11 June 1982

**CONCILIATION**

UNITED STATES - IMPORTS OF CERTAIN AUTOMOTIVE SPRING ASSEMBLIES

*Report of the Panel adopted on 26 May 1983*
*(L/5333 - 30S/107)*

I. Introduction

1. In a communication dated 25 September 1981 (L/5195) the delegation of Canada informed the contracting parties that on 10 August 1981 the United States International Trade Commission (ITC), because of a finding of patent infringement, had issued an order directing that imports of certain automotive spring assemblies from all foreign sources be excluded from entry and sale in the United States sixty days thereafter, unless the ITC order was disapproved by the President, and be subject in the interim to a bonding requirement of 72 per cent of c.i.f. value. The exclusion order followed a determination by the ITC that imports from and sales by a Canadian firm constituted a violation of Section 337 of the United States Tariff Act of 1930. In the same communication the contracting parties were also informed that the Government of Canada, in accordance with Article XXIII:1 of the GATT, had made written representations to the Government of the United States and that consultations had been held with a view to resolving the matter.

2. The Canadian representative raised the matter at the meeting of the Council on 6 October 1981 (C/M/151). He explained that three formal written representations had been made to the United States authorities and that bilateral consultations under Article XXIII:1 had been held. While agreeing to further consultations with the United States, the representative of Canada stated that his authorities would request the establishment of a panel by the Council should the exclusion order not be disapproved by the President of the United States. In a communication dated 23 October 1981 (L/5195/Add.1) Canada informed the contracting parties that the President had decided not to disapprove the exclusion order.

3. At the meeting of the Council on 3 November 1981 (C/M/152), the Canadian representative requested the establishment of a Panel pursuant to Article XXIII:2 of the GATT. The Council agreed that, quickly lead to a mutually satisfactory solution, a panel would be established (C/M/152).

4. As no such solution had been reached the Council, at its meeting on 8 December 1981, set up a panel with the following terms of reference (C/M/154):

> "To examine, in the 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, and to make such findings as will assist the CONTRACTING PARTIES in making recommendations or rulings."

At its meeting on 22 February 1982 the Council was informed of the following composition of the Panel (C/M/155):

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| Chairman: | Mr. H. Reed (Retired Special Assistant to the Director-General) |
| Members: | Mr. H. Siraj (Malaysia)<br>Mr. D. McPhail (United Kingdom, Hong Kong Affairs) |

5. The Panel met on 5 February; on 3-5, 11, 29, 30 March; on 1, 19-22 April; on 6, 7 and 10 May; and on 7-8 June 1982. In the course of its work the Panel held consultations with Canada and the United States. Written submissions and relevant information provided by both parties, their replies to the questions put by the Panel, as well as relevant GATT documentation served as a basis for the examination of the matter.

II. Factual Aspects

The Panel based its deliberations on the following background:

(a) Procedural background

6. On 10 August 1981 the ITC issued an order excluding from importation into the United States automotive spring assemblies which had been found to infringe the claims of United States Letters Patent No. 3,782.708 and which would infringe claims of United States Letters Patent No. 3,866.287 were the process used to produce them practised in the United States. The exclusion order was to remain in force for the remaining terms of the patents, except where such importation was licensed by the patent owner. The ITC also ordered that the articles to be excluded from entry into the United States should be entitled to entry under bond in the amount of 72 per cent of the c.i.f. value of the imported articles until such time as the President of the United States notified the ITC that he approved or disapproved this action, but, in any event, not later than 60 days after receipt. The order became final on 10 October 1981, after being reviewed by the President and not disapproved for policy reasons.

7. The exclusion order of the ITC was made under Section 337 of the United States Tariff

's patent claims but did not consider them valid in light of the advice of private legal counsel and the fact that Kuhlman had taken no legal action to enforce its patent claims against Associated or Peterson. However, Kuhlman had informed GM and Ford that Kuhlman

did not object to purchases by those companies of up to one-third of their spring assembly requirements from sources other than Kuhlman. Associated and Peterson were supplying a third of the requirements of GM and Ford when Wallbank entered the market. Wallbank began supplying spring assemblies to GM Canada and exporting to GM and Ford in the United States in 1977, with exports rising to Can.$961,190 in 1980.

10. Wallbank declined Kuhlman's offer of a licensing and market-sharing agreement, and in August 1979 Kuhlman brought an action in the United States District Court in Michigan and subsequently in the Federal Court in Canada on grounds of alleged patent infringement. The action was brought in the Canadian court after the refusal of Wallbank to permit inspection of its manufacturing facilities in accordance with an order issued by the Federal Court in Michigan. After pursuing these actions for several months, but before either action had reached the final stage before the court, Kuhlman in June 1980 filed a petition before the ITC under Section 337 of the United States Tariff Act of 1930 against Wallbank; GM and Ford were also joined as respondents. The ITC voted

Canada's objective was not just to seek redress in the particular case of automotive spring assemblies. Rather, it was concerned with the general use of Section 337 in patent-based cases. Putting the focus on a patent-related case was not to imply that Section 337 might not be incompatible with the GATT rules also in other cases. Canada's complaint concerned mainly the differential treatment for imported as opposed to domestic products which resulted from the application of Section 337. Section 337 had not been challenged before by Canada because there had been only a few cases where Canadian firms had

applying a standard which was de minimis. As regards the other requirement, there appeared to be no case where the ITC had found that a United States industry was not efficiently and economically operated and certainly none where such a finding had been the basis for a negative determination.

19. On the

Arguments provided by the United

26. Investigations in patent-based cases before the ITC could only be initiated upon the filing of a complete complaint alleging that an article that infringed a United States patent or that was the product of a process that, if practised in the United States, would infringe a patent owned or assigned to the complainant, was being imported or sold by the named respondents. Notice of initiation of an investigation was published in the United States Federal Register and every effort was made to notify specifically the alleged infringer. Any subsequent actions in the case were also published in the Federal Register. Every effort was made

of judgements. An adjudicative proceeding before the ITC would have required proof of additional elements, but would have resulted in an effective remedy. Kuhlman had decided to choose the latter procedure.

30. In this context the United States representative stated, in reply to a question asked by the Panel, that a United States district court could issue an injunction against GM and other users of Wallbank's spring assemblies only if they had been a party to the original action and only if they were found to be using the Wallbank product without authorization. The problem was that potential users could not be enjoined in the injunction because they could not be made parties. Injunctions directed for instance against GM and Ford, had they been parties in a court proceeding, would not prevent others from using the products. In response to Canada's argument that Wallbank would be able to move to the United States and produce and sell with

Article III

34. Section 337 and any ensuing exclusion order was incompatible with Article III:1 and 4. The basis for this contention was tha

39. As far as the case before the Panel was concerned an injunction or restraining order would have to be obtained under the Canadian patent in a Canadian court. But other countries had the same problems and did not have anything as far-reaching as Section 337. The difficulties arose from an inherent limitation on national jurisdiction in matters which extended beyond the borders of a country. This limitation existed regardless of whether the powers to take legal action were given to a United States court or to the ITC. The problem could not be solved by utilizing a separate body. There existed always the possibility for the United States to change its court procedures to arrive at better enforcement of court decisions. Section 337 did not merely provide procedures to take account of legitimate difficulties where an

covered the product in question. The claims of the patent determined the extent of the property right protected by the patent. Competing products which did not fall within the patent claims or were licensed by the patent owner could not be found to be infringing.

Article III:4

43. Under the provisions of Section 337, imported products received treatment which was not less favourable than that accorded to like products of national origin in respect of all laws, regulations and requirements affecting their sale, offering for sale, purchase, transportation, distribution or use. The law in question was Section 271 of Title 35 of the United States Code. That law required that a party, domestic or foreign, had to have the authority of the patent owner, domestic or foreign, before making, using or selling in the United States the product covered by the claims of a United States patent. Treatment under this law was identical for all parties regardless of origin. Enforcement of the patent law was possible either before the United States district courts under Section 1338 of Title 28 of the United States Code or here the product was imported and substantial injury or threat thereof to an efficient and economic industry could be demonstrated, before the ITC under Section 337.

44. There existed some procedural differences between a United States district court trial and an ITC investigation but the substantive law concerning validity and infringement of patents and the defences was the same. It was up to the patent owner and not the United States government to decide which proceedings should be used and against whom an action should be

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produced in violation of a valid United States patent and that, before an exclusion order could be issued under Section 337, both the validity of a patent and its infringement by a foreign manufacturer had to be clearly established. Furthermore, the exclusion order would not prohibit the importation of automotive spring assemblies produced by any producer outside the United States who had a licence from Kuhlman Corporation (Kuhlman) to produce these goods. Consequently, the Panel found that the exclusion order had not been applied in a manner which constituted a disguised restriction on