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1.5 The Panel met on 4-5 March, 9-10 May, 8-9 June and 19-20 October 1988. It met with the parties to the dispute on 4-5 March and 9-10 May 1988 and with interested third contracting parties on 4 March and 9 May 1988.

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

- Final determinations on violation of Section 337 and on any remedies are made by the Commission. The Commission is composed of six Commissioners, who are appointed by the President of the United States with the advice and consent of the United States Senate. Statutory qualifications demanded of Commissioners are that they be United States citizens and, in the judgment of the President, possess qualifications requisite for developing expert knowledge of international trade problems and efficiency in administering the duties and functions of the Commission. Not more than three of the Commissioners may be members of the same political party and, in making appointments, it is required that members of different political parties be appointed alternately as nearly as may be practicable. The Chairman and the Vice-Chairman of the Commission are designated by the President from among the members. Commissioners are appointed for a term of nine years, and are not normally eligible for reappointment.
- The final determination of the Commission of the USITC in Section 337 investigations is made on the basis of an initial 26.56 525.36 Tm/F8 11 Tf(reappo22.48 486.48 Tm/F8 11 Tf5.36 T

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(iii) Outline of Section 337 proceedings

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

- (a) A Section 337 complaint is initiated by filing a complaint with the USITC. Before filing its complaint, the complainant may confer with the Office of Unfair Import

- (i) If the Commission determines that there has been a violation of Section 337 (or lets the determination of the administrative law judge to that effect stand), it then considers the relief, if any, that should be provided. It must consider the effect of any such relief on (i) public health and welfare, (ii) competitive conditions in the United States economy, (iii) the production of like or directly competitive articles in the United States, and (iv) United States consumers. It may deny or limit relief on the basis of these public interest considerations. Its final determination must be made within twelve months (eighteen months in more complicated cases) of the publication of notice of investigation in the Federal Register.
- (j) If the Commission grants relief to the complainant, the President has sixty days to review the USITC determination and order for policy reasons. If an exclusion order has been made, the goods concerned may still be imported during the period of Presidential review, subject to the posting of a re-exportation bond in an amount fixed by the USITC. Disapproval by the President renders the order without force or effect. Otherwise the order comes into full force on the date when the USITC receives notice of formal approval or, if no Presidential action is taken, on the day after the expiry of the sixty day period.
- (k) Any person adversely affected by a final determination of the Commission can appeal the determination and order to the United States Court of Appeals for the Federal Circuit, the same court that hears appeals from decisions of United

- (c) Applicable procedures: Section 337 investigations must conform to the requirements of the adjudicatory provisions of the Administrative Procedure Act and the USITC's Section 337 rules of procedure. Federal district court procedures are those of the Federal Rules of Civil Procedure.
- (d) Jurisdiction:
  - (i) The USITC has jurisdiction only over unfair practices in import trade, such as patent infringement, that have stated effects on an industry (or trade and commerce) in the United States. Thus in order to have standing to bring a complaint the complainant, whether a United States or foreign national, must be using the patented invention in question for an industrial activity in the United States. Complaints of infringement of United States patents may be filed before federal district courts by any owner or exclusive licensee of a United States patent, whether or not the plaintiff is using the patent in manufacturing in the United States (or anywhere else), and whether or not injury, as defined in Section 337, is claimed.
  - (ii) A Section 337 action may be brought only in respect of imports of articles alleged to infringe a United States product or process patent - that is the actual importation or the subsequent sale of those articles. A federal district court patent action may be brought in respect of imported goods and/or domestically produced goods, with one exception: as the law stood in October 1987, the owner of a United States process patent could not bring a cause of action in a federal district court against imports of products that are produced outside the United States by a process patented in the United States, based solely on alleged infringement of the process patent.
  - (iii) In cases over which the two fora have jurisdiction, the



- (f) Time-limits: The USITC is required by statute to complete Section 337 investigations and make its final determination within twelve months or, in cases designated by the USITC as "more complicated", within eighteen months, of the date of publication of the notice of investigation. The maximum time allowed from filing to disposition of a Section 337 case, including the period between filing and initiation and the period for Presidential review, is thus fifteen months (twenty one months in more complicated cases). Patent litigation in federal district courts does not proceed according to a statutorily determined time-schedule, and the period taken varies considerably from case to case. In the year 1 July 1986 - 30 June 1987, the average time for disposition of the patent cases in federal district courts that completed trial was thirty-one months. This included time for separate hearings in some cases on damages, counterclaims and other claims that might be joined to the patent infringement action.
  
- (g) Protective orders on confidential information: It is standard practice in Section 337 cases for the administrative law judge to issue a "protective order", which sets forth the terms under which confidential information is produced by each side for the benefit of the administrative law judge and counsel for the parties without being disclosed to management of the other party or to the outside world. Typically a protective order provides that confidential information provided by one party is made available to outside counsel of the other party but not to management. While in-house counsel may sometimes be permitted access to such information upon

- (k) Presidential review: The President of the United States is authorised to disapprove orders of the USITC under Section 337 on policy grounds, within sixty days of their issuance. No Presidential review exists for federal district court decisions.
- (l) Remedies: The principal remedy available under Section 337 is an in rem exclusion order, either limited to the goods of named respondents or applicable to all imports of infringing goods, even those produced by non-parties. The Commission may also issue cease and desist orders, typically to parties in the United States such as importers or vendors. In patent actions in federal district courts remedies operate in personam, i.e. against persons who have been served in the action or have participated therein. The main remedies are injunctions, accounting for profits, and damages, either compensatory or, in case of wilful infringement, multiple. In exceptional cases, attorney's fees may be awarded in federal district court litigation e.g. in cases of wilful infringement by the defendant or inequitable conduct by the patentee.
- (m) Enforcement of remedies: Section 337 exclusion orders are enforced, without any further action by the complainant, by the United States Customs Service at ports of entry into the United States. A cease and desist order by the USITC may be addressed directly to a party over which it has in personam jurisdiction, such as an importer or distributor. Sanctions for violation of such an

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

(iii) The procedural differences between the two systems result in less favourable treatment.

337. The United States Patent and Trademark Office (USPTO) provides more favourable treatment than that accorded to domestic patent law.

(iv) Particularly in the case of

judges.

that Section 337 of the United States Tariff Act imposes obligations under the General Agreement.

Measures under Section 337

to substantive patent

use

prescribed patent laws. There are no special procedures.

3.7. The Community argued that laws and regulations on the enforcement of patent laws directly affected relevant tribunals therefore affected the sale of goods

(1975) 11 E.C.R. 1111

other GATT provisions, where those measures were necessary and applied in a manner consistent with the conditions in the preamble to that Article. In these circumstances, to claim that such "measures" should be consistent with Article III of the General Agreement was tantamount to defining away the exception that Article XX was designed to make. In order to determine whether a particular provision was a measure within the meaning of Article XX, the Panel should consider its pur



- that USITC Commissioners were o.th

Community could prove that procedural rules had a dispositive effect should such rules be taken into account in offsetting benefits flowing from the substantive requirements. The United States could not accept the Community's argument that the substantive elements had no effect in cases where they were not dispositive; proof of these elements had to be presented on these matters in all cases, including default cases.

3.16 The United States said that the USITC had reached a negative determination in forty-eight per cent of the Section 337 cases on which it had made a final determination. If one excluded thirty-seven "default" cases in which foreign respondents either had not contested the case at all or had had only limited participation, sixty-eight per cent of the contested cases resulted in negative determinations, i.e. in favour of continuing imports. In twenty-four per cent of the contested cases, the "industry" and "injury" issues had been decisive in precluding relief. This had led many persons in the United States to conclude that Section 337 was biased in favour of respondents.

3.17 The Community argued that, in applying Article III:4 of the General Agreement, unrelated features should not be offset against each other. There was no basis in GATT for balancing or offsetting that could justify or legitimise discrimination against imports. If a contracting party chose, for whatever reason, to subject companies complaining against imported goods to certain requirements which did not apply



complainants were important only in a few. The Community also argued that, even if the substantive requirements and the procedural disadvantages of respondents were weighed

3.22 The United States asserted that defences that might also be the subject of a counterclaim, such as those going to invalidity and unenforceability of the complainant's patent, could be raised in Section 337 proceedings. The inability of respondents to raise counterclaims that were not defences to patent infringement had no effect on whether a Section 337 order was issued. All legal and equitable defences that could prevent a finding of patent infringement, and thus prevent issuance of a Section 337 order, were permitted. Moreover, the complainant as well as the respondent was limited in the issues that could be raised under Section 337; the permissive claim joinder rules that applied in federal district courts did not apply under Section 337.

3.23 The United States further said that the respondent could bring a separate cause of action against the complainant, either under Section 337, if it could meet the jurisdictional requirements regarding importation and domestic industry, or in a federal district court. Counter-complaints under Section 337 could be consolidated by the USITC with the original complaint into a single investigation. Inability of the respondent to bring a counterclaim under Section 337, as opposed to a separate cause of action in a federal district court, did not diminish any incentive on the complainant to settle litigation that might exist. On the contrary, the damages and injunctive relief available in court should provide a greater incentive to settle than a Section 337 order. The United States also did not accept the contention that settling all causes of action in one forum would necessarily entail less time and expense than doing so in two fora. Documents, depositions and other records produced in one proceeding could be and sometimes were used in the second proceeding. Finally, the United States contended that patent litigation in federal district courts did not avoid the problem of multiple proceedings, but could even exacerbate them. District courts might themselves try counterclaims in separate proceedings. They might also hold separate hearings in patent infringement cases on the issues of validity and infringement, and almost always held separate hearings on damages.

Protective orders on confidential information

3.24 The Community argued that, unlike in patent litigation in federal district courts, the USITC's confidentiality procedures concerning information made available by each party, in response to requests from the other party during the discovery phase of Section 337 proceedings, effectively deprived respondents of the right to participate in their own defence. Although they applied to both parties, these procedures in fact prejudiced respondents in Section 337 cases and



- Given the short time-limits in USITC cases and the fact that the complainant could take as much time as it wished in preparing its case before filing, the inability of the respondent to see the complainant's confidential documents was more of a handicap than corresponding restrictions on the complainant. Once the case had been initiated, the respondent had more to do in the available time than the complainant. More of the points which the respondent needed to establish were likely to depend on well informed use of the other party's documents. Since the complainant decided what issues would be put before the USITC, it was able to anticipate and prepare answers to the arguments that the respondent could be expected to make, to a far greater extent, and with far more time for the task, than the respondent had to do the same thing on its side. For instance, if the



- The time-limits pressed even harder on foreign respondents, first because they could have the added burden of having to translate documents to and from their own

- A Section 337 complaint was required to be very detailed and gave a respondent a great deal of information about the case, including the specific bases for the allegation of infringement. In contrast, in federal district court, only notice pleading was required, and the defendant had to use discovery to obtain the information automatically provided in a Section 337 complaint.
  
- The time for answering complaints was the same as under the Federal Rules of Civil Procedure applicable in federal district court, except that the USITC gave an extra ten days for mail service on foreign respondents. Defendants were in a better position to respond to complaints under Section 337 than in federal

- USITC Commissioners need not be lawyers (of the eighteen appointed since 1974, only eight had been lawyers) and were not required to have any technical, scientific or patent-related training, or knowledge of intellectual property rights in general. They were only expected to have "qualifications requisite for developing expert knowledge of international trade problems". In this regard, the Community found it significant that the United States Congress and courts appeared to agree, in effect, that less weight should be given to the rulings of USITC Commissioners on patent law issues than to those of federal district courts, since they had not accorded the former res judicata effect.

3.36 The Community argued that these differences, when considered in conjunction with the other differences between Section 337 and federal district court proceedings to which it had drawn attention, put the respondent in a

3.37 The United States challenged the assertion of the Community that USITC Commissioners were necessarily less qualified than decision makers in federal district courts. USITC Commissioners had gained in practice considerable experience in intellectual property cases and had available to them legal and technical assistance far in excess of that available to a federal district court judge. USITC administrative law judges were experienced attorneys and, because their dockets focused exclusively on Section 337 investigations, they had considerable experience in deciding patent issues. Jury trials were available in federal district courts on the request of either party. In federal district courts, cases were decided by a jury or a single judge, whereas the USITC reached its decision by a majority vote and issued majority and dissenting opinions stating the reasons for the decision. Presently, only one federal district court judge in the United States was a patent attorney. Many USITC Commissioners, past and present, were lawyers. Examination of USITC opinions demonstrated that it had no reluctance to address patent issues. The expertise of the USITC in dealing with patent and other intellectual pr





of the existence of an industry included not only production-related activity, but also research and development, quality control, repair and maintenance activities connected with sales. In a case where the product was manufactured partly in the United State2.72 Tm/F8 11 Tf(con26 Tm/F8 11 Tf(UniTjETBT1 0 0 1

in paragraph 3.47, the Community said that, according to its

(iii) Article XX(d)

(a) Scope of the complaint

3.56 Both parties were of the view that, for the purposes of Article XX(d):

- The "laws or regulations" referred to in that provision which must not be inconsistent with the General Agreement were, in the case before the Panel, the substantive United States patent law (as opposed to measures for its enforcement). The consistency of substantive United States patent law with the General Agreement was not being challenged by the Community in the present case.
- The use of Section 337, including the procedures under it, against imports of alleged infringing United States patents, constituted a measure to secure compliance with United States patent law.

3.57 The United States argued that Section 337 was "necessary", within the meaning of Article XX(d), to secure compliance with United States patent law and that it met the other conditions in that Article, namely it was "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". In the United States view, the only coherent analysis of consistency with Article XX(d) that was possible was based on consideration of Section 337 as a whole. The question was not whether individual facets of Section 337 procedures were necessary for the enforcement of United States patent laws, but whether Section 337 as a system was necessary for this purpose.

3.58 The Community maintained that the United States had not demonstrated that

law on the scope for extra-territorial application of its

to request courts in the infringer's country to enforce injunctive relief ordered by the United States court. Assuming that a foreign court would even consider enforcing such an order of a United States court, the foreign court could undertake its own review of the record and decide in what way it might enforce injunctive relief. In any event, such an action would generally be prohibitively lengthy and costly. The same considerations would apply to attempts to execute awards of damages through foreign courts. Federal district court actions against particular importers into the United States did not provide a way of preventing infringing imports that was equiva

3.68 Other protections existed to prevent extension of an order to non-infringing imports. The exclusion order in the Certain Aramid Fibre investigation, for example, had included a customs procedure whereby an

Canada

4.2 Canada contended that the use of a separate and distinct adjudicatory process provided by Section 337 represented a denial of national treatment under Article III:4 of the GATT and could not be justified under Article XX of the General Agreement. Respondents in Section 337 cases were subject to less favourable treatment than that accorded to defendants before United States federal courts. Foreign producers were subject to a form of "double jeopardy", since they could be called upon to defend themselves against the same allegations before the USITC and before federal district courts. Rules on hearsay evidence were applied less strictly in USITC proceedings than in federal district court proceedings. The USITC had a wider scope to draw inferences in cases where evidence deemed to be insufficient had been provided by the respondent. Respondents in Section 337 cases could not make counterclaims as they could in a federal district court, for example in respect of the revocation of a patent based on a declaratory judgment of invalidity; this made Section 337 action particularly attractive



investigations made it difficult for the USITC to consider properly all defences and favoured the petitioner since its case could be prepared before filing the complaint. The time-limit of thirty

4.7 Switzerland considered that the elements of discrimination against imported goods and in favour of domestically produced goods in Section 337 were incompatible with Article III:4 of the General Agreement, which required equal treatment in terms of procedures. To be justifiable under GATT, such procedural discrimination would have to be authorised by a specific exception provision of the GATT. Since Section 337 encompassed all possible forms of unfair trade and competition, it was overbroad in relation to the General Agreement, which did not provide for any general exceptions for unfair trade but relied upon specific exceptions and remedies such as those contained in Article VI or Article XX. This, in itself, constituted a violation of Article III, since Section 337 could be applied contrary to GATT obligations. The special, discriminatory fast-track procedures under Section 337 could not be justified as "necessary" within the meaning of Article XX(d), since no reason had been advanced showing

suit in federal district court after having lost a Section 337 proceeding at the USITC.)  
In cases where the USITC reached an affirmative decision, the

produced by a party other than the patentee had been obtained by the patented process. The presumption could be rebutted by evidence from the

imported products are subject. Accordingly, it determined that these issues fall within its terms of reference. The term "procedure" is used hereinafter in a broad sense that encompasses these issues.

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

or enforcement ... of measures ...". Article XX(d) thus provides for a limited and conditional exception from obligations under other provisions. The Panel therefore concluded that Article XX(d) applies only to measures inconsistent with another provision of the General Agreement, and that, consequently, the application of Section 337 has to be examined first in the light of Article III:4. If any inconsistencies with Article III:4 were found, the Panel would then examine whether they could be justified under Article XX(d).

(iv) Article III:4

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

5.10 The Panel then examined Section 337 in the light of Article III:4. The Panel first addressed the issue of whether only substantive laws, regulations and requirements or also procedural laws, regulations and requirements can be regarded as "affecting" the internal sale of

call for effective equality of opportunities for imported

of the CONTRACTING PARTIES in applying Article III, which has been to base their decisions on the details of the laws, regulations or requirements themselves and on their potential impact, rather than on their consequences for specific imported products.<sup>1</sup>

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



defendants in federal district court litigation in respect of products of United States origin.

uncertainty generated by the litigation would be ended more quickly, but this does not justify the less favourable treatment in other cases. The Panel did not accept the argument of the United States that the appropriate comparison with Section 337 time-limits is the time taken for issuing preliminary injunctions in federal district courts. A Section 337 final order is not comparable to a preliminary injunction since it is not subject to review by the same forum nor is it accompanied by the safeguards usually attached to preliminary orders to protect the legitimate interests of defendants. The Panel noted the arguments of the United States that a complainant was required to provide more detailed information in a Section 337 complaint - a point contested by the Community - and that an additional ten days was given to foreign respondents for service by mail, but concluded that these factors could not significantly offset the disadvantage that the respondent could suffer from the tighter Section 337 time-limits.

- Inadmissibility of counterclaims (paragraphs 2.8(h) and 3.21-3.23). The Panel found that the inability of the respondent to make counterclaims in a Section 337 action - a right that the defendant



- (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.

5.21 The Panel considered whether all these differences of treatment could be traced back to one common cause, this being the structure of the USITC which is fundamentally not a court of law but an administrative agency, and whether this structural difference could be said to entail in itself treatment incompatible with the requirements of Article III. The Panel however reached no conclusion in this respect, as this question had not been raised in such general terms by the Community.

(v) Article XX(d)

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

5.22 Having found the elements of Section 337 summarised in paragraph 5.20 above to be inconsistent with Article III:4, the Panel considered whether these inconsistencies can be justified under Article XX(d). The Panel noted that the parties to the dispute agreed that, for the purposes of Article XX(d), Section 337 can be considered as "measures ..... to secure compliance with" United States patent law. It then examined whether, in respect of the elements of Section 337 found to be inconsistent with Article III:4 of the General Agreement, the conditions specified in Article XX(d) to justify measures otherwise inconsistent with the GATT are met. These are:

- that the "laws or regulations" with which compliance is being secured are themselves "not inconsistent" with the General Agreement;
- that the measures are "necessary to secure compliance" with those laws or regulations;
- that the measures are "not applied in a manner which would constitute a means of arbitrary or unjustifiable discrimination between countries where the same conditions prevail, or a disguised restriction on international trade".

5.23 The Panel noted that each of these conditions must be met if an inconsistency with another GATT provision is to be justifiable under Article XX(d). A measure which does not meet any one of these conditions, for example the condition that it must be "necessary to secure compliance" with a law consistent with the GATT, cannot be justified under Article XX(d).

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

(b) The "necessary to secure compliance" condition

5.25 The Panel noted that the United States and the Community interpret the term "necessary" differently. They differ as to whether it requires the use of the least trade-restrictive measure available. They also differ as to whether "necessity" to use measures that accord less favourable treatment to imported products can be created by a contracting party's choice, in its national legislation, of enforcement measures against domestic products that would not be effective against imports (paragraphs 3.59 - 3.61).

5.26 It was clear to the Panel that a contracting party cannot justify a measure inconsistent with another GATT provision as "necessary" in terms of Article XX(d) if an alternative measure which it could reasonably be expected to employ and which is not inconsistent with other GATT provisions is available to it. By the same token,

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

5.31 The United States stressed the importance to its system of enforcement of in rem orders, and the Panel considered this question at some length. The Panel agreed with the United States that taking action against infringing products at the source,

for subsequent action to enforce it. As far as imported products are concerned, enforcement at the border by the customs administration of exclusion orders can be considered as a means necessary to render such orders effective.

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

5.35 The United States did not advance, nor was the Panel aware of, any other arguments that might justify as necessary any of the elements of Section 337 that had been found to be inconsistent with Article III:4 of the General Agreement. On the basis of the preceding review and analysis, the Panel found that the system of determining allegations of violation of United States patent rights under Section 337 of the United States Tariff Act cannot be justified as necessary within the meaning of Article XX(d) so as to permit an exception to the basic obligation contained in Article III:4 of the General Agreement. The Panel, however, repeats that, as indicated in paragraphs 5.32 and 5.33

ANNEX I

SECTION 337 OF UNITED STATES TARIFF ACT OF 1930  
(as of October 1987)

§337. Unfair practices in import trade.

(a) Unfair methods of competition declared unlawful. Unfair methods of competition and unfair acts in the importation of articles into the United States, or in their sale by the owner, importer, consignee, or agent of either, the effect or tendency of which is to destroy or substantially injure an industry, efficiently and economically operated, in the United States, or to prevent the establishment of such an industry, or to restrain or monopolize trade and commerce in the United States, are declared unlawful, and when found by the Commission to exist shall be dealt with, in addition to any other provisions of law, as provided in this section.

(b) Investigation of violations by Commission; time-limits.

(1) The Commission shall investigate any alleged violation of this section on complaint under oath or upon its initiative. Upon commencing any such investigation, the Commission shall publish notice thereof in the Federal Register. The Commission shall conclude any such investigation, and make its determination under this section, at the earliest practicable time, but not later than one year (eighteen months in more complicated cases) after the date of publication of notice of such investigation. The Commission shall publish in the Federal Register its reasons for designating any investigation as a more complicated investigation. For purposes of the one-year and 18-month periods prescribed by this subsection, there shall be excluded any period of time during which such investigation is suspended because of proceedings in a court or agency of the United States



such section 1303, 1671 or 1673 of this

- (2) Any person who violates an order issued by the Commission under paragraph (1) after it has become final shall forfeit and pay to the United States a civil penalty for each day on which an importation of articles, or their sale, occurs in violation of the order of not more than the greater of US\$10,000 or the domestic value of the articles entered or sold on such day in violation of the order. Such penalty shall accrue to the United States and may be recovered for the United States in a civil action brought by the Commission in the Federal District Court for the District of Columbia or for the district in which the violation occurs. In such actions, the United States district courts may issue mandatory injunctions incorporating the relief sought by the Commission as they deem appropriate in the enforcement of such final orders of the Commission.
- (g) Referral to President.
- (1) If the Commission determines that there is a violation of this section, or that, for purposes of subsection (c) of this section, there is reason to believe that there is such a violation, it shall:
  - (A) publish such determination in the Federal Register; and
  - (B) transmit to the President a copy of such determination and the action taken under subsection (d), (e) or (f) of this section, with respect thereto, together

(j) Definition of United States. For purposes of this section and sections 1338 and 1340 of this title, the term "United States" means the customs territory of the United States as defined in general headnote

ANNEX II

THE OMNIBUS TRADE AND COMPETITIVENESS ACT OF 1988  
AND SECTION 337

In the summer of 1988, the United States Congress adopted the Omnibus Trade and Competitiveness Act of 1988, which affects the subject matter of the present controversy in four principal ways:

First, Section 337 was amended, inter alia, to remove the requirement of injury to an industry as a condition for granting relief in intellectual property-related proceedings before the USITC.

Second, while the requirement was retained that in order to bring a proceeding under Section 337 the complainant must demonstrate the existence of an industry producing the same or like product, under the amended legislation it is no longer necessary to demonstrate that the industry is "efficiently and economically operated" (Section 337(a)(1)(B); (2); and (3)).

Third, the legislation removes the absence, under prior United States law (Report, paragraph 2.8(d)(ii), 3.62), of jurisdiction of the federal district courts over the importation, use or sale of products made abroad by a process covered by a United States process patent but not by a product patent. Under the amended law, unlicensed commercial use, sale or importation of a product made by a process patented under United States law is an act of patent infringement, subject to some limitations on remedies against non-commercial users and non-retail sellers, and ~~and~~ including liability for use of the process in products which have been materially c48 Tm/F8 11296.64 680.88 T

#### Abuse of Process or Abuse of Discovery

The USITC is expressly authorised to prescribe by rule sanctions for abuse of process or discovery based on the Federal Rules of Civil Procedure. These would include drawing an adverse inference, striking a pleading, or, in extreme cases, dismissing a complaint or defence (Section 337(h)).

#### Seizure and Forfeiture of Goods Imported in Violation of Exclusion Order

The USITC is authorised to issue an order for seizure by the Customs Service and forfeiture to the United States of goods subject to an exclusion order when sought to be imported by a person who has previously attempted to import the article in violation of the exclusion order and when notice of impending seizure has been given (Section 337(i)).

#### Cease and Desist Orders

The new Act makes clear that both cease and desist orders and exclusion orders may be issued by the USITC in the same case (compare Report, paragraph 2.8(1)). The maximum penalty for violation of a cease and desist order is increased from US\$10,000 to US\$100,000 per day of violation or, in the alternative, from the domestic value of the article to twice its domestic value (Section 337(f)).

#### Modification and Rescission of USITC Orders

The provisions for modification or rescission are made more specific, placing the burden on the person who has been found to be in violation of Section 337 to establish that relief should be granted (Section 337(k)).

#### Temporary Exclusion Orders (TEO)

Previously, TEOs were authorised by the legislation at any time during the investigation, and by USITC rule within seven months of initiation of the investigation. Under the new legislation the period is fixed at ninety days (plus an additional sixty days in a "more complicated" case). Further, USITC may make the issuance of a TEO subject to the furnishing of