United States so as to conceal them from scrutiny. In this way a persistent violator could obtain access to U.S. markets notwithstanding the existence of an exclusion order against the goods. Now, however, the ITC has been given a potent weapon against port shopping. The ITC may now order the forfeiture of goods sent to the United States if the goods have been subject to a prior ITC exclusion order, import of the goods was previously attempted and denied under an ITC order, and the owner/importer or consignee had received notice of the prior order.

6. *Uncertainties*

Certain language and provisions of the section 337 amendments give rise to questions and uncertainties which will almost certainly require litigation. For example, if the ITC decides to order the forfeiture of goods based on prior notice of an exclu-

sion order to a specific respondent, that respondent will have an opportunity to litigate the issue of adequate notice.

It is also very likely that the "deemed existence of industry" provisions will be litigated since the terms "significant investment," "significant employment," and "substantial investment" are all vague but extremely important in the new enforcement scheme under Section 337.

7. Impact on Foreign Parties

It would be inaccurate to assume that all complainants in 337 actions are or will be U.S. nationals. Increasingly, foreign companies are finding it advantageous to seek intellectual property rights protection using section 337 actions. Often, they find themselves frustrated by the same problems which have frustrated U.S. companies over the years. Primarily, these problems consist of inadequate intellectual property rights protection outside of the United States, such that goods, which would infringe a company's rights under U.S. law, are being legally made in foreign countries and exported to the United States. When this happens, often the right holder's only available action is to seek an ITC section 337 order. There is no section 337 nationality requirement. As a result, many foreign companies have sought section 337 protection. Japanese companies, and to an increasing degree companies from other Asian countries, are considering or have actively sought to exclude goods from the United States by bringing section 337 actions. For these companies, the registration of intellectual property rights of their products in the United States will be essential, as it will be for U.S. companies, in order to obtain the section 337 advantages of expedited and streamlined treatment.

Many foreign exporters will object to the new section 337 provisions. Foreign manufacturers will now have to be more careful about their product technology sources and whether changes in product content, appearance, and design will be sufficient to remove those products from the scope of U.S. patent, copyright and trademark rights.

8. U.S. Right Holders

Congress' intent in enacting the section 337 amendments was to enhance protection of U.S. rights under section 337. Since U.S. nationals more commonly enjoy those rights than do for-

eign parties, section 337 essentially enhances protection for many U.S. claimants. This is what Congress intended. More U.S. companies will now find section 337 actions more economically justifiable than before, provided those companies have registered their rights.

III. PROCESS PATENTS AMENDMENT ACT OF 1988

A. *Expansion of Patent Process Right*

The Trade Bill's patent amendments⁴ expand the scope of the monopoly right granted to U.S. process patents holders by making the use, sale or importation of a product violating a U.S. process patent an act of infringement. This gives the patentee the right to exclude others from using, selling or importing into the United States all products made by that process without the patentee's consent.

Previously, the patentee's only remedy, upon discovering the importation of products made by the patented process, was to bring a section 337 action. The advantages of filing a process patent infringement in a U.S. district court over the filing of a section 337 action before the ITC are that (a) a temporary restraining order can normally be obtained from a district court more quickly than a temporary exclusion order from the ITC; (b) a district court may award damages for patent infringement; and (c) a district court can enforce its own orders, while a complainant granted an ITC order must petition a district court for enforcement of that order. To constitute an infringement, the import, sale or use of the relevant products must occur during the term of the U.S. process patent.

B. *Limitation of Remedies*

The process patent infringement remedies have been limited so as not to apply in some cases or against certain persons unless all remedies are exhausted against others first. The U.S. pharmaceutical retailers industry lobbied for some of these limitations. Other limitations were imposed because of legislative concern that those initially guilty of unauthorized process patents use be subject to priority liability. The remedies available

4. 19 U.S.C.A. § 154 (West Supp. 1989), Omnibus Trade and Competitive Act of 1988, Pub. L. No. 100-418 § 9002, 102 Stat. 1563 (1988).

under the Process Patents Amendment Act of 1988 have been limited as follows:

1. *Changed Product/Trivial Component*

A product is deemed not made by a patented process if (a) it has been materially changed by subsequent processes, or (b) it has become a trivial and non-essential component of another product.

2. *Non-commercial Use/Retail Sale*

No remedy is available for non-commercial use or retail sale of an infringing product unless no remedy exists for the importation or other use or sale of the product.

This limitation of remedies against non-commercial users and retail sellers of infringing products has resulted from a compromise between pharmaceutical companies, which wanted all persons including retailers and non-commercial users to be punished for use or sale of infringing products, and retailers, who wanted all retail sale of such products entirely exempted from the remedies detailed in the Trade Bill. This compromise manifests a legislative intent that manufacturers, importers and wholesalers be the preferred targets of patent infringement actions, while non-commercial users and retail sellers of those products are not preferred defendants although they are not entirely exempt from liability. The issue to be litigated is: when will no remedy be deemed to exist for the importation or other use or sale of a product so as to allow a plaintiff to proceed against a non-commercial user or retail seller of the product?

3. *Pre-existing Use*

No remedy is available against a person (1) for a product already in "substantial and continuous sale and use by such person in the United States on January 1, 1988," or (2) for which substantial preparation by such person for such sale or use was made before such date, (3) to the extent equitable for the protection of commercial investments made or business commenced in the U.S. before January 1, 1988. This exception is not applicable to respondents in ITC process patent enforcement actions commenced before January 1, 1987.

In the original Senate version of the Trade Bill, an exemption from liability was also created for goods which a party "had

made a binding commitment to purchase and which have been wholly or partially manufactured." This exemption would have applied regardless of the defendant's notice or lack thereof concerning the plaintiff's claimed processed patents or patents. The administration objected to this exemption, and it was therefore abandoned in conference.

4. *Lack of Notice*

No remedy is available against any person for a product in the possession of or in transit to that person before that person has "notice of infringement." The defendant has the burden of proving that he or she had possession of the goods or the goods were in transit to the defendant prior to the defendant's receipt of notice of the infringement.

This lack of notice defense is the major defense outlined in the new law. The question in many cases will be what constitutes "notice of infringement." Congress provided certain guidelines, as follows: "(a) Information sufficient to persuade a reasonable person that a product was made by a patented process constitutes notice."

U.S. retailers wanted language requiring the information to show a "substantial likelihood" that the product was made by an infringing process. This language was included in the House of Representatives' version of this law, but the Senate version read differently. In a conference committee the Congress produced the "reasonable person" language and standard described above.

(b) A person is deemed to have notice of infringement if that person has received notice from the patentee which "fairly" explains the patentee's belief that the product was made by a patented process. The patentee is not required to disclose any trade secrets when it gives this notice. The patentee's express notice to someone, or a request for disclosure of processes used, will constitute notice of infringement unless the recipient of that notice (i) promptly transmits the notice or a request to its manufacturer or supplier, and (ii) receives a written statement in response which serves as a "well grounded factual basis" for a belief that the claimed patent was not infringed, unless there are "mitigating circumstances."

The legislative history behind this "mitigating circumstance" language indicates that Congress had in mind situations in which, for example, a key person died, or the non-manufacturer recipient of a notice or request for disclosure was unable to

locate the manufacturer. This language may result in a sudden increase in cases of inability to locate key persons, and certainly in the inability to locate foreign manufacturers. In order to avoid such false claims of mitigating circumstances, the courts will have to require a reasonably high standard of proof that such circumstances are genuine.

A person who obtains a product in an "abnormally large" quantity relative to the volume of business or efficient inventory level is rebuttably presumed to have actual knowledge that the product was made by U.S. process patent. Therefore, unless this presumption can be overcome, the "lack of notice" defense will not be available.

C. Availability of Remedies

The new remedies for infringement of U.S. process patents are unavailable to (i) any person who practiced the patent, or (ii) such person's affiliates, or (iii) any person who had knowledge, before the infringement, that a patented process was used to make the infringing product.

D. Good Faith Disclosures

In making a determination with respect to the remedy to be granted for infringement, the court must consider the parties' good faith in making disclosures and the need to restore the exclusive rights secured by the patent. Evidence of good faith can consist of any of the following:

- (a) The nature and content of a defendant's request for disclosure,
- (b) Whether the defendant responded to a request for disclosure in a reasonable time,
- (c) The submission of a request for disclosure by the defendant to its manufacturer or supplier together with a request for written statement that the process claimed in the patent disclosed in the response is not used to produce the product.

The failure to perform any of the foregoing is evidence of lack of good faith unless there are mitigating circumstances.

E. Effects and Implications

1. Section 337 Remedies

Even where the expanded process patent right and remedies fail to assistance a claimant, a section 337 action filed before the ITC will still be available to prevent importation of the infringing products into the United States.

2. Foreign Manufacturing

U.S. companies that contract with foreign companies to manufacture products which could possibly be made through the use of patented processes must now give extra attention to policing foreign contract manufacturers to ensure that the processes they employ do not infringe U.S. patents.

3. Uncertainties

Certain language in the Trade Bill's process patent amendments provisions is sufficiently uncertain that it will rise to the following disputes:

- (a) The terms "materially changed," "trivial" and "non-essential" will all have to be defined, probably on a case-by-case basis, as the courts consider defenses that the relevant product, while made by the claimed process, was materially changed by subsequent processes or became a trivial and non-essential component of another product.
- (b) There will likely be significant litigation over the pre-existing use of limitation of remedies. No infringement remedy is available against a person for a product that was in substantial and continuous sale or use by that person in the United States on January 1, 1988. This will give rise to questions of what is "substantial and continuous" sale and whether "person" refers only to the person actually selling as of January 1, 1988 or also covers that person's wholly owned subsidiaries, agents or distributors.
- (c) Whenever the lack of notice defense is claimed, there will likely be litigation over the adequacy of the manner in which notice is claimed to have been given or received and the adequacy of the notice itself. The law does not specify the manner of giving notice. However,

information sufficient to persuade a "reasonable person" that a product was made by a patented process is not a difficult standard to satisfy and is one which courts have worked with over many years in the United States.

- (d) Since the law recognizes that a rebuttable presumption of actual knowledge that a product was made by a U.S. process patent exists for any person who obtains "abnormally large" quantities relative to that person's business volume or inventory levels, the courts will probably have to define what constitutes "abnormally large" quantities of product. Even worse, the courts will have to decide virtually on a case-by-case basis what volume of business is normal for the defendant, and what constitutes an "efficient" inventory level for that defendant. This will undoubtedly give rise to a good many discovery problems and the possibility of extremely burdensome discovery expense for historical business data relative to business volume and inventory levels.

F. Impact on Foreign Parties

It is not very useful to try to use nationality to separate all of the possible parties potentially affected by section 337. Increasingly, foreign companies are finding that it is advantageous to seek intellectual property rights protection by section 337 actions. Often they find themselves frustrated by the same problems which have historically been frustrated U.S. companies. Primarily these problems consist of inadequate intellectual property rights protection outside the United States from the kinds of goods which ordinarily infringe on the rights of U.S. companies. These goods are produced by foreign companies and exported to the United States. When this happens, often the right holder's only available action is to seek an ITC section 337 order.

It is likely that a great amount of litigation will be focused on whether a notice from a patentee, which the patentee believes "fairly" explains a patentee's belief as to infringement, provides sufficient information to enable the defendant to determine exactly what processes the patentee is claiming to be infringed upon. This difficulty could be aggravated by section 337's lan-

guage which does not require a patentee to disclose trade secrets when giving notice to a defendant of the patentee's belief that an infringement has occurred. This language will open the way for litigation on whether a fact is a trade secret, when disclosure forfeits trade secret protection, and whether, in a legitimate trade secret case, it is possible for a notice given by the patentee to "fairly" explain the patentee's belief that a process patent has been infringed without a trade secret disclosure.

G. *The Future*

The expansion of the process patent right to cover use, sale or importation of products made in violation of U.S. process patents is a legislative change. Many U.S. pharmaceutical companies, and many pharmaceutical companies in other western nations, have lobbied for and sought this change over the past decade or more. The Trade Bill was aimed to a great extent at protecting processes developed by U.S. bioengineering companies. As the field of bioengineering expands and bioengineered products become more commonly used in the United States, the importance of the expansion of the scope of patent infringement and the remedies available will become increasingly important. At least in the next few years, U.S. process patentees will probably be very aggressive in bringing actions under this new law to ensure that the law is understood by foreign pharmaceutical manufacturers and importers and to demonstrate that U.S. patentees intend to take advantage of the law.

The U.S. patentees will, however, have to exercise considerable care in selecting defendants and in preparing requests for disclosure and notices of infringement so that these acts comply with Congress' intent in bringing actions against alleged infringers. Congress has manifested in the language of the law an intent to limit remedies to persons who have notice of infringement, and the courts can be expected to infer from this language that adequate notice is required.

Foreign manufacturers should become familiar with the expanded rights and remedies granted to U.S. process patent holders. Moreover, they should consider undertaking patent searches in the United States to ensure that their products will not be subjected to infringement claims once they reach the United States. Foreign manufacturers who make products for U.S. parties should also consider inserting into their manufacturing contracts a clause which requires the U.S. purchaser who provides

product specifications to the foreign manufacturer to indemnify the foreign manufacturer against lawsuits brought for violation of U.S. process patents.