

# **The Role of the U.S. Court of International Trade in the Enforcement of Intellectual Property Rights\***

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## **I. Introduction**

In the year 2010, one cannot discuss globalization without at least touching upon intellectual property (“IP”) rights. From the perspective of U.S. businesses, IP rights have become integral to financial success, or failure. Enforcement of U.S. IP rights in a global trading environment is not a simple task. All three branches of the U.S. government are placing an increased emphasis on protection of IP. Despite this increased focus, however, the U.S. Court of International Trade (“CIT”) currently plays a limited role vis-à-vis the enforcement of IP rights. This paper examines the reasons for this limited role, as well as possible areas for expansion of that role – with or without legislative changes.

The U.S. federal district courts have seen a substantial increase in the portion of their dockets devoted to IP disputes. In 1980-81, patent, trademark and copyright cases accounted for about 2.2% of the civil cases in the district courts; in 2008-09, such cases constituted about 3% of the district courts’ civil docket, representing an increase of over 36%. The most significant jump was in patent cases – the percentage accounted for by patent cases more than doubled –

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<sup>2</sup> The views expressed in this paper are strictly those of the author, personally, and do not reflect the views of Steptoe & Johnson LLP or its clients.

going from 0.44% to 1.01%.<sup>3</sup> Similarly, for numerous federal agencies, IP has recently become an area of great or greater focus.<sup>4</sup> The CIT, however, is not part of this trend. Why? Because the CIT is constrained by its 20<sup>th</sup> century (and arguably, 19<sup>th</sup> century) jurisdiction,<sup>5</sup> and by arcane and technical customs law terms – namely, “embargo” and “exclusion” versus “seizure.”

Not only have these terms hampered the CIT’s ability to decide IP issues related to international trade and customs matters, they have created an arbitrary dichotomy, whereby the same decision by U.S. Customs and Border Protection (“Customs”) may or may not be reviewable by the CIT, depending on the specific statutory or regulatory context of that decision. The identical article bearing a counterfeit trademark and excluded by Customs pursuant to an exclusion order issued by the U.S. International Trade Commission (“ITC”) under Section 337 of the Tariff Act of 1930, 19 U.S.C. § 1337 (2006) (“Section 337”), may become the subject matter of review by the CIT, but would likely be barred from CIT review if Customs seizes the article

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<sup>3</sup> For the 12-month period ending June 30, 1981, a total of 180,576 civil cases were commenced, of which 795, 1717 and 1515 were patent, trademark and copyright cases, respectively. For the 12-month period ending September 30, 2009, the total civil cases commenced was 276,397, of which 2792, 3381 and 2192 were patent, trademark and copyright cases, respectively. Annual Report of the Director of the Administrative Office of the United States Courts, at Tables C-2 and C-3 (1981); Office of Judges Programs, Admin. Office of the U.S. Courts, Judicial Business of the United States Courts: Annual Report of the Director 144-46 (Table C-2A) (2009), available at <http://www.uscourts.gov/uscourts/Statistics/JudicialBusiness/2009/JudicialBusinesspdfversion>.

<sup>4</sup> See generally Executive Office of the President, 2010 Joint Strategic Plan on Intellectual Property Enforcement (June 2010), available at [http://www.whitehouse.gov/sites/default/files/omb/assets/intellectualproperty/intellectualproperty\\_strategic\\_plan.pdf](http://www.whitehouse.gov/sites/default/files/omb/assets/intellectualproperty/intellectualproperty_strategic_plan.pdf), transmitted to the President and Congress by Victoria A. Espinel, U.S. Intellectual Property Enforcement Coordinator (“June 2010 IPEC Report”).

<sup>5</sup> The CIT was established in 1980, replacing the United States Customs Court, which although established in 1926, had roots going back to 1890, when the Board of General Appraisers was formed to review the decisions of Customs. See Hon. Edward D. Re, Litigation Before the U.S. Court of International Trade, in 19 U.S.C.A. at XXV-LVIII (West 1999).

as a result of a trademark recordation. Similarly, a dichotomy can exist between the ability of an IP owner versus an alleged infringer to get its day in court before the CIT.

This paper examines the statutory and regulatory provisions and decisional law that govern the CIT's ability to review IP-related issues. It also suggests how the proposal to expand the CIT's jurisdiction could enhance the Court's purview in the IP arena. In addition, even absent changes in the Court's jurisdiction, the paper analyzes areas where the CIT might play a greater role in the enforcement of IP rights, in light of the greater overall emphasis by the federal government on protection of U.S. IP rights.

## II. The Relevant Jurisdictional Provisions

Issues related to IP rights come before the CIT only incidentally, as those issues are implicated by virtue of some aspect of the CIT's regular jurisdiction. Thus far, the following avenues have brought IP matters before the CIT: 1) review of a denied protest against exclusion of goods pursuant to an ITC exclusion order, 2) review of Customs' refusal to exclude goods pursuant to an ITC exclusion order, 3) review of Customs' decisions and actions with respect to trademarks and copyrights recorded with Customs. In such cases, plaintiffs have asserted jurisdiction under 28 U.S.C. §§ 1581(a),<sup>6</sup> (h),<sup>7</sup> and (i) (2006),<sup>8</sup> although not always successfully.

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<sup>6</sup> Section 1581(a) provides that the CIT: "shall have exclusive jurisdiction of any civil action commenced to contest the denial of a protest, in whole or in part, under section 515 of the Tariff Act of 1930."

<sup>7</sup> Section 1581(h) provides that the CIT: "shall have exclusive jurisdiction of any civil action commenced to review, prior to the importation of the goods involved, a ruling issued by the Secretary of the Treasury, or a refusal to issue or change such a ruling, relating to classification, valuation, rate of duty, marking, restricted merchandise, entry requirements, drawbacks, vessel repairs, or similar matters, but only if the party commencing the civil action demonstrates to the court that he would be irreparably harmed unless given an opportunity to obtain judicial review prior to such importation."

These jurisdictional provisions are discussed in more detail below. In addition, IP issues could come before the CIT in an action brought by the government to recover penalties for fraud, negligence or gross negligence, pursuant to 19 U.S.C. § 1592 (2006 & Supp. II 2008). Jurisdiction in such an action would be asserted under 28 U.S.C. § 1582 (2006).<sup>9</sup>

Jurisdictional issues are key to understanding the question of why the CIT's role with respect to IP has to date been a narrow one. The CIT, as a court of limited subject matter jurisdiction, may only hear cases that fall within the jurisdiction specifically conferred upon it by Congress. That jurisdiction is set forth in 28 U.S.C §§ 1581 – 1584 (2006) (although § 1584 is not relevant herein). If a case does not fit squarely within one of the subdivisions of these statutory sections, the CIT may not consider it. A review of these sections immediately reveals that none of the subdivisions makes any mention of any IP matters. It is only to the extent that

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<sup>8</sup> Section 1581(i) provides: “In addition to the jurisdiction conferred upon the Court of International Trade by subsections (a)-(h) of this section and subject to the exception set forth in subsection (j) of this section, the Court of International Trade shall have exclusive jurisdiction of any civil action commenced against the United States, its agencies, or its officers, that arises out of any law of the United States providing for –

- (1) revenue from imports or tonnage;
- (2) tariffs, duties, fees, or other taxes on the importation of merchandise for reasons other than the raising of revenue;
- (3) embargoes or other quantitative restrictions on the importation of merchandise for reasons other than the protection of the public health or safety; or
- (4) administration and enforcement with respect to the matters referred to in paragraphs (1)-(3) of this subsection and subsections (a)-(h) of this section. . . .”

<sup>9</sup> Section 1582 provides: “The Court of International Trade shall have exclusive jurisdiction of any civil action which arises out of an import transaction and which is commenced by the United States -- (1) to recover a civil penalty under section 592, 593A, 641(b)(6), 641(d)(2)(A), 704(i)(2), or 734(i)(2) of the Tariff Act of 1930; (2) to recover upon a bond relating to the importation of merchandise required by the laws of the United States or by the Secretary of the Treasury; or (3) to recover customs duties.”

one of the agencies subject to review by the CIT renders a decision or takes action related to an IP right, and that decision or action qualifies for review under one of the subdivisions of § 1581, 1582 or 1583, that an IP issue may come before the CIT.<sup>10</sup>

Certain seminal cases have shaped the contours of when the CIT may consider IP issues. Most notable in this regard is the Supreme Court's decision in K Mart Corp. v. Cartier, Inc.,<sup>11</sup> a case dealing with gray market goods, which had broad implications for the CIT's jurisdiction. In essence, that decision was the death knell for much of the CIT's ability to consider IP issues. In Sakar International v. United States, the CIT distinguished K Mart and asserted jurisdiction in a case involving goods bearing a counterfeit trademark.<sup>12</sup> The U.S. Court of Appeals for the Federal Circuit ("Federal Circuit"), however, vacated the CIT's decision on the issue of jurisdiction,<sup>13</sup> thereby extinguishing the possibility that the CIT might be able to overcome the obstacles imposed on it via the K Mart decision. The Sakar case is discussed in more detail below, in Section IV.B.

Inasmuch as the issues surrounding gray market goods are complex, this paper will not delve into the substance of the K Mart decision (about which much has already been written). Rather, the focus here is on those aspects of the Supreme Court's decision that had an effect on the CIT's jurisdiction. In Vivitar Corp. v. United States (one of the cases that led to the K Mart

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<sup>10</sup> Section 1583 confers jurisdiction upon the CIT to hear counterclaims, cross-claims and third party claims related to the merchandise that is the subject of the action or related to recovery on a bond or of customs duties related to the merchandise subject to the action. Arguably, IP related issues might become injected via such a route.

<sup>11</sup> 485 U.S. 176 (1988).

<sup>12</sup> 466 F. Supp. 2d 1333, 1342-44 (Ct. Int'l Trade 2006).

<sup>13</sup> 516 F.3d 1340 (Fed. Cir. 2008).

decision),<sup>14</sup> the Federal Circuit upheld the CIT's assertion of jurisdiction under 28 U.S.C. §§1581(i)(3) and (i)(4) to hear a challenge to a regulation interpreting 19 U.S.C. § 1526(a), which provides that merchandise of foreign manufacture bearing a registered and recorded trademark owned by a U.S. citizen, corporation or association is prohibited from entry into the United States absent consent of the trademark owner. The Federal Circuit concluded that this import prohibition constituted an "embargo" within the meaning of 28 U.S.C. § 1581(i)(3), thereby conferring jurisdiction upon the CIT to hear the case. The Supreme Court effectively overturned the Federal Circuit's jurisdictional holding, concluding that § 1526(a) did not create an "embargo."<sup>15</sup>

The Supreme Court reasoned as follows: "the ordinary meaning of 'embargo,' and the meaning that Congress apparently adopted in the statutory language 'embargoes or other quantitative restrictions,' is a governmentally imposed quantitative restriction – of zero – on the importation of merchandise."<sup>16</sup> The Court further explained:

An importation prohibition is not an embargo if rather than reflecting a governmental restriction on the quantity of a particular product that will enter, it merely provides a mechanism by which a private party might, at its own option, enlist the Government's aid in restricting the quantity of imports in order to enforce a private right.<sup>17</sup>

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<sup>14</sup> 761 F.2d 1552 (Fed. Cir. 1985). The Supreme Court denied certiorari in the Vivitar case; however, it accepted the petition for certiorari in the K Mart case to resolve a conflict in the circuits, with Vivitar being one of the cases leading to the conflict.

<sup>15</sup> The Federal Circuit had also found jurisdiction to exist under § 1581(i)(4), as a corollary to protest jurisdiction under § 1581(a). The Supreme Court likewise rejected such a finding because no actual protest had been involved in that case.

<sup>16</sup> K Mart, 485 U.S. at 185.

<sup>17</sup> Id.

The Supreme Court’s opinion in K Mart also noted that embargoes, as referred to in 28 U.S.C. § 1581(i)(3), are not confined to embargoes that are grounded in trade policy, but typically serve a governmental purpose, for example, to protect public health or safety or morality, or to further interests related to law enforcement, foreign affairs, or ecology.<sup>18</sup> In today’s climate, one wonders whether protection of IP rights might not also have been included in such a listing. Nevertheless, the K Mart holding, by concluding that enforcement of a trademark right under 19 U.S.C. § 1526(a) constituted enforcement of a private right and did not serve a governmental purpose and thus did not effectuate an “embargo,” cut off a line of argumentation that would have brought various actions related to enforcement of IP rights within the CIT’s jurisdiction.

### III. Review of Customs’ Decisions Related to ITC Exclusion Orders

Under Section 337, if the ITC finds a violation of the statute by virtue of patent, trademark or copyright infringement,<sup>19</sup> the agency can issue relief in the form of a general or limited exclusion order against the relevant infringing imports.<sup>20</sup> Exclusion orders direct that infringing goods be excluded from entry into the United States. Customs is charged with

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<sup>18</sup> Id. at 184.

<sup>19</sup> Section 337 prohibits unfair acts and unfair trade practices with respect to imported goods and provides remedies against such acts/practices. Over 95% of Section 337 investigations involve allegations of patent infringement as the unfair act; however, other types of unfair acts covered by Section 337, in addition to patent, trademark and copyright infringement, include trade secret theft, false marking, trade dress misappropriation, and many more.

<sup>20</sup> The ITC can also issue a cease and desist order, which proscribes certain conduct; the ITC itself enforces cease and desist orders. Since Customs has no role with respect to ITC cease and desist orders, currently, the CIT likewise has no role with respect to their enforcement. This could change under proposals to enhance the CIT’s jurisdiction, discussed, infra.

enforcing ITC exclusion orders.<sup>21</sup> Such enforcement entails having Customs determine whether goods sought to be imported are infringing or not, as outlined by the ITC's underlying decision and the terms of the exclusion order. Assuming that Customs determines to exclude the goods in question, importers desiring to demonstrate that their merchandise is entitled to admission despite the exclusion order may file a protest with Customs setting forth the reasons why the merchandise should be admitted.<sup>22</sup> If the protest is denied, an importer then may seek CIT review of the denial of the protest. Thus, importers whose goods have been excluded pursuant to a Section 337 exclusion order generally invoke 28 U.S.C. § 1581(a) in seeking review at the CIT.

However, importers are not the only parties who may be dissatisfied with a Customs decision regarding enforcement of an ITC exclusion order. Customs may also determine that goods sought to be entered are non-infringing and therefore permit their entry. The owner of a patent or other IP right may disagree with that decision. Because only certain parties may file protests – namely, importers and those essentially similarly situated to importers (see 19 U.S.C. § 1514(c)(2)) – IP owners are normally precluded from seeking review at the CIT via 28 U.S.C. § 1581(a), since that provision only permits review of the denial of a protest. Rather, if Customs allows entry of goods, patent owners generally must rely on 28 U.S.C. § 1581(h) and/or (i) in seeking review at the CIT.

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<sup>21</sup> 19 U.S.C. § 1337(d).

<sup>22</sup> 19 U.S.C.A. § 1514(a)(4) (West 1999 & Supp. 2010). This section permits protests of Customs decisions to exclude merchandise from entry, except determinations appealable under Section 337; however, Section 337 limits appeals under that section to appeals of the ITC's determinations, and thus does not cover determinations by Customs.



The cases discussed below demonstrate the rationale the CIT uses in assuming or rejecting jurisdiction, as well as the difficulties patent and other IP right owners often face when seeking review of Customs decisions.

A. Importers' Challenges

Prior to bringing the CIT action in Jazz Photo Corp. v. United States<sup>23</sup> (and its progeny),<sup>24</sup> Jazz Photo Corporation (“Jazz”) filed a protest with Customs challenging the agency’s decision to exclude<sup>25</sup> two shipments of lens-fitted film packages – also known as disposable cameras – from entry into the Port of Long Beach. Denying the protest, Customs concluded that Jazz had failed to prove that its imported cameras were outside the scope of a general exclusion order issued by the ITC in Certain Lens-Fitted Film Packages, Inv. No. 337-TA-406, Pub. No. 3219 (1999).<sup>26</sup> Without debate or explanation, the CIT assumed jurisdiction under § 1581(a).<sup>27</sup> The Court held a multi-day trial and was required to review de novo Customs’ decision. The question for the CIT was whether the cameras at issue underwent a patent-exhausting first sale in the United States, which would render them not subject to the ITC’s exclusion order. The CIT concluded that the plaintiff had met its burden of proof that

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<sup>23</sup> 353 F. Supp. 2d 1327 (Ct. Int’l Trade 2004), aff’d, 429 F.3d 1344 (Fed. Cir. 2006).

<sup>24</sup> See Jazz Photo Corp. v. United States, 597 F. Supp. 2d 1364 (Ct. Int’l Trade 2008); Jazz Photo Corp. v. United States, 502 F. Supp. 2d 1277 (Ct. Int’l Trade 2007); Jazz Photo Corp. v. United States, 29 CIT 65 (2005); Jazz Photo Corp. v. United States, 29 CIT 60 (2005).

<sup>25</sup> Jazz Photo, 353 F. Supp. 2d at 1329.

<sup>26</sup> Id.

<sup>27</sup> Id. at 1330.

certain cameras fell outside the scope of the exclusion order but failed to meet its burden of proof with respect to other cameras.

The plaintiff importer in Atmel Corp. v. United States was less successful when it challenged Customs' enforcement of an ITC exclusion order barring certain erasable programmable read only memories ("EPROMs") from the United States due to patent infringement.<sup>28</sup> The plaintiff claimed jurisdiction under either § 1581(a) or 1581(i), as well as § 1581(h) for shipments not yet entered; the Court found all three bases inapplicable. First, the CIT dismissed the claim brought under § 1581(a) because the plaintiff's protest did not contain all of the required elements, nor did Customs issue a written denial of the "protest."<sup>29</sup> Similarly, the absence of a Customs ruling precluded jurisdiction under § 1581(h).<sup>30</sup> Finally, the Court denied jurisdiction under § 1581(i) because the plaintiff could have obtained timely review under § 1581(a) but did not.<sup>31</sup>

While the Jazz Photo line of cases demonstrates the relative ease with which importers may invoke the CIT's jurisdiction to challenge denials of timely-filed, valid protests, patent owners challenging Customs' enforcement of exclusion orders often face significant hurdles.

#### B. Patent Owners and Other Holders of IP Rights

Eaton Corp. v. United States, involved a plaintiff seeking to compel Customs to enforce a Section 337 limited exclusion order for certain imported infringing automated mechanical

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<sup>28</sup> Atmel Corp. v. United States, 719 F. Supp. 1101 (Ct. Int'l Trade 1989).

<sup>29</sup> Id. at 1104-05.

<sup>30</sup> Id. at 1105.

<sup>31</sup> Id.

transmission (“AMT”) systems for light and heavy trucks.<sup>32</sup> The plaintiff claimed that although a limited exclusion order was in effect, Customs disregarded the order and allowed importation of redesigned AMT systems that were accompanied by a certification of non-coverage by the exclusion order.<sup>33</sup> The plaintiff sought: (1) a declaratory judgment declaring, *inter alia*, that Customs’ enforcement position was arbitrary, capricious, and an abuse of discretion, and (2) a temporary restraining order and a preliminary injunction ordering Customs to exclude the AMT systems.<sup>34</sup>

Subject matter jurisdiction was alleged under 28 U.S.C. §§ 1581(i)(3), claiming the presence of an embargo or other quantitative restriction, and (i)(4), alleging the action involved “administration and enforcement with respect to matters referred to in paragraph (3) of subsection [§ 1581(i)] and subsections (a)-(h) of . . . [§ 1581].”<sup>35</sup> The government asserted as an affirmative defense, that to the extent the action sought a declaratory judgment related to the admissibility of merchandise, it fell within the Court’s § 1581(h) jurisdiction. The Court, however, agreed with the government’s argument that § 1581(h) was inapplicable because the plaintiff had not made the necessary showing of irreparable harm.<sup>36</sup>

With respect to § 1581(i), the Court reasoned that it was not imperative at that stage of the proceedings to conclusively determine jurisdiction over the case as a predicate to ruling on

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<sup>32</sup> 395 F. Supp. 2d 1314 (Ct. Int’l Trade 2005).

<sup>33</sup> *Id.* at 1319-20.

<sup>34</sup> *Id.* at 1323.

<sup>35</sup> *Id.* at 1324.

<sup>36</sup> *Id.* at 1324-25.

the merits of threshold equitable relief.<sup>37</sup> After weighing the factors for injunctive relief, the Court granted the injunction.<sup>38</sup> Ultimately, the appeal related to this case was voluntarily dismissed.<sup>39</sup>

As in Eaton, in Funai Electric Co., Ltd. v. United States,<sup>40</sup> the plaintiff sought a temporary restraining order and preliminary injunction order declaring Customs' non-enforcement of a Section 337 exclusion order arbitrary, capricious, and an abuse of discretion. After the ITC issued a limited exclusion order covering all the respondents' televisions incorporating plaintiff's patented chipsets, certain respondents in the Section 337 action requested ex parte and received a Customs ruling declaring that current television models which incorporate plaintiff's patented chipsets were not covered by the exclusion order.<sup>41</sup> The plaintiff sought review by the CIT, claiming jurisdiction under §§ 1581(h) and (i) and seeking judgment, inter alia, declaring Customs' ruling letter null and void, declaring Customs' enforcement position arbitrary, capricious, and an abuse of discretion, and declaring that the redesigned televisions were subject to the ITC exclusion order.<sup>42</sup> The Court, consistent with Eaton, held that it lacked jurisdiction under § 1581(h).<sup>43</sup> Further, the Court held that because the plaintiff's claim did not arise out of: (1) a law providing for revenue from imports or tonnage; (2) a law

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<sup>37</sup> Id. at 1325.

<sup>38</sup> Id. at 1329.

<sup>39</sup> Eaton Corp. v. United States, 186 F. App'x 999 (Fed. Cir. 2006).

<sup>40</sup> 645 F. Supp. 2d 1351 (Ct. Int'l Trade 2009).

<sup>41</sup> Id. at 1354-56.

<sup>42</sup> 645 F. Supp. 2d at 1356.

<sup>43</sup> 645 F. Supp. 2d at 1357.

providing for import tariffs, duties, fees, or taxes; or (3) an embargo or quantitative restriction, jurisdiction under § 1581(i) did not lie. While acknowledging that an injunction had been granted in Eaton, the CIT explained that a “subsequent reading” of relevant precedent “does not lead this court to conclude that the current state of the law supports” plaintiff’s position on jurisdiction.<sup>44</sup> The Court did, however, acknowledge the jurisdictional conundrum, stating that while it possesses “only that power authorized by the Constitution and federal statutes, which is not to be expanded by judicial decree,” “the restrictive statutory scheme of § 1581(a)-(h) and its relationship to § 1581(i) should be reexamined,’ but that process remains the province of higher authority.”<sup>45</sup>

This paper posits that such a jurisdictional disequilibrium is not appropriate, especially given the current emphasis on enforcement of IP rights. A patent owner should be able to have the same right of redress with the CIT when it disagrees with a Customs decision not to exclude goods as an importer has when Customs decide to exclude its goods. This type of disequilibrium may or may not be justified with respect to ordinary decisions by Customs as to valuation and classification, where a non-importing party does not have a statutorily created, legally cognizable, protectable right.<sup>46</sup> In the IP right context, however, the IP owner has a federally protected right and therefore has all of the characteristics of a party which should have standing to bring an action when it believes a government agency has wrongfully acted in a way so as to

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<sup>44</sup> Id. at 1357-58.

<sup>45</sup> Id. (quoting Conoco Inc. v. United States Foreign-Trade Zones Bd., 790 F. Supp. 279, 289 (Ct. Int’l Trade 1992)).

<sup>46</sup> The author takes no position as to whether non-importers generally should have a greater opportunity to seek review before the CIT, since such a topic is beyond the scope of this paper. Rather, this paper acknowledges the special nature of statutorily granted IP rights.

deprive it of its rights. In this regard, it should be noted that certain provisions in proposals to enlarge the CIT's jurisdiction (discussed in more detail in Section VI) might cure this disequilibrium.

Moreover, it is not certain that the Court's narrow reading of the term "embargo" was the required result. While the K Mart decision placed restrictions on the reading of the term, that case clearly had nothing to do with ITC exclusion orders. One can distinguish ITC exclusion orders. In a trademark recordation context (which was at issue in K Mart), there is no overarching order issued by the government, decreeing that imports of a certain type are barred from entry for a prescribed period of time. Rather, if a trademark owner has recorded its registered trademark with Customs, on an entry-by-entry basis, Customs may detain (and ultimately seize) goods that it determines to be infringing, as prescribed in Customs' regulations at 19 C.F.R. § 133.1, et seq. (2009). An ITC exclusion order, in contrast, is a governmental restriction; while the statutory import prohibition set forth in Section 337 may merely provide a mechanism by which a private party may enlist the government's aid to restrict the quantity of imports to enforce a private right, the exclusion order is a governmental order issued by one federal agency and automatically enforced by another government agency. That Customs must decide whether goods are infringing and therefore fit within the terms of the exclusion order is no different from Customs having to decide whether certain textiles are of a quota-country-origin and therefore excludable due to the quota having already been met or whether certain rolled tobacco products qualify as cigars and whether they are of Cuban origin and thus barred from entry by virtue of the longstanding prohibition on imports from Cuba. In all three situations, Customs is deciding whether goods are barred from entry due to a specific import prohibition ordered by the U.S. government. Indeed, as discussed further in Section IV.B., the overriding

public policy implicated by an ITC exclusion order has been recognized by at least one district court.

#### IV. Trademarks and Copyrights Recorded with Customs

##### A. Importations in the Face of Recorded Trademarks and Copyrights

The owner of a federally registered trademark or copyright is entitled to record the mark or copyright with Customs so that Customs can then police imports of goods that potentially infringe the owner's IP rights.<sup>47</sup> A number of CIT cases have addressed the question of whether the decisions of Customs under these regulations are subject to review by the CIT. The answer to the question is neither simple nor uniform and turns very much on the specific procedural posture of a given case. In summary, if the Customs decision is characterized as an exclusion of merchandise such that it is a protestable decision, then the CIT may assume jurisdiction under 28 U.S.C. § 1581(a) if a timely filed protest is denied.<sup>48</sup> Similarly, if the Customs decision is a notice of redelivery such that it is a protestable decision, then the CIT may assume jurisdiction under 28 U.S.C. § 1581(a) if a timely filed protest is denied. Also, if there is a charge or exaction by Customs, and a timely filed protest thereof is denied, then jurisdiction might also lie with the CIT. If the Customs decision relates to a bonding/procedural issue, then the CIT may determine that it possesses jurisdiction.<sup>49</sup> If, on the other hand, the Customs decision results in a

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<sup>47</sup> See 19 C.F.R. §§ 133.1 - 133.53 (Customs regulations providing for recordation and enforcement procedures).

<sup>48</sup> See Luxury International, Inc. v. United States, 90 F. Supp. 2d 1294 (Ct. Int'l Trade 2000), where the CIT found it possessed jurisdiction because at issue was the requested exclusion of goods allegedly infringing certain copyrights.

<sup>49</sup> See Schaper Mfg. Co. v. Regan, 566 F. Supp. 894 (Ct. Int'l Trade 1983) (this case involved the question of whether the plaintiff IP owner was unlawfully deprived of the return of a bond posted with respect to piratical copies originally sought to be excluded by the owner).

seizure or forfeiture, then jurisdiction will lie in the district courts rather than at the CIT.<sup>50</sup>

Further, if the party seeking judicial review is not the importer, but rather is the trademark or copyright owner, that party must somehow establish jurisdiction under § 1581(h) with respect to a pre-importation ruling that causes it irreparable harm,<sup>51</sup> or under § 1581(i)(2) or (4) (it is unlikely, however, that a scenario under (i)(2) would arise).

The above summary constitutes this author's best attempt to summarize the state of the law as to when the CIT may or will hear a case dealing with trademark or copyright issues. But the lines drawn in this paper are far from clear and even the Court has acknowledged some inconsistent results. One additional relevant factor appears to be that, if a case is more likely to involve a substantive determination as to trademark or copyright infringement, the CIT may be less likely to assert jurisdiction. Given these murky jurisdictional waters, however, it is not surprising that CIT cases involving IP rights have not been very numerous.

#### B. Private Versus Public Rights

In Sakar, the CIT had attempted to draw a distinction between cases involving 19 U.S.C. § 1526(a) (gray market goods, as at issue in K Mart) and those involving § 1526(e), where counterfeits are at issue.<sup>52</sup> The CIT found a more absolute government prohibition in the

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<sup>50</sup> See H&H Wholesale Services, Inc. v. United States, 437 F. Supp. 2d 1335 (Ct. Int'l Trade 2006) (outlining differences between exclusion and seizure, and finding that case involved seizure, therefore depriving the CIT of jurisdiction); see also CDCOM (U.S.A.) Int'l, Inc. v. United States, 963 F. Supp. 1214 (Ct. Int'l Trade 1997) (finding no jurisdiction because seizure was at issue and also commenting that when trademark issue is substantive, as opposed to incidental, the CIT should defer to the jurisdiction of the district courts).

<sup>51</sup> An importer also may seek review by the CIT of a pre-importation Customs ruling, as was done in Ross Cosmetics Distribution Centers, Inc. v. United States, 18 CIT 979 (1994) (trademark infringement finding by Customs upheld).

<sup>52</sup> 466 F. Supp. 2d 1333.



situation of counterfeit goods and accordingly held that the prohibition constituted an embargo. Since the Supreme Court had found an embargo lacking in cases involving § 1526(a), the CIT at length explained why § 1526(e) presented a different situation and why the Sakar case did involve an embargo. Despite the CIT's detailed analysis, the Federal Circuit disagreed and found that there was no embargo at issue.

In so holding, the Federal Circuit characterized the IP right therein sought to be enforced as a private right. Query, especially in the 21<sup>st</sup> century United States, whether this is a correct characterization. Federal statutory-based IP rights are different from contracts, for example. A contract is an agreement between two private parties and the government is not at all involved. In contrast, IP rights are rights granted by the government. An inventor or artist invents or creates the IP, e.g., a product or design or mark, but it is the federal government, by virtue of statute, which grants a bundle of rights to accompany the patented product, copyrighted design or registered trademark. The government can alter those rights -- as it did with patent terms in 1995 -- when the term of a patent was changed from 17 years to 20 years. The government also registers and/or records those rights.<sup>53</sup> And the government has been charged with assisting in enforcement of those rights.<sup>54</sup>

In addition, given the significant percentage of the U.S. gross domestic product ("GDP") which is today attributable to IP,<sup>55</sup> the U.S. government has a tremendous interest in ensuring a

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<sup>53</sup> See, e.g., 19 C.F.R. § 133.1, et seq. (trademark recordations), and 19 C.F.R. § 133.31, et seq. (copyright recordations).

<sup>54</sup> See, e.g., id. at §§ 133.25, 133.26, 133.27, 133.43, 133.46 (Customs enforcement); June 2010 IPEC Report at 29 (Department of Justice enforcement).

<sup>55</sup> See June 2010 IPEC Report at 52, citing a submission reporting that IP-based industries account for more than \$5 trillion of the U.S. GDP.

favorable climate for the development and protection of IP so as not to devastate the U.S. economy. It is estimated that IP industries/IP-intensive industries account for about 50-60% of U.S. exports.<sup>56</sup> These types of statistics underscore the importance of IP. Other statistics illustrate the economic damage that can be caused by theft of IP. Studies estimate that copyright piracy affecting the U.S. movie, recording, software and video game industries costs the U.S. economy \$58 billion in total output, 373,375 jobs, \$16.3 billion in earnings and \$2.6 billion in tax revenues annually.<sup>57</sup> Government enforcement of IP rights, however, makes only a small dent in combating IP theft. For example, in 2009, the value of domestic seizures by Customs and other U.S. law enforcement agencies of goods violating IP rights was \$261 million, up from \$93 million in 2005.<sup>58</sup> From January 1, 2010 through May 19, 2010, through its IP theft enforcement activities, ICE seized goods valued at more than \$358 million.<sup>59</sup> Nevertheless, these examples demonstrate how important IP is to the U.S. economy, how theft of IP rights can have an adverse effect on the economy, and how significant the interests of the U.S. government are and should be with respect to enforcement of IP rights. In other words, enforcement of IP rights is an important matter of public policy.

Indeed, at least one federal district court has recognized that the government's enforcement of IP rights under Section 337 is not simply the enforcement of a private right. In

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<sup>56</sup> Id. at 56.

<sup>57</sup> Id. at 52, 55.

<sup>58</sup> U.S. Immigr. and Customs Enforcement (“ICE”), Intellectual Property Rights Seizure Statistics: Fiscal Year 2009 (Oct. 2009), available at [http://www.cbp.gov/linkhandler/cgov/trade/priority\\_trade/ipr/pubs/seizure/fy09\\_stats.ctt/fy09\\_stats.pdf](http://www.cbp.gov/linkhandler/cgov/trade/priority_trade/ipr/pubs/seizure/fy09_stats.ctt/fy09_stats.pdf).

<sup>59</sup> June 2010 IPEC Report at 40.

United States Int’l Trade Comm’n v. Jaffe, No. 1:10cv367 (E.D. Va. June 28, 2010), the question posed was whether the automatic stay provision of the bankruptcy laws – 11 U.S.C. § 362 – applies to Section 337 proceedings, such that the latter should be stayed when parallel bankruptcy proceedings affect a party to the Section 337 investigation. More specifically, the question to be resolved by the district court was whether the police and regulatory power exception (§ 362(b)(4)) was applicable to a Section 337 proceeding. In concluding that the exception applied, Judge Ellis held that a Section 337 proceeding vindicates the public interest, as opposed to a private party’s rights.

The automatic stay provision does not apply with respect to “an action or proceeding by a governmental unit...to enforce such government unit’s...police or regulatory power....” 11 U.S.C. § 362(b)(4). Thus, the court first had to resolve whether the Section 337 action was an action by a governmental unit. Even though the proceeding began with the filing of a complaint by a private party, the court found persuasive the fact that the ITC took affirmative steps to order the commencement of the investigation. The court also held that the action promotes public safety and welfare and effectuates public policy rather than adjudicating private rights. Mem. Op. at 10. The court reasoned that the “statutes and regulations governing ITC § 337 investigations plainly evidence an objective purpose of protecting the public interest at each stage of the ITC investigation.” Id. It cited the ITC’s consultations with other federal agencies, the statute’s requirement that the agency consider the impact of its determination on the public health and welfare and competitive conditions in the U.S. economy and U.S. consumers, and the directive that the agency may decline to issue a remedy if doing so would be contrary to the public interest. See 19 U.S.C. § 1337(d)(1). The court also noted that the President has the authority to disapprove a Section 337 remedy on public policy grounds. See 19 U.S.C.

§ 1337(j)(2). Finally, the court also pointed out that there is no provision for monetary damages in a Section 337 proceeding, and that the ITC's decisions as to patent issues have no preclusive effect in a federal court.

While a Section 337 proceeding entails much more extensive governmental involvement than does a trademark or copyright recordation with Customs, the reasoning employed by Judge Ellis can to some extent be applied in the latter context. The result sought from a recordation is to not have infringing goods enter the stream of U.S. commerce – the IP owner does not receive money damages. Rather, U.S. consumers (and the IP right owner) are protected from infringers. Also, the infringement decisions of Customs have no preclusive effect. Thus, the import prohibition imposed by virtue of a trademark owner federally registering and recording its mark, and then asking Customs to enforce the statutorily-granted exclusivity, is not simply a private enforcement. The U.S. government is enlisted to effectuate the public policy of IP right protection.

Moreover, in the import arena, Congress has recognized that IP rights granted by virtue of a federal statute deserve special treatment. Until 1988, Section 337 had required complainants, in order to prevail, to prove some type of injury to a U.S. industry.<sup>60</sup> In amending Section 337 in 1988, Congress removed the injury requirement in cases involving a federally registered patent, copyright, trademark or mask work.<sup>61</sup> Thus, while in a trade secret theft case, or a common law trademark infringement case, for example, a complainant must prove economic injury, in so-called statutory-based Section 337 investigations, injury is presumed. The legislative history for this change supports the notion that federally granted IP rights are special.

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<sup>60</sup> In antitrust cases, the “injury” is the restraint of trade.

<sup>61</sup> Federally registered boat hull designs were later added to this list.

The House and Senate reports note that, while the original focus of Section 337 was not IP, 95% of the Section 337 cases initiated between 1974 and 1987 involved statutory IP rights. Hence, there was a belief that the injury requirement of Section 337, designed for the broad context originally intended in the statute, made no sense in the IP arena. Further, the legislative history notes that importation of any infringing merchandise derogates from the statutory right, diminishing the value of the IP, and thus indirectly harming the public interest. Therefore, requiring proof of injury beyond that shown by proof of infringement was deemed not to be necessary.<sup>62</sup> Hence, in amending Section 337 in 1988, Congress expressly acknowledged the special nature of, and effectively elevated, statutorily granted federal IP rights.

V. Violations of 19 U.S.C. § 1592

Certifications by importers are not uncommon after a Section 337 exclusion order has been issued. In other words, the importer – because of a redesign, change in sourcing or otherwise – certifies upon importation that the products which it seeks to import are non-infringing. Submitting a false certification would presumably run afoul of 19 U.S.C. § 1592, as negligence, gross negligence or fraud. Assuming Customs imposes a § 1592 penalty, an importer challenging the imposition of the penalty might argue that the certification was in fact not false because the products at issue are non-infringing. In such a situation, the CIT would presumably be required to evaluate the importer’s defense by analyzing whether the goods are indeed non-infringing, since the CIT must try the issues de novo.<sup>63</sup>

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<sup>62</sup> H. Rep. No. 100-40, at 153-56 (1987); S. Rep. No. 100-71, at 127-128 (1987).

<sup>63</sup> 19 U.S.C. § 1592(e): Notwithstanding any other provision of law, in any proceeding commenced by the United States in the Court of International Trade for the recovery of any monetary penalty claimed under this section— (1) all issues, including the amount of the penalty, shall be tried *de novo* . . . .

Notably, however, not all cases related to a violation of § 1592 can be tried in the CIT – only cases for the recovery of a § 1592 penalty; otherwise, actions for violations of § 1592 must be brought in federal district court.<sup>64</sup>

Research conducted for this paper revealed no federal cases involving allegations of false certification pursuant to a Section 337 exclusion order certification provision. However, the certification provision in Certain Amorphous Metal Alloys and Amorphous Metal Articles, Inv. No. 337-TA-143, Exclusion Order Modification Proceedings, 1987 ITC LEXIS 172, \*23 (Nov. 1987), for example, expressly provided that Customs may bring an action for false certification or documentation under 19 U.S.C. § 1592.

Furthermore, there are other ways that an importer can run afoul of § 1592, even without submitting a false certification. Material and false acts and material omissions in entering goods also violate the statute. Hence, there is presumably room for Customs to assert that a knowing importation of goods that come within the purview of an exclusion order, or some other knowing importation of infringing goods, constitutes a violation of § 1592.

## VI. Proposals to Expand the CIT's Jurisdiction

Over the last several years, the Customs and International Trade Bar Association (“CITBA”) and others have drafted proposals for legislation that would enhance the CIT’s jurisdiction. As explained on CITBA’s website ([www.citba.org](http://www.citba.org)), the proposals are designed to correct certain jurisdictional anomalies and also to place review of certain additional international trade and customs matters within the purview of the CIT, rather than the federal district courts. It is not the purpose of this paper to review those proposals at length. However,

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<sup>64</sup> See generally Tri-State Hosp. Supply Corp. v. United States, Civil Action 00-01463 (HHK), 2007 U.S. Dist. LEXIS 48609, at \*6-7 (D.D.C. July 6, 2007).

highlighted below are certain provisions of one of the proposals, which provisions might provide additional avenues for the CIT to review IP-related issues.<sup>65</sup> It should be kept in mind, however, that no bill has to date been introduced; accordingly, the provisions discussed below, at this juncture, are simply proposals by persons and organizations interested in litigation before the CIT.

Likely to have an effect on IP-related cases would be Section 202 of the proposed legislation, which would add a subsection (b) to 28 U.S.C. § 1582, to grant the CIT jurisdiction over actions involving seizures, and which would expand the types of actions that come within subsection (a) of § 1582.

Section 1582 governs the jurisdiction of the CIT in actions commenced by the United States relating to certain customs enforcement actions and duty collection. Under the present law (§ 1582(a)(1)), the CIT has jurisdiction of any civil action which arises out of an import transaction and which is commenced by the United States to recover a civil penalty under certain enumerated statutory provisions. These provisions represented the main customs civil penalties when § 1582 was last amended, but since then a number of additional civil penalties or fines have been enacted. With respect to IP rights, for example, penalties for aiding and abetting the importation of goods in violation of a U.S. trademark have been added (19 U.S.C. § 1526(f)). Under the proposed legislation, new subdivision (a)(1) of § 1582 would give the CIT jurisdiction of any civil action which is commenced by the United States to recover a civil penalty under any provision of the Tariff Act of 1930 or any other provision of law governing the importation of

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<sup>65</sup> The jurisdictional proposals have been through a number of iterations. Unless otherwise noted, discussed herein are the provisions believed by the author to be the most current proposals as of the submission date of this paper – October 12, 2010. Further, the author notes that explanations for the proposed amendments in most instances are not those of the author, but have been borrowed from explanations accompanying the legislative proposals.

merchandise. Thus, trademark penalty actions under § 1526(f) would be included within the CIT's jurisdiction.

New clause (a)(1) would also have the effect of giving the CIT jurisdiction over additional ancillary proceedings related to Section 337 enforcement, over which proceedings the district courts currently have jurisdiction. It would place jurisdiction in the CIT for civil penalties assessed for a violation of a Section 337 order. Specifically, the CIT would have jurisdiction over an action related to a violation of an ITC cease and desist order (a remedy whereby the ITC can order a party located in the United States to cease activities which violate the statute, such as selling infringing goods out of inventory).

Further, new subsection (b) of § 1582 would give the CIT jurisdiction of any seizure, other than a seizure of narcotics or other controlled substances, under the Tariff Act of 1930 or any provision of law relating to the importation of merchandise. Besides imposition of civil penalties, an additional tool of customs enforcement is the seizure of merchandise. Proponents of the proposed legislation have explained that civil actions for forfeiture and other litigation arising from seizures are logically within the area of responsibility assigned to the CIT because they involve government action affecting imported goods and often raise issues closely related to customs litigation now conducted in the CIT.

The allocation of jurisdiction over customs seizures to district courts in the present law has created some anomalies. First, although the main customs penalty statute (19 U.S.C. § 1592) is within the jurisdiction of the CIT, that statute currently provides for forfeiture only in very limited situations. Therefore, nearly all cases in which the government wishes to seek both forfeiture and recovery of customs penalties must be bifurcated between a district court for the forfeiture and the CIT for the penalties. Second, in some instances, a case has begun as an



“exclusion” of merchandise that is subject to judicial review in the CIT, but later was converted into a “seizure” that is subject to judicial review in a district court. Thus, giving the CIT jurisdiction over statutes providing for seizure and forfeiture would promote jurisdictional clarity.

Notably, the above discussed proposed revisions do not create new causes of action but simply transfer jurisdiction from the district courts to the CIT. The purpose of these amendments is to utilize the judicial resources of the CIT and its expertise in customs and international trade law more effectively in lawsuits initiated by the United States.

Also likely to have the effect of allowing the CIT to hear more IP-related cases is the proposed provision enlarging the scope of the CIT’s residual jurisdiction (28 U.S.C. § 1581(i)). Specifically, it is proposed to add a new subdivision (4) to the residual jurisdiction provision to cover actions against the United States that arise out of any federal law providing for any prohibition or condition on the importation of merchandise. The purpose of this amendment is to overrule a portion of the Supreme Court’s reasoning in K Mart. In K Mart, the Supreme Court gave a narrow interpretation to the term “embargo or other quantitative restrictions” in § 1581(i). The Court stated that “[b]y choosing the word ‘embargoes’ over the phrase ‘importation prohibitions,’ Congress ... declined to grant the Court of International Trade exclusive jurisdiction over importation prohibitions that are not embargoes.” 485 U.S. at 189. In addition, the Court said that “Congress made no provision for direct review in the Court of International Trade of facial conditions of entry ...” Id. at 188. The Supreme Court’s interpretation undermines Congress’s goal of giving the CIT exclusive jurisdiction to conduct judicial review under the U.S. customs and international trade laws. The proposed amendment would make it clear that Congress intends the exclusive jurisdiction of the CIT to extend to federal laws that

impose prohibitions or conditions on the importation of merchandise, as well as embargoes and quantitative restrictions (and other matters set out in § 1581). As discussed above, since the term “embargo” has constrained the CIT’s jurisdiction related to IP matters, this proposed amendment would broaden the types of IP-related matters that could be considered by the CIT.

The last provision of the residual jurisdiction clause would also be rewritten (and renumbered as (6)) to include actions related to administration and enforcement with respect to matters referred to 28 U.S.C. § 1582. The purpose of this amendment is to clarify that aggrieved parties may, in appropriate cases, invoke the residual jurisdiction of the CIT in customs enforcement cases, such as proceedings seeking the imposition of monetary civil penalties for violations of the customs laws or the assessment of liquidated damages for violation of terms of a customs bond.

The present law suffers from uncertainty over whether § 1581(i) encompasses such customs enforcement actions. The CIT has jurisdiction under 28 U.S.C. § 1582 in government-initiated lawsuits under the customs penalty laws and other enforcement laws. In a number of cases, however, persons adversely affected by customs enforcement actions have sought judicial review by filing their own lawsuits instead of waiting for the government to sue. The current language of § 1581(i) does not clearly provide that the CIT has jurisdiction in such cases. As a result, some cases contesting government enforcement measures have been filed in district courts. The proposed legislation, which specifically adds a reference to § 1582 in § 1581(i), is based on the premise that all litigation arising from customs enforcement actions is logically within the subject matter that Congress intended to assign to the CIT.

Further, Section 102 of the proposed bill would make additional actions and decisions by Customs subject to protest, and thus, subject to review by the CIT. However, whether such an amendment might draw in additional IP-related issues, is difficult to predict in a vacuum.

## VII. Conclusion

While the district courts are charged with adjudicating patent, trademark and copyright disputes, issues related to IP rights are clearly present in many import transactions. The CIT thus plays some role with respect to enforcement of U.S. IP rights. But that role could be much greater, and in this author's view, should be. The issues with which the CIT routinely grapples are in many ways similar to issues confronted in patent and other IP-related litigation. There is every reason why the CIT, like the agencies whose actions it reviews, should also be part of the U.S. government's efforts to increase IP protection. Indeed, it is rather ironic that Customs and the ITC are on the frontline in fighting IP theft, while their reviewing court is largely left on the sidelines. Under the existing statutory framework and decisional law, room for the CIT to assume a greater role in IP protection is limited. However, the resources of the CIT would be put to very good use if the Court were better able to assist in efforts to enhance IP protection. Proposals to enlarge the Court's jurisdiction should thus pay particular attention to ways in which the CIT's resources can be deployed towards the protection of U.S. IP rights. The most current jurisdictional proposal, by giving the CIT jurisdiction over actions involving seizures, prohibitions/conditions on importation, and a variety of civil penalties, appears to take important steps in the direction of having the CIT become more involved in the enforcement of IP rights.

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