

## Trade & Customs - USA

### General Exclusion Orders in the Wake of *Kyocera*

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#### Background

In 2008 the US Court of Appeals of the Federal Circuit held that the US International Trade Commission did not have the statutory authority to bar entry to downstream products of non-respondents that contain infringing components, except under the exceptional circumstances of a statutory general exclusion order. As expected, the commission no longer issues limited exclusion orders extending to downstream products of third parties. However, at the same time, and perhaps rather unexpectedly, the commission appears to have tightened the requirements for issuance of general exclusion orders against infringing goods from all sources.

Under 19 USC 1337 ("Section 337") the commission is authorized to deal with any unfair trade practice involving the importation of articles into the United States. In recent years, the majority of Section 337 investigations have involved allegations of patent infringement. Once the commission has found a violation, it has broad discretion in selecting the form, scope and extent of a remedy in a Section 337 proceeding. The commission has no authority to award monetary damages, but may issue a remedial order directing US Customs and Border Protection to exclude the goods of the person found in violation (a limited exclusion order) from entry into the United States or, if certain criteria are met, to exclude all infringing goods, regardless of the source (a general exclusion order). Unless the commission's choice of remedy constitutes an abuse of discretion, the Federal Circuit will sustain its determination.

On October 14 2008 the Federal Circuit in *Kyocera Wireless Corp v US Int'l Trade Comm'n*<sup>(1)</sup> found that the commission had exceeded its statutory authority when it issued a limited exclusion order against downstream products of non-respondents. The Federal Circuit held that the plain language of the statute created two distinct forms of exclusion order: one limited and one general. The more typical limited exclusion order "shall be limited to persons determined by the Commission to be violating this section".<sup>(2)</sup> A general exclusion order is appropriate only if two exceptional circumstances apply: (i) if it is "necessary to prevent circumvention of an exclusion order limited to products of named persons" or (ii) if "there is a pattern of violation of this section and it is difficult to identify the source of infringing products".<sup>(3)</sup> The court concluded that "thus, on its face, the statute limits [limited exclusion orders] to named respondents that are found in violation of Section 337". Consequently, to obtain an exclusion order operative against articles of non-respondents, one must seek a general exclusion order and meet the heightened requirements of exceptional circumstances.

The clear effect of *Kyocera* has been that the commission will not exclude downstream products of non-parties by means of a limited exclusion order:

*"The Commission has further determined to limit the scope of the exclusion order to products of named respondents and to deny Complainant's request for "downstream" relief against non-respondents. The Federal Circuit recently concluded in Kyocera Wireless Corp. that the Commission has no authority to issue a limited exclusion order directed to downstream products of nonrespondents. Kyocera, 545 F.3d at 1356. Accordingly, the Commission will no longer issue such orders."*<sup>(4)</sup>

The commission rejected the argument that continuing the practice of selling infringing component parts to downstream manufacturers would effectively circumvent any limited exclusion order issued against named respondents. Relying on *Kyocera*, the commission held that a complainant concerned about circumvention of a limited

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exclusion order has two options: (i) to name downstream manufacturers as respondents (thus making a limited exclusion order appropriate against those parties); or (ii) to seek a general exclusion order with its heightened evidentiary burdens.

### **An Unexpected Consequence?**

However, *Kyocera* had a less obvious effect on the commission's general exclusion order jurisprudence. Post-*Kyocera*, the commission repudiated its longstanding analysis set forth in Investigation 90 "Airless Spray Pumps and Components Thereof". In the Spray Pumps investigation the commission held that a complainant seeking a general exclusion order must show (i) a widespread pattern of unauthorized use of its patented invention, and (ii) certain business conditions from which one might reasonably infer that foreign manufacturers other than the respondents to the investigation may attempt to enter the US market with infringing articles. The commission also identified several factors relevant to prove each point. For example, unauthorized infringing imports by numerous foreign manufacturers may show a 'widespread pattern of unauthorized use', and the ease of building capacity abroad to produce the infringing product may show the requisite 'business conditions'.

After following Spray Pumps for more than 25 years, in Investigation 582 "Hydraulic Excavators" the commission abandoned this analysis and returned to the words of the statute: "a pattern of violation of this section and it is difficult to identify the source of infringing products."

### **A New Test?**

In Spray Pumps, a trademark grey-market investigation, the commission found the requisite 'pattern of violation of this section' based on the large numbers of excavators present in the United States with Caterpillar trademarks that were not authorized for use in the United States. The commission further found that because there were numerous foreign sources from which grey market excavators could be obtained, it would be difficult to identify the source of the infringing products. Accordingly, the commission found that Caterpillar had met the heightened statutory requirements to justify a general exclusion order.

With respect to patent infringement investigations, the commission reaffirmed its new analysis by rejecting the judge's recommendation for a general exclusion order based on applying the Spray Pumps factors, and stating as follows:

*"While the Commission in the past considered analysis based on Spray Pump factors when evaluating whether the statutory criteria are satisfied, we now focus principally on the statutory language itself in light of recent Federal Circuit decisions. See Inv. 615, Ground Fault Circuit Interrupters, in turn citing Kyocera and Vastfame Camera Ltd. v. U.S. Int'l Trade Comm'n, 386 F3d 1108 (Fed. Cir. 2004)."*

The complainant argued there would likely be circumvention because Chinese companies frequently change names or corporate structure, making them difficult to identify. The commission rejected this argument, stating that the standard exclusion order language barring products manufactured or imported "by or on behalf of" the violating respondents, as well as successors and assigns, is broad enough to address such concerns. While the scale and volume of the infringement by the four named respondents were large, that alone does not establish either a "pattern of violation" or difficulty in identifying "the source of the infringing products" so as to justify the imposition of a general exclusion order when a limited exclusion order is available. Finally, the ease of building facilities abroad to manufacture the product is not sufficient to show exceptional circumstances needed to establish that a general exclusion order is necessary. The commission issued a limited exclusion order directed at products of the manufacturing, importing and distributing respondents.

In Investigation 625 "Self-Cleaning Litter Boxes" the commission again focused on the language of the statute in reversing the judge's determination of a 'widespread pattern of violation' based on the volume and value of respondents' infringing products being imported into the United States. The commission explained that this was not the pattern of violation contemplated by the statute. Further, the commission rejected the judge's determination that the sources of the goods were difficult to discern because they bore no data identifying the manufacturer of the goods. The commission explained that while the manufacturer may not be identified, each product was clearly identified as a product of one of the named respondents.

In Investigation 605 "Semiconductor Chips with Minimized Chip Package Size" the commission again emphasized the language of the statute. The commission reaffirmed that the sale of component parts to downstream product manufacturers abroad would not constitute circumvention of a limited exclusion order and could not justify the issuance of a general exclusion order. The commission also found that the ability to identify the downstream manufacturers that incorporate infringing chips and import assembled products into the United States negated the idea that it was difficult to identify the source of the infringing goods. Accordingly, the complainant had not shown the exceptional circumstances required to justify a general exclusion order.

In Investigation 637 "Hair Irons", a trademark infringement investigation, the commission reiterated the exceptional circumstances required for the issuance of a general exclusion order. The commission found a pattern of violation supported by the following:

- There were five named respondents; two agreed to consent orders and three defaulted.
- The complainant brought 21 trademark infringement actions in US district courts.
- The complainant monitored the Internet and identified thousands of offers to sell infringing goods.
- The complainant attempted to shut down websites offering infringing goods.
- The complainant engaged eBay in its efforts to police the Internet.
- The complainant received many complaints about problems with the counterfeit goods from customers thinking that they had bought the complainant's products.

The commission found that it was "difficult to identify the source of the infringing products" because of the very nature of the unfair act - that is, deliberately trying to misrepresent one party's products as the products of another. Moreover, improper designation of the country of origin led to further confusion regarding the source of the infringing goods. The commission also found that the sale of the product over the Internet resulted in anonymity with respect to the source of the goods. Accordingly, the commission found that the exceptional circumstances required by the statute to justify a general exclusion order were met.

### Comment

In the post-*Kyocera* era the commission has adhered to the statutory language and enforced the statutory requirement for exceptional circumstances to exist before a general exclusion order will be issued. If a complainant can show a widespread pattern of violation, trademark infringement cases appear to be ripe for general exclusion orders because the very nature of the unfair practice makes it difficult to identify the source of the infringing goods. However, in patent infringement cases the commission has been stringent in requiring a real and substantial risk of circumventing a limited exclusion order that cannot be addressed by the standard exclusion order language barring products manufactured or imported 'by or on behalf of' the named respondents. With respect to the alternative basis for a general exclusion order, the commission requires a pattern of violation that goes beyond massive infringement by named respondents and real difficulty in identifying the source of the goods, rather than a showing of the ease with which one could set up a manufacturing facility for the patented item abroad. Thus, in addition to eliminating downstream product relief in the limited exclusion order context, *Kyocera* also appears to have raised the bar for obtaining relief in the general exclusion order context.

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### Endnotes

- (1) 545 F 3d 1340 (Fed Cir 2008).
- (2) 19 USC 1337(d)(2).
- (3) 19 USC 1337(d)(2)(A) and (B), respectively.
- (4) See Investigation 602 "GPS Devices".

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