GENERAL AGREEMENT ON

TARIFFS AND TRADE

RESTRICTED

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UNITED STATES - SECTION 337 OF THE TARIFF ACT OF 1930

Report by the Panel

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I. INTRODUCTION

1.1 In document L/6160 of 29 April 1987, the European Economic Community (the Community) informed contracting parties that it had requested Article XXIII:1 consultations with the United States concerning the application of Section 337 of the United States Tariff Act of 1930. On 17 June 1987, the Community raised its complaint in the Council and reserved its right to request the establishment of a panel at the next Council meeting if no satisfactory solution could be found in the meantime (C/M/211, item 8). At the Council meeting of 15 July 1987, the Community informed the Council that the requested Article XXIII:1 consultations had been held on 10 July 1987 but had not led to a satisfactory solution, and requested the establishment of a panel (C/M/212, item 10). The Council agreed, at its meeting of 7 October 1987, to establish a panel and authorised the Council Chairman, in consultation with the parties concerned, to draw up the terms of reference and to designate the Chairman and members of the Panel (C/M/213, item 9).

1.2 The following terms of reference and composition of the Panel were communicated by the Chairman of the Council on 4 January 1988 (C/153).

Terms of reference

"To examine, in the light of the relevant GATT provisions, the matter referred to the CONTRACTING PARTIES by the European Economic Community in document L/6198, and to make such findings as will assist the CONTRACTING PARTIES in making the recommendations or rulings provided for in paragraph 2 of Article XXIII."

Composition

Chairman: H.E. Mr. Graham Fortune

Members: Professor Andreas Lowenfeld, New York University School of Law
Mr. Pierre Pescatore, former Judge, European Court of Justice

1.3 The matter referred to the CONTRACTING PARTIES by the European Economic Community was described in document L/6198 as follows:

"On 22 April 1987 the European Community requested consultations with the United States under Article XXIII:1 of the General Agreement concerning the application of Section 337 of the US Tariff Act 1930 (document L/6160).

"The request for consultations resulted from an examination of a specific case where for the purpose of enforcing private intellectual property rights imported goods were subjected to a separate and distinct procedure solely by virtue of their non-US origin. The EC considered that a denial of national treatment within the meaning of

Article III of the General Agreement resulted from the different rules applicable under Section 337 and that this denial does not fall within the provisions of Article XX(d) of the General Agreement. The EC therefore considers the benefits accruing to it under the General Agreement are being nullified and impaired through the application of the provisions of Section 337."

1.4 At the Council meetings of 15 July and 7 October 1987, Canada, Hong Kong, Japan, the Republic of Korea and Switzerland each reserved its right to make a submission to the Panel. The Panel offered these contracting parties the opportunity to make both a written submission and an oral presentation. Canada, Japan, the Republic of Korea and Switzerland availed themselves of this opportunity.

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.

1.6 The Panel was informed on 10 May 1988 that the parties to the "specific case" referred to by the Community in its complaint had executed on that day a private settlement agreement between them (see paragraph 2.9 below).

1.7 Since the Panel began its work, Section 337 of the United States Tariff Act has been amended, as summarised in Annex II. The present report, that is to say the presentation of the factual aspects, the arguments of parties and the findings and conclusions, is based on Section 337 as it was when the decision to establish the Panel was taken in October 1987.

II. FACTUAL ASPECTS

(i) Section 337

2.1 This Section describes relevant United States legislation and practice as at the time of the Council decision to establish the Panel in October 1987. Section 337 has been amended by the Omnibus Trade and Competitiveness Act of 1988. The same Act also amended the protection accorded under United States patent law in respect of products produced by a process patented in the United States. The main changes are summarised at Annex II of this report.

2.2 Under Section 337 of the United States Tariff Act of 1930 unfair methods of competition and unfair acts in the importation of articles into the United States, or in their sale, are unlawful if these unfair acts or methods of competition have the effect or tendency to (i) destroy or to substantially injure an industry efficiently and economically operated in the United States, (ii) prevent the establishment of such an industry, or (iii) restrain or monopolise trade and commerce in the United States. The unfair acts and methods of competition in question include the importation or sale of goods that infringe valid United States patents. Section 337a specifically applies Section 337 to the importation or sale of products produced abroad by a process covered by a United States patent. Since it was revised in the Trade Act of 1974, the majority of investigations under the Section 337 have concerned alleged infringements of patents. The text of Section 337 as of October 1987 is reproduced at Annex I to this report.

2.3 Remedies available under Section 337, in the event of a violation of the Section, consist of orders excluding the articles concerned from importation into the United States (exclusion orders) and/or cease and desist orders directing parties violating Section 337 to stop the act or method of competition found to be unfair. The exclusion order may be a general order covering all imports that, in a patent-based case, infringe the United States patent in question, or may be limited to goods produced by a respondent in the case.

(ii) The USITC and the decision-making process in Section 337 cases

2.4 Investigations under Section 337 are carried out by the United States International Trade Commission (USITC). The USITC is an independent administrative agency of the United States Government. The USITC is not created as a court under Article III of the United States Constitution, but is authorised and directed by Congress to conduct proceedings under Section 337 which are similar to court proceedings. Section 337 proceedings are subject to the Administrative Procedure Act, which governs similar "quasi-judicial proceedings" conducted by numerous agencies of the United States Federal Government.

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 determination by an administrative law judge. The administrative law judge conducts the discovery phase of the investigation and the subsequent hearing. In taking evidence and considering written and oral legal arguments, the administrative law judge is required to exercise independent judgment and is not under the direction of the Commission in the conduct of Section 337 proceedings or in the issuance of initial determinations in any particular case. In order to protect their independence, the Administrative Procedure Act provides that administrative law judges may not be removed except for cause or under a reduction in force based on seniority. The USITC's say in the recruitment of administrative law judges is limited to choosing one out of three names put forward by an independent agency (the Office of Personnel Management). No ex parte contacts are permitted in connection with a particular case between the administrative law judge and his or her staff, on the one hand, and the Commissioners and their staff advising them on the case, on the other.

- An investigative attorney of the Office of Unfair Import Investigations of the USITC acts as, and is treated as, a full party in all Section 337 investigations. The investigative attorney's rôle is to represent the public interest. The Commission investigative attorney is required to operate in any

given Section 337 proceeding independently of the direction of the Commission. The investigative attorney may support the complainant or the respondent, or may support complainant on some issues and respondent on others. The investigative attorney may also raise issues not raised by either complainant or respondent. No ex parte contacts with the Commissioners or the administrative law judge are allowed once the Commission votes to initiate an investigation. Prior to initiation of the investigation, the Office of Unfair Import Investigations advises the Commissioners on whether the papers submitted by the complainant comply with the requirements for initiation of investigations and is available to the complainant to assist in the formulation of the complaint.

(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 Investigations of the USITC to ensure that the complaint is in proper form.

(b) If the complaint is properly filed, the USITC must decide within thirty days of filing whether to institute an investigation. During this period both the complainant and potential respondents may consult with, or may be consulted by, the Office of Unfair Import Investigations. The USITC decides by vote and, if the decision is affirmative, notice of the investigation is published in the United States Federal Register. The statutory time-limits for the investigation commence from the date of publication of such notice.

(c) A response to the complaint is required from all named respondents within twenty days of publication of the notice of investigation (thirty days in the case of respondents outside the United States).

(d) Once instituted, the investigation is assigned to one of the administrative law judges of the USITC for the collection of evidence, a hearing, and an initial determination.

(e) The discovery phase begins on institution of the investigation, and generally lasts five to six months, unless the case is designated by the USITC as "more complicated".

(f) Following the close of discovery, a hearing is held before the administrative law judge which generally lasts about two weeks. All legal and equitable defences that would be relevant to patent infringement actions in federal district courts may be raised by a respondent. In addition, certain defences unique to Section 337 may be raised, such as a lack of a United States industry efficiently and economically operated, or lack of injury to that industry.

(g) Within nine months of publication of the notice in the Federal Register (fourteen months in more complicated cases), the administrative law judge is required to issue an initial decision, comprising, in patent-based cases, findings of fact and conclusions of law about the validity and enforceability of the patent in question, the infringement of the patent if it is found valid, and on whether any such violation has the effect or tendency (i) to destroy or substantially injure an industry efficiently and economically operated in the United States, or (ii) to prevent the establishment of such an industry.

(h) Within ten days of the initial determination, any party (except a defaulting party) can request review by the Commission of any issue relevant to the initial determination. The Commission may also order review on its own initiative. Review will be granted if at least one member of the Commission votes to order review. If the Commission does not elect to review the case, the administrative law judge's initial determination stands as the final determination of the USITC on the question of violation. If the Commission reviews the initial determination, it may make its own findings and conclusions of law, based on the evidentiary record prepared by the administrative law judge. The parties are given the opportunity to submit briefs and, in appropriate cases, present oral arguments on the issues under review.

(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 States federal district courts in patent cases.

2.7 If the complainant seeks a temporary exclusion order under Section 337, an evidentiary hearing with respect to temporary relief must be held and the initial determination of the administrative law judge as to whether temporary relief should be granted must be completed within four months of the notice of investigation. For temporary relief to be granted, it must be determined that there is reason to believe there is a violation of Section 337 and certain discretionary factors must be considered. If the administrative law judge's initial determination on temporary relief is not reviewed by the Commission, it becomes the determination on temporary relief within thirty days, subject to consideration of the public interest factors referred to in Section 337(e). If the Commission decides to review it, the review must be completed within sixty days. As with final determinations of the Commission, the President has sixty days in which to disapprove a Commission determination on temporary relief. Temporary exclusion orders are effective for the remaining duration of an investigation. While a temporary exclusion order is in effect, importation of the articles concerned may only take place on the posting of a bond in an amount determined by the USITC.

(iv) Differences between Section 337 and federal district court proceedings

2.8 Much of the argumentation developed before the Panel concerned the relationship and differences between patent-based Section 337 actions and litigation in federal district courts under United States patent law. The following are the main features of this relationship and of these differences as understood by the Panel:

(a) The forum: Section 337 cases are conducted by the USITC. Litigation under United States patent law is brought before federal district courts.

(b) Decision-makers: The decision in a Section 337 case is taken, by majority vote, by the Commissioners of the USITC on the basis of an initial determination of an administrative law judge of the USITC. In federal district court patent proceedings, decisions are taken by a federal judge or by a jury.

(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 complainant has the right to file a complaint in either forum or in both. This may be done either simultaneously or consecutively, with one exception - a final negative finding on the patent (invalidity/non-infringement) by a federal district court precludes a subsequent Section 337 investigation on the same cause of action. A negative Section 337 determination, even when based on the patent issues, does not, at least formally, preclude relitigation of the same issues under United States patent law, because USITC determinations are not formally considered to have res judicata or collateral estoppel effect. For the same reasons, a disappointed respondent in a Section 337 case is not, at least formally, prevented from relitigating defences on patent issues before a federal district court, by seeking a declaratory judgment of invalidity of the complainant's patent.

(iv) Under Section 337, it is not necessary to establish in personam jurisdiction over all parties, as is required for federal district court litigation, except with respect to cease and desist orders directed against a party. The jurisdiction of federal district courts under existing law extends only to parties that can be served with valid process in accordance with Rule 4 of the Federal Rules of Civil Procedure. Under Section 337, the proceeding is initiated by publication of the notice of the institution of the investigation in the Federal Register. In addition, copies of the complaint and of the notice in the Federal Register are mailed to all respondents named in the notice and to the government of each country of foreign respondents.

(e) Default: Under a Section 337 proceeding, if a respondent fails to respond to a complaint the complainant is required to establish a prima facie case of violation of Section 337 for relief to be ordered. Federal district courts have the authority to enter a judgment by default to establish patent infringement.

(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 agreeing not to share it with management, the more usual practice is to deny access to all persons, including in-house counsel, connected with the management of a party. The USITC explains this practice as a way to secure voluntary compliance with discovery requests without challenge. Protective orders are also obtainable in district court litigation under Rule 26(c) of the Federal Rules of Civil Procedure, including orders "that a trade secret or other confidential research, development, or commercial information not be disclosed or be disclosed only in a designated way" - for instance only to outside counsel. However, while such orders are frequently issued in patent litigation, they are not automatic and their scope is subject to the discretion of the judge after hearing both sides. The orders may be tailored to individual discovery requests in particular cases.

(h) Counterclaims: The USITC does not have jurisdiction in Section 337 proceedings to entertain counterclaims. In federal district court proceedings, counterclaims, whether or not related to the principal claim, may be raised in the same legal action. Assertions which constitute defences to patent infringement, for example inequitable conduct or antitrust violations, may, however, be raised as defences in Section 337 proceedings.

(i) Economic requirements: The complainant in a Section 337 action has to show that the effect or tendency of the patent infringement is to destroy or to substantially injure an industry efficiently and economically operated in the United States, or to prevent the establishment of such an industry. No comparable requirement exists in patent litigation in federal district courts.

(j) Public interest considerations: Before issuing an order under Section 337, the USITC is required to consider the effect of its order on: public health and welfare; competitive conditions in the United States; the production of like or directly competitive articles in the United States; and United States consumers. No comparable requirement exists in litigation in federal district courts.

(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 order, including civil penalties and mandatory injunctions (enforceable by contempt proceedings), may be enforced in a civil action brought by the USITC in a federal district court. In federal district court patent actions, injunctions may be enforced through a contempt proceeding in that court usually initiated by the plaintiff.

(n) Preliminary relief: Preliminary relief under Section 337 consists of a temporary exclusion order (or a temporary cease and desist order). Such relief lasts only as long as the investigation. Importation of goods covered by a temporary exclusion order is permitted only against the posting of a bond of an amount fixed by the USITC. In federal

district court litigation, preliminary injunctions may be issued against an alleged infringer and normally cannot be suspended by the posting of a bond by the defendant; however, the plaintiff is required to post a bond which can be used to compensate the defendant in the event that the defendant ultimately prevails. Under Section 337, the complainant is not required to post a bond and no damages for any losses to legitimate interests resulting from a temporary exclusion order can be recovered where the respondent prevails in the final determination.

(o) Judicial review: Both USITC Section 337 determinations and federal district court decisions are subject to judicial review, on appeal, by the Court of Appeals for the Federal Circuit. The Court of Appeals applies the same standard of review for issues of law to decisions of either forum. On questions of fact, USITC determinations are reviewed on the basis of the "substantial evidence" standard, i.e. whether the factual findings are supported by substantial evidence. The same standard is used to review the factual findings of juries in federal district court litigation; factual findings by federal district judges are subject to a "clearly erroneous" standard.

(v) The Certain Aramid Fibre case

2.9 The "specific case" referred to by the European Economic Community in its complaint to the GATT Council (paragraphs 1.3 and 1.6 above) was a Section 337 investigation entitled "In the Matter of Certain Aramid Fiber". On 18 April 1984, E.I. du Pont de Nemours and Company (Du Pont) filed a complaint with the USITC under Section 337 alleging the importation, sale and marketing in the United States of certain aramid fibre produced by Akzo N.V. (Akzo) in the Netherlands by a process 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 Court declined to review the judgment of the Court of Appeals (Akzo N.V. v. USITC, 107 Supreme Court Reporter 2490.) On 10 May 1988, following litigation in several other countries, Du Pont and Akzo executed a settlement agreement on aramid fibre, including a licence granted by Du Pont to Akzo to import limited quantities of aramid fibre into the United States during the remaining term of the patent.

III. MAIN ARGUMENTS

(i) Scope of the complaint

3.1 The Community initially requested the Panel to making findings concerning the compatibility with the United States' GATT obligations of the application of Section 337 both in general and in the Certain Aramid Fibre case. In the light of the settlement agreement between Du Pont and Akzo (see paragraph 2.9 above), the Community subsequently withdrew its request to the Panel to make specific findings in the Certain Aramid Fibre case. The Community however maintained its request that the Panel find that:

(i) the United States had failed to carry out its obligations under Article III.4 of the General Agreement by applying procedures under Section 337 of the United States Tariff Act of 1930 which subjected imported goods to a treatment which was less favourable than the treatment accorded by United States federal district courts to goods of national origin in patent infringement suits;

(ii) accordingly, to the extent to which products originating in the Community were subjected to discriminatory procedures under Section 337 of the United States Tariff Act which might result in exclusion orders, such procedures and orders must be considered prima facie to nullify or impair benefits accruing to the European Communities under the General Agreement.

3.2 The Community invited the Panel to recommend that the CONTRACTING PARTIES request the United States to take appropriate measures to grant national treatment to imported goods in future proceedings involving the alleged infringement of a United States patent.

3.3 To clarify the nature of its complaint, the Community indicated a number of issues that it was not contesting before the Panel:

- the status of Section 337 procedures as they were applied in non-patent based investigations;

- the consistency with the General Agreement of substantive United States patent law; and

- the right of contracting parties to enforce at the border national patent law against infringing imports.

3.4 The United States argued that:

(i) Application of Section 337 was consistent with the requirements of Article XX(d), and that Section 337 fell under the general exception to GATT obligations provided by that Article.

(ii) The procedural differences between Section 337 and federal district court litigation did not result in less favourable treatment for importers and manufacturers of imported products.

(iii) Section 337 on balance accorded manufacturers and sellers of imported products more favourable treatment than that accorded to domestic producers of products challenged under United States patent law.

(iv) Particularly in the light of the settlement of the specific case giving rise to the Panel, there was no proof that the differences in procedure under Section 337 had resulted in exclusion orders that would not have been issued if the USITC had used federal district court procedures or if USITC Commissioners had been Article III judges.

3.5 The United States requested the Panel to find that Section 337 of the United States Tariff Act of 1930 was consistent with United States obligations under the General Agreement.

(ii) Article III:4

(a) The applicability of Article III:4 to procedures under Section 337

3.6 Both parties to the dispute were of the view that Article III.4 applied to substantive patent law since such law affected the "internal sale, offering for sale, purchase, transportation, distribution or use" of imported products and like products of national origin. Both parties also thought that, for the purposes of the present case, Section 337 should be considered as a means of enforcement of United States patent laws. There was a difference of opinion, however, on whether Article III:4 applied to Section 337 and to its constituent procedures.

3.7 The Community argued that laws and regulations on the enforcement of patent laws directly affected the sale of goods. Rules of procedures of relevant tribunals therefore also affected the sale of goods since they influenced marketing prospects as well as the resulting enforcement decisions. The Community recalled that the Panel on Italian Discrimination against Imported Agricultural Machinery, whose report had been adopted on 23 October 1958, had found that the use of the word "affecting" in Article III:4 implied that "the drafters of the Article intended to cover in paragraph 4 not only the laws and regulations which directly governed the conditions of sale or purchase but also any laws or regulations which might adversely modify the conditions of competition between the domestic and imported products on the internal market" (BISD, 7S/60, paragraph 12). If laws which adversely modified conditions of competition were subject to Article III:4, any procedural rule which might have the effect of causing imported goods to be excluded from the market altogether must a fortiori also be subject to Article III:4.

3.8 The United States contended that Article XX(d) of the General Agreement made an express distinction between, on the one hand, "measures" and, on the other, the "laws and regulations" with which the "measures" were designed to secure compliance. Article XX(d) required that the "laws or regulations" be not inconsistent with the provisions of the General Agreement. However, in the view of the United States, the specific purpose of Article XX was to exempt enforcement "measures" from 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 purpose, i.e., enforcement of rights provided under laws and regulations or the creation of substantive rights. In GATT terms, Section 337 was a measure to secure compliance with United States laws relating to the protection of patents (as well as certain other substantive United States laws) and did not create substantive law pertaining to protection of patents in its own right. This meant that, to the extent that it met the conditions in Article XX(d), which the United States believed it did, Section 337 fell under Article XX(d), but not under Article III.

3.9 Other arguments put forward by the United States were:

- It was the substantive law which affected the sale, offering for sale, purchase, transportation or use of products, rather than the procedures applied to parties in adjudication of whether there was a violation of those laws. Many factors influenced marketing prospects for imported products. This alone did not mean that such factors should be subject to the provisions of Article III.

- To extend the requirements of Article III:4 to any point in a contracting party's procedural scheme for ensuring enforcement of its intellectual property, public health and similar types of laws would (i) change the focus of Article III:4; (ii) eliminate much of the discretion now exercised by contracting parties; and (iii) lead to numerous disputes regarding any procedures that distinguished between imported and domestically produced goods.

- GATT panels had not previously addressed issues such as the procedural aspects of Section 337 raised by the Community in this complaint.

- Where the CONTRACTING PARTIES had intended to adopt obligations regarding specific procedures for the application of laws, regulations and requirements, they had provided specific standards in the General Agreement - for example, in Articles VI, VIII, XIII and XVII. Article III:4 referred to laws, regulations and requirements and did not mention procedures. Laws and regulations had been at issue in the Italian Agricultural Machinery case, not procedural requirements as in this dispute.

- The principle set forth in Article III was the avoidance of the application of laws, regulations, requirements, taxes etc. in a protectionist manner. Section 337 procedures had not been applied in a protectionist manner and there was no evidence to that effect.

3.10 In response, the Community made the following points:

- Article XX was an "exceptions" provision which inter alia authorised, under certain conditions, the use of measures otherwise inconsistent with the General Agreement that were necessary to secure compliance with patent laws. If other GATT provisions were not capable of application to those measures, there would be no need for an "exceptions" provision to justify them. In the present case, it was only by identifying what was inconsistent with Article III that it could be seen what was subject to justification under Article XX(d).

- It was not possible to divorce laws from their enforcement. If United States patent law was balanced, but its enforcement at the USITC biased in favour of domestic interests, application of the law would prejudice imported goods. It was the actual application of the law, not the theory or the rule on the books, that affected the sale, distribution and purchasing of products within the meaning of Article III:4.

- There was no justification in the wording of Article III:4 for exempting from its application the rules of procedure of tribunals. Any such interpretation would enable contracting parties to take away, by openly discriminatory procedural rules applied to imports, almost all the benefits conferred by GATT.

- Its interpretation of Article III was supported by previous panel reports. For example, it had been found that Article III:2 should be applied strictly, not only to the rate of the applicable internal tax but also to taxation methods and rules for tax collection (Panel on Japanese Customs Duties, Taxes and Labelling Practices on Imported Wines and Alcoholic Beverages, L/6216, paragraph 5.8; Panel on United States Taxes on Petroleum and Certain Imported Substances, L/6175, paragraphs 5.1.4, 5.1.7, 5.1.9). This confirmed that the methods and rules of procedure of tribunals must be subject to Article III:4. It had also been found that under Article III:4 what mattered was whether the application of different regimes actually had a discriminatory or protective effect against imports (L/6216, paragraph 5.9(c)). Thus, de facto discrimination or protection was prohibited by Article III, irrespective of how it was brought about or what kind of official measure caused it.

- Standards for procedures that were specifically indicated in certain GATT Articles providing for purely trade remedies that concerned only imported goods were not relevant to patent infringement, because in the case of such trade remedies there could be no comparable internal procedure and therefore no applicability of Article III:4. However, the fact that these and some other GATT Articles expressly applied to procedures showed that the general clauses of GATT, such as Articles III:1 and III:4, must do so as well.

(b) General arguments concerning the treatment of imported goods under Section 337

3.11 The Community said that United States law made a distinction between procedures applicable in litigation in patent disputes according to whether goods alleged to infringe United States patents were imported or domestically produced. In the case of imported goods, the complainant could take action under the procedures applied by the USITC under Section 337 of the United States Tariff Act of 1930 or, where product patents were concerned, in federal district court. In the case of domestically produced products alleged to infringe a petitioner's patent, the matter could not be raised in a proceeding brought under Section 337 but only in a United States federal district court. The Community considered that, as the procedures applied by the USITC under Section 337 subjected imported goods to treatment that was radically different from, and less favourable than, the treatment accorded by United States federal district courts to domestic goods in patent infringement suits, the procedures at issue constituted a violation of the national treatment rule set forth in Article III:4 of the General Agreement.

3.12 The Community identified seven features of Section 337 procedures which it believed subjected imported goods to less favourable treatment:

- the inadmissibility of counterclaims by respondents;

- the effect of protective orders in denying access to documents classified as confidential;

- the short, fixed time-limits on Section 337 proceedings;

- that USITC Commissioners were less well qualified than United States federal judges to deal with legal issues in patent cases;

- the power of the USITC to issue in rem orders;

- the ability of a complainant in Section 337 cases to bring proceedings simultaneously in the federal courts;

- that Section 337 proceedings could not be brought by a holder of a United States patent unless it was manufacturing in the United States.

3.13 The United States, without prejudice to its position that Section 337 should be considered as a "measure" to secure compliance with laws on the protection of patents and not as a "law, regulation or requirement" falling under Article III:4, maintained that the procedural differences between Section 337 proceedings and district court litigation did not result in less favourable treatment for importers and manufacturers of imported products. The alleged differences raised by the Community, where they existed, were present (i) to permit application of one of the statutory benefits accorded respondents under Section 337, (ii) as a result of the nature of border enforcement or (iii) to place parties in the same position that they would be in after obtaining a preliminary injunction in a federal district court.

3.14 The United States argued that, if the Panel were to examine the consistency of Section 337 with Article III:4 of the GATT, it should examine its effect as a whole rather than evaluating each of its features separately. Examination of the results of Section 337 investigations would result in the conclusion that respondents in those investigations were not accorded less favourable treatment than defendants in district court litigation, because:

(i) Under Section 337 the complainant had the burden of proving a number of substantive economic elements that did not have to be proved in federal district court patent litigation, namely that an industry, efficiently and economically operated in the United States, was experiencing substantial injury or the probability of substantial injury (or was prevented from being established) as a result of the importation of the goods in question. Not only were each of these elements dispositive if the complainant failed to establish them, but also, in a procedural sense, these requirements were relevant in all cases, since the complainant had to prove them in every case.

(ii) Even after proving patent infringement and substantial injury to a domestic industry, relief could be modified or not applied on public interest or policy grounds, in a way not possible in federal district court litigation.

(iii) The procedural differences referred to by the Community, where they existed, did not give rise to less favourable treatment of respondents in Section 337 cases and, in any event, did not arise or were not relevant in many cases. The Community had provided only speculation and no proof of their detrimental effect.

(iv) In a number of respects, respondents received more favourable procedural treatment under Section 337 than they would in federal district courts.

3.15 In evaluating the treatment accorded to imported goods under Section 337, the United States urged the Panel to consider all of those elements that directly affected the result of an investigation, i.e., the dispositive issues. The substantive elements of Section 337, such as industry and injury requirements, demonstrably affected the outcome of investigations. Only to the extent that the 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 to petitioners in similar complaints against domestic goods, that fact did not entitle it to impose some other, unrelated, disadvantages or requirements on imported goods. There could be no reason to believe that the two sets of requirements would be relevant or significant in the same cases, or the same kinds of cases. Even if by chance they did arise in the same case, there would no reason to expect that they would create equal burdens for both parties. National treatment could not be denied to a defendant suffering procedural or substantive law handicaps merely because other defendants in other cases and in other situations were able to rely successfully on other unrelated, procedural or substantive, rules. The basic rule under Article III was that each rule of law must give imports no less favourable treatment. If this were not the case, there would be no criteria in GATT or elsewhere to limit the rules of law which could be used to offset other rules which, in themselves, clearly infringed Article III:4. Such an approach would be impossible to apply in practice, because it would be impossible to say when a rule discriminating against imports was offset and when it was not. Only if two, or more, rules applied in all the same cases and concerned the same subject, could one look at the effect of them together to decide if the joint effect was no less favourable; this might arise where two rules applied respectively to imports and domestic goods and had the same aim or purpose, or where, within one regime applicable to imports, two rules were directly and always linked with one another.

3.18 In the Community view, Article III:4 of the GATT was to be interpreted as requiring de facto national treatment. This would prohibit not only formal de jure discrimination, but also de facto discrimination. Such an interpretation was necessary to prevent concealed protectionism, to ensure that contracting parties could not do by non-tax measures what they were prohibited under Article III:1 and III:2 from doing by tax measures, and to provide a workable standard which ensured that discrimination could be identified and prohibited in every individual case. De facto national treatment would not prevent trivial differences in treatment which were incapable of having an economic effect. But the greater the difference, the greater was the onus on the party concerned to prove that it was incapable in individual cases of having an economic effect or that it always and necessarily gave imports the same treatment as, or more favourable treatment than, that accorded to domestic goods.

3.19 The Community said that the reasons adduced for not balancing unrelated disadvantages or requirements in applying Article III:4 applied fully in the case before the Panel. The substantive requirements imposed on complainants in Section 337 actions, but not in federal district court actions, and the procedural disadvantages facing respondents in Section 337 actions relative to those in federal district court proceedings, could not be offset against one another. Most of the procedural disadvantages created difficulties for respondents in all Section 337 cases, whereas the substantive requirements on 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 against one another, the disadvantages of respondents were not compensated for, or outweighed. According to the Community's calculations, these requirements had prevented relief in only five per cent of Section 337 cases. One reason why these economic requirements had little practical effect was that the procedural disadvantages facing respondents handicapped them in challenging the complainant's claims on these points - in particular the short time-limits and the inability of respondents to see, or discuss with their lawyers, confidential information covered by protective orders.

3.20 In response, the United States said that an examination of individual elements of Section 337 could not yield a complete assessment of its effects given the uncertainty in the interplay of the various elements. The only way of examining Section 337 was on the basis of the results of individual cases, either by determining the consistency of an individual decision with Article III:4 or, if the use of Section 337 in general were to be addressed, by discerning a pattern of conformity or non-conformity in the results. Assessing any individual component or partial group of components in isolation would require the Panel to make a subjective, speculative determination regarding the effect of that particular element. Respondents prevailed in the majority of contested cases and an extremely high percentage of USITC decisions was affirmed by the United States Court of Appeals; this did not indicate a pattern of less favourable treatment or inability on the part of respondents to defend themselves in Section 337 proceedings. Moreover, application of the provisions of United States patent law and Section 337 indicated that these laws and Section 337 proceedings were not protectionist in nature.

(c) Contentions by the EEC that less favourable treatment is accorded to imported goods

Counterclaims

3.21 The Community argued that the inadmissibility of counterclaims in a Section 337 case was less favourable to respondents than the corresponding rules and practice in federal district court cases:

- The complainant in a Section 337 action, unlike one before a federal district court, faced no risk that the respondent would launch a counter-attack in the same action. Thus, the complainant's readiness to bring an action was increased and amenability to a settlement satisfactory to both parties was reduced.

- The complainant under Section 337 was more able to limit the scope of a patent dispute by having allegations evaluated in isolation from other related patent or commercial matters in dispute.

- The inability to counterclaim in the same action might cause the respondent to incur the considerable additional expenses of a separate legal action in order to bring a counterclaim.

- The inability of the respondent to raise related counterclaims in the same suit meant that the complainant in that suit might obtain remedy before the respondent, having brought separate proceedings, obtained a ruling.

- The fact that a respondent in a Section 337 action, who wished to counterclaim, had to bring a separate cause of action before a federal district court meant that related issues would be dealt with by different tribunals with different procedures, with the inherent risk that these differences would in themselves lead to different conclusions.

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 put them in a relatively worse situation compared to complainants than did procedures in federal district court. The Community gave the following reasons:

- The complainant was entitled to a presumption of validity of any product patent on which an USITC action rested. The burden of proof that the patent was invalid was on the respondent. Limitations on access to allegedly confidential information of the complainant aggravated this burden considerably. It was acknowledged that, in the case of a process patent, USITC procedures on protective orders might operate to the disadvantage of the complainant, which under existing law had the burden of proof that the imported goods had been made by the patented process. However, the complainant might be able to produce enough evidence to shift the burden of proof to the respondent, e.g., by showing that there was no other process which could have been used. Since the complainant's United States lawyer was able to see the respondent's documents on discovery, the complainant should almost always be able to discover which process had in fact been used. In any case, whatever the explanation, this issue did not in practice seem to present serious difficulties for complainants, and when it did the difficulties were not due to protective orders but to the facts of the inventions in question.

- 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 respondent's lawyers needed technical advice on the complainant's documents, they first had to find suitable technical experts, whereas the complainant would already have had sufficient time fully to inform itself on technical aspects.

- Respondents ran the risk of serious adverse governmental actions (i.e. a USITC exclusion order), whereas United States industries did not really run any risk at all in Section 337 proceedings other than being denied relief.

3.25 The Community contended that, in the Certain Aramid Fibre case, most of the documents on which Du Pont relied could not be seen by any employee of Akzo, but only by Akzo's outside United States counsel and experts. Akzo's in-house experts had also been barred from attending most of the USITC proceedings. Akzo's treatment as respondent, under USITC proceedings, had been quite different from that accorded to Du Pont as defendant in related actions brought by Akzo in federal district courts. In the latter instance, designated in-house counsel of both parties had been entitled to have access to all the information of the other party covered by a protective order. The in-house personnel of both parties had had access to all the evidence considered during trial and had been present in the court room when the other side had presented its case.

3.26 The United States said that confidential information received the same treatment in Section 337 proceedings as it received in federal district court litigation. In regard to the Certain Aramid Fibre case, the Court of Appeals for the Federal Circuit (CAFC) had rejected Akzo's contentions on this point, noting that:

> [W]e have neither found nor been directed to any judicial decision in this country mandating, in the circumstances present here, that business confidential information must be made available to inside management. On the contrary, we are aware, from the practice of our own court, that records in appeals to us are frequently classified in large part, and are presumably not available to the management of the opposing party. Moreover, there are a substantial number of decisions upholding confidentiality comparable to that accepted by the

Commission. (Akzo N.V. v. USITC, 808 F.2d 1471, 1485 (Fed.Cir. 1986)) (emphasis in original.)

The United States said that the issues litigated between Akzo and Du Pont in district court had differed from those litigated before the USITC because the court case did not involve the question of injury to the domestic industry. The most sensitive information relating to Du Pont's internal operations, customers, and future business plans had not been relevant to the federal district court litigation and thus had not been considered in determining who would have access to information under a protective order. In federal district court cases where confidential information similar to that at issue in a Section 337 investigation was subject to protective order, the courts imposed limitations on access and procedures for challenging the claim of confidentiality similar to those used by the USITC. The CAFC's reference to the circumstances present in this case concerned the type and scope of information at issue. During Akzo's appeal of the USITC decision, the USITC had cited district court cases supporting its position and the CAFC had relied upon these cases and its own practice in reaching its decision on this issue.

3.27 The United States further said that protective orders under Section 337 proceedings applied equally to complainants and respondents. If the treatment of confidential information under Section 337 was more restrictive than that in federal district court proceedings, that would be more disadvantageous to the complainant than to the respondent, since the burden of proof on most issues rested on the complainant. As regards the Community claim that protective orders impaired a respondent presenting a defence of patent invalidity, it had to be borne in mind that such defences were often based on published material, e.g. defences of anticipation and obviousness.

3.28 In response, the Community said that the CAFC had expressly limited its finding in the passage cited by the United States to "the circumstances present here", which clearly referred to the treatment of allegedly confidential information by the USITC. The CAFC had not decided that federal district courts would also have denied Akzo's in-house counsel access to this type of information. The Community's view was that the judgment of the CAFC in the Akzo case showed conclusively that USITC treatment of confidential information was different from the practice of federal district courts. The Community found it significant that the United States had not cited any court decision upholding confidentiality restrictions similar to those of the USITC, nor had Du Pont or the USITC before the CAFC.

Time-limits

3.29 The Community contended that in federal district court proceedings the pace at which a case moved forward varied, depending on a number of factors, most notably the complexity of the case. In setting deadlines, courts were sensitive to the need to allow plaintiffs and defendants reasonable time to finish their preparations. The short time-limits under

Section 337 put respondents in a worse position, relative to complainants, than they would be in federal district court actions for the following reasons:

- The complainant had unlimited time to prepare its case. In contrast, once the USITC had initiated an investigation, a respondent had as little as twenty days first to find and retain United States counsel familiar with Section 337 and then to respond to the complaint. If the respondent did not identify a defence during this twenty day period, that defence could be lost, as it could not freely be introduced afterwards. Moreover, unlike federal district court procedures, discovery started immediately and respondents had therefore also to answer requests from the complainant for documents and for written answers to specific questions during that twenty day period.

- The much shorter period allotted for discovery than in federal district court proceedings was especially burdensome to respondents in patent-based cases, because of the presumption of validity applying to patents. The onus was on respondents to prove that the patent which they had allegedly infringed was invalid. That requirement could only be met by gathering evidence - and that took time.

- In Section 337 investigations parties did not have the same time that was afforded before trial in federal court proceedings to formulate their trial strategy. Accordingly, parties had to prepare their evidentiary presentation while engaging in active discovery. This prejudiced respondents, not only because they carried a heavy burden of proof (on proving patent invalidity) but also because during discovery they already had to try and catch up with the time advantage held by complainants following the initiation of a Section 337 investigation.

- 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 language, and secondly because they had to communicate with counsel and experts in the United States, on whom they were much more dependent than they would be in patent litigation before federal district courts, given that the USITC restricted access to relevant information to their lawyers.

3.30 The United States maintained that the time for completing Section 337 investigations compared favourably with the time for disposition of patent litigation in federal district courts.

- A Section 337 order was more comparable to preliminary relief in a federal district court than to the final disposition of the case by such a court. A Section 337 order stopped imports of infringing goods where they were causing or could cause future

injury; a preliminary injunction stopped production or sale of infringing goods. In both instances, public interest considerations affected the availability of relief; enforcement of remedies was only prospective; and a patent owner was not compensated for past injury but the rights of a patent owner to seek compensation were preserved. The average time to obtain a preliminary injunction in a United States district court was approximately four months, considerably less than the time required for a final Section 337 order, or a temporary Section 337 order (seven months). Expeditious procedures where relief was prospective only, as under Section 337, were fully justifiable in their own right and by reference to district court practice. In addition, neither procedure had res judicata or collateral estoppel effect.

- In any event, a comparison of the time accorded parties to litigate in federal district court the same types of issues that arose in Section 337 cases showed that similar time-limits applied. On average, fully litigated patent cases in federal district court were completed within thirty-one months of filing of the complaint. This included time for consideration of damages and counterclaims and other claims which would not be required in Section 337 proceedings.

- A primary reason for the time taken in district court litigation was the congestion of a particular judge's calendar. United States federal district courts, being trial courts of general jurisdiction, had dockets many times larger than those of the USITC's administrative law judges, whose calendars were totally devoted to hearing Section 337 cases. United States law required federal district courts to give precedence on their calendars to criminal prosecutions and other priority cases. Since 1975, Section 337 cases had averaged slightly more than twenty a year and final determinations had been made in about ten cases a year.

3.31 The United States also contested the Community claim that the time-limits in a Section 337 action put respondents in a less advantageous position, relative to complainants, than they would be in federal district court litigation. The United States argued that:

- In federal district court litigation, the plaintiff was also able to investigate the matter before filing the complaint.

- Many respondents before the USITC knew well in advance of the actual filing that a case might be filed against them, and were able to prepare themselves accordingly. Respondents may and do consult with the Office of Unfair Import Investigations before institution of an investigation.

- 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 district court not only because the complaint was more detailed but also because a copy was publicly available at the USITC for 30 days prior to the vote on institution of the action. The USITC's rule permitting complainants to seek responses to interrogatories (written questions) during the time for answering the complaint also was the same as that applied in district court litigation.

- Section 337's time-limits applied to both parties equally. In some respects they affected particularly the complainant, because of the burden of proof regarding infringement and, unlike in federal district court, regarding industry and injury.

3.32 The United States also maintained that expeditious proceedings could benefit either party. An expeditious finding of non-infringement or non-violation of Section 337 was favourable to the respondent because it eliminated uncertainty in the market resulting from patent litigation and because it reduced the costs of extended litigation.

3.33 In response, the Community said that a Section 337 order could not be regarded as analogous to preliminary relief ordered by a federal district court. Preliminary relief in court was subject to reconsideration later before final determination, whereas a Section 337 exclusion order (other than a temporary exclusion order) was not subject to reconsideration, since it was itself a final determination. Further, a preliminary court injunction was normally conditional on posting of a bond guaranteeing compensation to the defendant in the event of an outcome favourable to the latter; a Section 337 order, being definitive, did not require any security on the part of the complainant. The fact that temporary exclusion orders, which were analogous to preliminary relief, were available in Section 337 proceedings proved that final Section 337 orders were not comparable to preliminary injunctions.

3.34 The Community also did not accept that a Section 337 complaint gave a respondent significantly greater information about the case than notice pleading in federal district court. A Section 337 complaint might be somewhat longer than a typical complaint before a federal district court but this was attributable to the extra requirements of Section 337, not to any greater information about the circumstances of the alleged patent infringement.

Decision-making by the USITC

3.35 The Community claimed that the decision-making process of the USITC put the respondent in a less favourable position relative to the complainant than a defendant before a United States federal district court. As a basis for its claim, the Community said that there were two major differences between the respective decision-makers in the two fora:

- The terms and criteria of appointment of USITC Commissioners did not guarantee the same degree of independence as those of federal judges. USITC Commissioners were appointed for a term of limited duration (nine years), unlike federal judges who enjoyed life tenure. In their nomination and appointment, there was greater regard for their political affiliation.

- 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 relatively less advantageous position compared to the complainant for the following reasons:

- In product patent cases against imported goods, the complainant had the choice of whether to initiate action in the USITC under Section 337 or in federal district court or in both, according to its view of where its case stood a better chance. The respondent had no such choice.

- In product patent cases under Section 337 proceedings, an unsuccessful complainant had a second chance to pursue the complaint before a federal district court, because the USITC ruling had no res judicata effect, whereas an unsuccessful respondent had no such second chance. The importance of the USITC making the correct finding was thus greater for the respondent than for the complainant.

- Because USITC Commissioners were not as well qualified to deal with the legal aspects of patent issues, they might be reluctant to enter into detailed consideration of difficult patent law problems that arose in testing the validity of patents. They were thus more likely to be decisively influenced by the presumption of validity of the patent in the knowledge that rulings on this matter had no res judicata effect and that the respondent could initiate federal district court proceedings to challenge the validity of the patent. (Such proceedings, especially if begun after initiation of the USITC action, were not likely to end until the USITC's exclusion order, if there was one, had been in force for many months). This factor would matter less if administrative law judges had the necessary time fully to investigate the matter before making an initial determination, but they did not have that time. Moreover, there was no requirement that administrative law judges be specially trained in the application of intellectual property laws; they moved from one United States Government agency to another.

- The respondent had whatever disadvantage, psychological or otherwise, was likely to result from the fact that the USITC had been set up to protect United States industry and that most of the work of USITC Commissioners was concerned with keeping out of the United States goods which were regarded as in some sense "unfair".

- The Court of Appeals for the Federal Circuit (CAFC) applied different standards when reviewing the factual findings of the USITC and federal district courts in patent-based cases. In regard to the former, the "substantial evidence" test was used; in regard to the latter, the "clearly erroneous" standard. Differences in the standards were significant and were treated as such by the CAFC.

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 property law matters was

illustrated by the enviable record of its decisions being upheld by the Court of Appeals for the Federal Circuit (CAFC) that reviewed all patent cases in the United States. The standard of review employed by the CAFC was essentially the same for USITC and federal district court determinations on issues of law; as to factual findings, those of the USITC and of juries in patent cases were subjected to the same "substantial evidence" standard. Expert opinion was divided on whether there was any significant difference between the "clearly erroneous" standard used for the review of findings of fact by federal judges and the "substantial evidence" standard used to review findings of fact by the USITC.

3.38 As in the case of federal judges, USITC Commissioners were nominated by the President and confirmed by the United States Senate. The method of selection and confirmation of Commissioners reflected a concern that the USITC be an independant bipartisan body. The availability of a neutral forum in which decision-makers were experienced in considering intellectual property was one of the advantages of Section 337 for respondents.

3.39 The United States further said that the fact that Section 337 cases were decided by an administrative agency and that USITC Commissioners and administrative law judges were not appointed under Article III of the United States Constitution as federal judges made it possible to provide for Presidential review of affirmative USITC findings. This was one of the differences between Section 337 and federal district court proceedings that worked in favour of respondents. The separation of powers under the United States Constitution precluded the President from reviewing and taking action on judicial decisions. This also explained why USITC decisions had no formal res judicata effect.

3.40 The United States objected to the Community's statements regarding limitations on a respondent's ability to choose between two fora and the right to bring a second cause of action in federal district court after a finding of patent infringement. A respondent could file an action for a declaratory judgement on validity and/or non-infringement of the Section 337 complainant's patent in federal district court. At the same time, that respondent could also request a Section 337 investigation if it could meet the same jurisdictional requirements that applied to the complainant. Moreover, there was nothing to preclude a respondent from filing a district court action even if the USITC had found that respondent in violation of Section 337. Of course, in regard to process patent infringement based on the use outside the United States of a process patented in the United States, neither party could bring suit in federal district court; consequently, there was no choice for either party.

Simultaneous proceedings

3.41 The Community argued that, where imported goods were challenged with infringing patent rights and the matter concerned a product patent, the respondent could face simultaneous proceedings on the same complaint in the USITC and in a federal district court, whereas in similar cases involving domestically produced goods this was not possible.

3.42 The United States said that strictly speaking this was not a question of Section 337 procedure, since the possibility of simultaneous proceedings did not govern proceedings in any Section 337 investigation. Dual proceedings were not possible if the matter concerned a process patent or if it were not possible to obtain personal jurisdiction over the respondent in a federal district court. In those cases where it was possible to seek recourse both in federal district court and before the USITC, the patent owner might choose not to commence court action for any of several reasons, including: possible necessity for multiple court actions when all of the foreign defendants could not be brought into the same district court; unenforceability of any judgment; delays of court proceedings and consequent uncertainties in the market place; and preference for an exclusion order rather than recovery of damages. In instances where a concurrent court proceeding was initiated, a stay of court proceedings pending disposition of the Section 337 case or suspension of the Section 337 case pending disposition of the court action was possible. The United States also said that the respondent, as well as the complainant, could initiate concurrent court action, since a declaratory judgment that the complainant's patent was invalid and not infringed could be sought from a federal district court.

In rem orders

3.43 The Community said that for imported goods an in rem order could be made in Section 337 cases. USITC in rem orders could be directed at products of exporters who had not been parties to the Section 337 proceeding in question. Where domestically produced goods were concerned, no equivalent remedy was available. Moreover, in rem orders were enforced by the United States Government, whereas injunctions issued by a federal district court could only be enforced at the expense of the complainant. In the Community view, all this meant that imported goods were treated less favourably than like domestic products.

3.44 The United States said that in rem exclusion orders, like any remedy, necessarily benefited the complainant more than the respondent. Moreover, such exclusion orders were not procedural in nature, and were thus not relevant to the findings that the Community had requested the Panel to make. Notwithstanding its position on the relevance of this issue to the Panel's task, the United States said that the practical effect of an in rem order was the same as that of a judicial decision against a manufacturer of infringing goods in the United States. An injunction prohibiting further production of infringing goods eliminated the source of the product and made it unnecessary to bring actions against sellers of the product. An in rem order had the same effect of shutting off the source of infringing goods. A complainant might obtain an in rem order only if he could prove a widespread pattern of unauthorised use of the patented invention or process and the existence of certain business conditions from which the USITC could reasonably infer that foreign manufacturers other than respondents to the investigation might attempt to enter the United States market with infringing goods. USITC orders applied only to infringing goods just as district court orders applied only to infringing goods.

Limitation of availability of Section 337 to United States producers

3.45 The Community said that Section 337 could not be employed against the importation of goods alleged to infringe United States patent rights unless that act affected an United States industry. This meant that Section 337 could be used to protect goods of United States origin covered by a United States patent, but not goods produced abroad by (or under licence from) the holder of a United States patent. Thus, imported goods were treated less favourably than like goods of national origin. Moreover, it was obviously easier for United States firms to meet the "industry" requirement than for foreign owners of United States patents.

3.46 The United States said that the requirement that there be substantial injury to an industry in the United States applied to persons; United States firms had to meet the same requirements as foreign owners of United States patents. Activities that were considered by the USITC as relevant indicia 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 States and partly abroad, the USITC examined the nature and significance of the activities in the United States. Owners of United States patents that undertook only licensing activities in the United States or did not otherwise exploit the patent in the United States could not prove violation of Section 337.

(d) Contentions by the United States that more favourable treatment is accorded to imported goods.

Substantive "economic" requirements

3.47 The United States said that under Section 337 the petitioner had the burden of proving certain substantive economic elements that did not have to be proven in federal district court patent litigation, namely that an industry efficiently and economically operated in the United States was experiencing substantial injury or the threat of substantial injury as a result of the importation of the infringing goods in question. Not only was each of these elements dispositive if insufficient proof was provided, but also in a procedural sense these requirements were relevant in all cases since they had to be proven in every case. The Community replied that the fact that these elements were dispositive in only a limited number of cases demonstrated that they had no real effect in other cases. The Community did not believe that these economic requirements put a significant procedural burden on petitioners, nor that any such burden could be related to the less favourable procedural treatment to which respondents were subjected. Moreover, respondents were handicapped in disproving a United States complainant's claim that the economic requirements of Section 337 were met because of the procedural disadvantages from which respondents suffered, notably the limitations on access to the evidence of the complainant and the short time-limits.

3.48 The industry requirement: The United States said that a petitioner under Section 337 had to establish that activities in the United States of the patent owner and its licensees devoted to the exploitation of the patent at issue, including the products that resulted, constituted an "industry". The effect of this requirement was to limit the number of complaints filed and remedies issued. Of the 127 Section 337 investigations on which the USITC had made final determinations since 1975, eight of the sixty-one negative determinations had been negative due to failure to establish the existence of a domestic industry and in two cases the USITC had found no prevention of establishment of an industry. The Community considered that the industry requirement should be considered an element of less rather than more favourable treatment of imported goods since it had the effect of denying non-United States goods the right to challenge the importation of infringing goods (see paragraph 3.45 above). According to the information presented by the Community, which concerned 263 Section 337 cases, of which 123 had been fully litigated, the USITC had ruled that the United States complainant did not represent a United States industry (existing or in the process of being established) in only four cases.

3.49 The efficient and economic operation requirement: The United States said that the petitioner had to prove that its industry was efficiently and economically operated. The Community said that the USITC had never ruled against any petitioner on this ground.

3.50 The injury requirement: The United States said that the petitioner had to demonstrate that the effect or tendency of the import of the goods that it claimed infringed its patent was to destroy or substantially to injure an industry or to prevent the establishment of an industry. The petitioner had to demonstrate not only the required degree of injury to the industry but also a causal link between the injury and the infringing imports. According to the United States, of the sixty-one cases on which the USITC had rendered a negative determination under Section 337, the USITC had found that the complainant had failed to prove injury in twelve cases. Apart from its general comments summarised in paragraph 3.47, the Community said that, according to its information, the USITC had entered a negative determination on the grounds of injury in only six cases.

Public interest and Presidential review

3.51 The United States said that, even after proving patent infringement and substantial injury to a domestic industry, Section 337 relief might be modified or not applied on public interest or policy grounds. This was not possible in federal district court litigation. The Community said that, while this might affect the outcome in a few cases, it had no bearing on the treatment accorded respondents in many other cases.

3.52 Public interest: The United States said that the USITC had refused to provide relief in two final determinations on the basis of public interest considerations. On the same grounds, it had also turned down two requests for temporary relief, leading the complainant in those investigations to

withdraw the complaint and to request termination of the investigation. Even where the USITC did not totally deny relief for reasons of public interest, these considerations could be a factor in limiting the relief provided. For example, in the Certain Aramid Fibre case, the USITC, over the dissent of one Commissioner, had limited the type of aramid fibre product covered by the exclusion order. One of the reasons for this decision had been the conclusion that a broader order would be inconsistent with the public interest of avoiding a burden on legitimate trade.

3.53 Presidential review: The United States said that in five investigations the President had disapproved remedies for policy reasons. In three of those investigations, the USITC had subsequently issued a determination ordering a more limited remedy, which the President had not disapproved.

More favourable procedural requirements

3.54 The United States argued that Section 337 imposed some procedural requirements on complainants that put respondents in a more favourable position than under federal district court litigation:

- The USITC required more detailed information in any complaint requesting initiation of an investigation under Section 337 than was required in initiating a suit in federal district court; the USITC had to vote to initiate the investigation; and it could and did refuse to do so if the allegations were not well documented.

- The patent owner was required to make a prima facie case on both patent and non-patent issues in all investigations, including those cases in which none of the respondents had appeared and in which they had therefore been found in default. United States federal district courts had the authority to enter a judgment by default without further proceedings to establish patent infringement.

- Although USITC's rules were closely modelled on the Federal Rules of Civil Procedure applied in federal district court litigation, in some instances the USITC's rules were more favourable to respondents. For example, foreign respondents received an extra ten days for service by mail.

3.55 The Community said that there was in fact little difference between the amount of information on patent matters contained in a Section 337 complaint and that contained in a pleading in federal district court. The Community also said that the requirements in respect of "default" cases did nothing to affect the situation in contested cases; the Community was concerned about the treatment accorded respondents in contested cases.

(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 alleged to infringe 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, and could not demonstrate, that the several features of Section 337 procedures that it had contested could be justified under Article XX(d). In the Community view, those features did not meet the requirement in the provision that they were "necessary" to secure compliance with United States patent law. The Community contended that, if it were accepted, as the United States argued, that the issue under Article XX(d) was whether Section 337 as a system was necessary for the enforcement of United States patent laws, this would imply that any special arrangement which a contracting party found necessary for the enforcement of patent laws in relation to imports, no matter how discriminatory or protectionist, would be permitted by Article XX(d)

(b) "Necessary to secure compliance"

3.59 The United States said that the "necessary to secure compliance" requirement in Article XX(d), as applied to United States patent laws, meant that the measure at issue must serve to prevent circumvention of the United States patent regime. The requirement did not impose an obligation to use the least trade restrictive measure that could be envisaged; this would invite continuous disputes regarding measures that the CONTRACTING

PARTIES had clearly intended to exempt from the obligations of the General Agreement. The concept of necessity should be interpreted taking into consideration the overall effectiveness of the measure, the inherent characteristics of imports, and the need for flexibility in achieving the objective of securing compliance with laws and regulations consistent with the General Agreement.

3.60 The Community considered that the "necessary to secure compliance" standard in Article XX(d) could only be used to justify less favourable treatment of imported goods for objective reasons - whether these reasons were objective practical ones, for example when laws such as patent laws could not be applied to imported goods in precisely the same way as to domestic goods, or whether they were objective legal ones not under the control of a GATT contracting party, such as limitations under international law on the scope for extra-territorial application of its legislation. A contracting party could not make something "necessary" by merely writing its legislation in such a way that one type of enforcement measure was applicable to imported goods and another was applicable to domestic goods in otherwise similar situations. If there were objective practical or legal reasons of the kinds indicated, a contracting party would be free to apply enforcement procedures to domestic goods that could not be applied, without modification, to imported goods at the moment of their arrival at the frontier. But, if it did, any difference between the two enforcement mechanisms that might be required to adapt the domestic measures to deal with imports must be confined to what discriminated least against imported goods. Since Article XX(d) was an exceptions provision and applicable only in so far as national rules infringed other rules of the GATT, each such infringing rule should be examined to see whether it was necessary or not.

3.61 The United States said that no contracting party had ever enacted or enforced measures based on the Community's proposed standard. The United States believed that the standard proposed by the Community would result in the GATT requiring uniformity of all standards and procedures affecting imported and domestically produced goods. Under the Community's proposed standard, adoption by a contracting party of a regime different from that adopted by other States, for example for the protection of human, animal or plant life and health or of public morals, could never be justified under Article XX(d), since it would have a trade restrictive effect and could not be shown to be objectively "necessary".

3.62 The United States said that Section 337 provided the only means of enforcement of United States patent rights against imports of products manufactured abroad by means of a process patented in the United States. The Community said that it had not been able to discover anything that would make it "necessary" to deal with imported goods alleged to infringe a United States process patent through the USITC and not through ordinary courts. In any event, this could not justify as "necessary" the procedural features of Section 337 that it considered gave less favourable treatment to imported goods.

3.63 The United States said that Section 337 was also necessary because it provided a way of dealing with situations where effective enforcement of rights through federal district courts was precluded due to special problems connected with imports, namely service of process on, and enforcement of judgments against, foreign parties. Adequate service of process against foreign parties in accordance with the Federal Rules of Civil Procedure applicable in federal district court litigation was frequently difficult and could be avoided by the party in question. For example, maintaining a separate corporate entity for purposes of importation, or transferring ownership prior to importation, could prevent effective service of process and could preclude personal jurisdiction in the United States. Even if a foreign corporation did not take these steps, it could avoid service of process by simply refusing to accept delivery of mail. The Community said that, if service of process on foreign parties in district court litigation presented problems, these problems could have been resolved a long time ago; that in any event they were problems not confined to (or exceptionally difficult in) patent infringement cases; and, finally, that federal district courts had apparently devised practical solutions to problems encountered by United States plaintiffs in serving process on foreign defendants.

3.64 With respect to enforcement problems, the United States argued that:

- Unlike the situation of infringing goods produced in the United States, legal action in federal district courts did not provide an effective way of cutting off imports of infringing goods at their source, i.e. at the point of production abroad or, at least, at their point of importation into the United States. Even if a federal district court found that a foreign manufacturer had sufficient contacts to establish the in personam jurisdiction necessary for a judgment providing injunctive relief to be entered, enforcement of such a judgment would be extraordinarily difficult. The owner of the United States patent would be required 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 equivalent in effectiveness to action against a producer in the United States as a way of preventing United States sales. This was because importers could be very numerous and might not be able to be brought collectively into a single judicial forum; and because as soon as the activities of one importer were stopped, it was generally easy for the foreign manufacturer to find another.

- Except in cases of trademark counterfeiting, copyright infringement and infringement of semi-conductor mask works, the United States Customs Service did not enforce United States district court orders pertaining to enforcement of intellectual property rights or deceptive practices, unless the Customs Service was a party to the action. In cases involving patent infringement, the court could direct only the parties to an action and not the Customs Service.

3.65 The Community did not believe that these arguments justified as "necessary" the ability to enforce in rem exclusion orders against imports only and not against domestically produced goods. Although in rem orders were more likely to be useful against imported goods, because firms exporting to the United States may not be easy to serve with process, the Community saw no reason why the differences between USITC proceedings and federal district court proceedings made it "necessary" to have in rem orders only in USITC cases. The Community was not aware of any international obligations that would prevent the United States from modifying any rules of procedure on service of process which were felt to be unreasonably restrictive. The United States was not entitled simply to rely on its own existing legislation to show that "discrimination" was necessary.

3.66 The United States also said that many of the procedural aspects of Section 337 reflected the need to provide expeditious prospective relief against infringing imports. Moreover, procedural aspects such as USITC Commissioners not being judges under Article III of the United States Constitution, and the lack of formal res judicata effect of USITC determinations on patents, were necessary so that Presidential review, which was to the advantage of respondents, could exist. This was part of a carefully designed system in Section 337 that balanced the need for effective enforcement of patent laws with equity, public interest and policy concerns. The Community said that Presidential review was not an argument for necessity in terms of Article XX(d).

(c) "Not applied in a manner which would constitute a means of arbitrary or unjustifiable discrimination between countries where the same conditions prevail"

3.67 The United States said that Section 337 investigations were conducted in such a way as to give all affected parties every opportunity to be heard. In the pre-initiation informal inquiry into the complaint, the USITC Investigative Attorney attempted to ensure that the complainant had named in the complaint all potential respondents reasonably known to the patent owner. Publication of the notice of investigation provided an opportunity for non-respondents to receive notice and to intervene in the investigation if they had an interest. Exclusion orders were issued and enforced only against goods that infringed the patent at issue. The USITC frequently limited the coverage of the exclusion order to cover infringing imports from parties that had been named as respondents in the Section 337 investigation.

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 importer could simply certify that Du Pont had manufactured the aramid fibre. A third party could request an administrative ruling from the Customs Service on the application of an exclusion order to prospective transactions, and, in the event of an adverse ruling, seek a declaratory judgment proceeding in the United States Court of International Trade and, if unsuccessful in that action, appeal to the United States Court of Appeals for the Federal Circuit (CAFC). If its goods were excluded from entry, a third party could file a customs protest with the Customs Service and, if unsuccessful, appeal first to the Court of International Trade and then to the CAFC. In addition, any person might seek an advisory opinion from the USITC regarding whether a particular article infringed the relevant patent and thus was subject to a general exclusion order.

(d) "Not applied in a manner which would constitute .... a disguised restriction on international trade"

3.69 The United States said that this condition of Article XX(d) was met since Section 337 orders resulted from a process in which all affected parties could participate and were openly enforced. The Community said that this was a misinterpretation of Article XX(d). This condition was intended to ensure that measures taken avowedly for one of the purposes in the ten sub-paragraphs, (a) to (j) of the Article, were not in reality taken primarily to restrict trade, through being more restrictive than necessary to achieve the avowed result.

3.70 The United States added that, in a Section 337 investigation, a third party could move to intervene as a party to defend its interest. Third parties could make submissions on questions of remedy, public interest and bonding. They could also move to persuade the President to disapprove a USITC order for policy reasons. A patent owner could obtain a general exclusion order only if it could prove not only a widespread pattern of unauthorised use of its patented invention or process but also that certain business conditions existed, from which the USITC might reasonably infer that foreign manufacturers other than respondents to the investigation might attempt to enter the United States market with infringing goods. Third parties also had a number of judicial and administrative means to contest both the USITC's findings in the Section 337 investigation and enforcement of any order issued to enforce a finding of violation. A third party could appeal the USITC's determination and order to the Court of Appeals for the Federal Circuit if it could show that it was "adversely affected" by that determination and order. At any time while an order was in force, a third party could also seek from the USITC modification or dissolution of the order to take into account changed conditions of fact or law or public interest. The purpose of Section 337 was to enforce United States patent laws. That was a legitimate objective under the GATT. In the United States view, Section 337 procedures, as drafted and applied, were not protectionist. The history of Section 337 decisions supported this view. Respondents successfully defended themselves in Section 337

actions. Moreover, comparison with the pattern of settlement and litigation in United States federal district courts over recent years indicated that practice in initiating and resolving Section 337 actions was more favourable to respondents than in district court patent litigation.

IV. SUBMISSIONS BY INTERESTED THIRD CONTRACTING PARTIES

4.1 This Section summarises the main points in the submission of third contracting parties to the Panel. It also summarises any arguments by the United States in response additional to those already summarised in the preceding Section.

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 to a potential petitioner inasmuch as a finding by the USITC of patent invalidity would not result in revocation of the patent. Domestic manufacturers could not be brought before the USITC under Section 337. Differences from federal district court rules of procedure on securing personal jurisdiction over each defendant, and the possibility of general exclusion orders, meant that individuals could be deemed to all intents and purposes to be infringers without ever actually being able to litigate the intellectual property issues at stake. The strict time-limits for Section 337 cases could deprive a respondent of the ability to pursue all available legal defences. Costs of defending a Section 337 action were often equal to or greater than the cost of defending the same type of action in a federal district court; were incurred in a comparatively short period of time; and were never reimbursed even if the USITC found in the respondent's favour, thus causing some respondents to seek to settle with the petitioner regardless of the actual merits of the case.

4.3 Canada argued that, in considering consistency with Article XX(d), the Panel should treat the whole Section 337 adjudicatory process as the "measures" to secure compliance with United States laws and not just the resulting exclusion orders. The very existence of Section 337 and its procedurally debilitating effects on imports to the United States market constituted a disguised restriction on trade. Furthermore, in the Canadian view, Section 337 could not be justified as "necessary" within the meaning of Article XX(d), although its use might be expedient. Other means to ensure that intellectual property rights of United States firms and individuals were adequately protected in a non-discriminatory manner

against both foreign and domestic infringers were clearly available to the United States. Arguments for the necessity of Section 337 based upon alleged difficulties with respect to service of process or the enforcement of judgments made by United States federal district courts against foreign producers were not compelling. Problems relating to the interdiction of offending products at the border could be resolved if federal district courts were empowered to issue exclusion orders against specific foreign individuals or firms found to be infringing valid United States patents, just as the United States Congress had empowered the USITC to do under Section 337. Section 337 process was not necessary because the United States was the only Contracting Party to maintain a separate adjudicative process for dealing with claims of this type.

Japan

4.4 Japan considered that the procedures applied under Section 337 and the orders issued by the USITC as a result went beyond what was "necessary" to secure compliance with laws or regulations in terms of Article XX(d) of the General Agreement and were inconsistent with Articles III and XI of the General Agreement. Section 337 was applied in a manner inconsistent with Article III:4 for the following reasons. Patent infringement cases contested by ordinary civil procedures in a federal district court usually took three to four years on average from their initial filing until the court's adjudication. The period for investigation by the USITC, however, was statutorily limited as a principle to one year (or eighteen months in a more complicated case) by Section 337. These short time-limits for Section 337 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 days (including overseas delivery) for the submission of a written defence was generally strictly enforced, unlike in normal United States federal district court proceedings where the period could be extended under relatively easy requirements. Thus, while the complainant could take as much time as it needed before filing its complaint, it was difficult for the respondent to examine the issues thoroughly before replying. Moreover, the period for reply to discovery requests was, in principle, ten days, as compared to thirty days in federal district court procedures. A temporary exclusion order under Section 337 was enforced without requiring the complainant to post a security deposit, unlike federal district court procedures under which preliminary injunctions required the posting of a security deposit by the plaintiff to compensate for any losses the defendant might have incurred in the event that the allegations were proved unfounded. Under Section 337, even if the complaint was later proved unfounded, the respondent received no compensation for losses incurred as a result of a temporary exclusion order. Japan also argued that a Section 337 exclusion order was inconsistent with Article XI:1 of the General Agreement to the extent that it exceeded what would be justified as "necessary" in terms of Article XX(d). In relation to Article XX(d), Japan considered that both the procedures under Section 337 and the resulting exclusion orders should be considered as "measures" within the meaning of

that Article. Japan considered that Section 337 procedures were not "necessary" and were "a disguised restriction" on international trade in terms of Article XX(d), because the procedures and orders issued at the border under Article XX(d) treated imported products less favourably than domestically produced goods and because they could hinder the distribution of genuine goods.

Korea, Republic of

4.5 The Republic of Korea presented arguments on the compatibility of Section 337 with Article III:1 and III:4 of the General Agreement. In regard to Article III:1, Korea considered that Section 337 contained elements of protection for domestic production: it dealt with injury to domestic industry; domestic manufacturers or producers of products using United States patents, but not exporters to the United States of goods produced using United States patents, had right of recourse to Section 337; and Section 337 provided for a Presidential veto which was not applicable to judicial decisions. In regard to Article III:4, Korea considered that foreign producers were treated less favourably than domestic producers because they were subject to the possibility of dual procedures under Section 337 and in the courts, and the procedures and relief measures were available more quickly and were more effective than those in United States federal district courts.

Switzerland

4.6 Switzerland considered that Section 337 contained a number of elements of explicit and implicit procedural discrimination against competitors based abroad and seeking access to the United States market, as compared to United States domestic producers. Initiation of proceedings was open to domestic producers only. Respondents could not make any counterclaims before the USITC. Section 337 procedures exerted severe and burdensome time pressures on respondents: while the complainant was without any time constraint to prepare discovery and to file the complaint, the respondent was subject to strict and short time-limits. Respondents had in effect not more than twenty days to submit their response; since discovery usually had to be completed within three to four months and only ten days were granted to answer interrogations, respondents were under severe time pressure. Discovery was often difficult for the respondent since relevant data and information provided by the complainant was subject to protective orders and not available to the respondent and in-house counsel. In addition, disclosure of confidential information might cause additional conflicts with domestic legislation binding upon the exporting producer. Temporary exclusion orders could be granted without requiring proof of injury. In order to continue imports despite a temporary exclusion order, an ad valorem bond had to be paid, while the complainant did not have to provide any guarantees, since no damages could be recovered under these proceedings.

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 why existing and non-discriminatory measures within the United States court system would not sufficiently protect United States-based producers. Moreover, Section 337 did not meet the requirement of Article XX(d) that measures "not be applied in a manner which would constitute a means of arbitrary or unjustifiable discrimination between countries where the same conditions prevail". The fact that exclusion orders were in rem and not in personam and the fact that there was no obligation to initiate proceedings against all the potential infringers meant that an exclusion order might affect producers who had had no opportunity to participate, and had, therefore, been without an opportunity to use all legal and equitable defences in accordance with Section 337. In addition, the severe time constraints imposed on respondents were a source of discrimination between domestic and foreign producers.

4.8 Switzerland also considered that Section 337 was not justifiable under Article XX(d) because it exerted considerable, dissuasive, chilling effects on foreign competitors seeking access to the United States market. Due to a number of features that did not sufficiently exclude abuses and due to the fact that there was a low degree of predictability, Section 337 posed a considerable threat in the hands of United States-based producers to foreign competitors. Initiation of proceedings was not difficult; proceedings were under heavy time pressures, often subject to protective orders and were extremely expensive, in particular for small and medium-sized competitors; the threat of temporary exclusion orders was considerable since it merely required reason to believe that there was a violation of the Section; it was doubtful that the injury test provided for in Section 337(a) was an effective deterrent to unfounded requests; and foreign competitors compelled by financial necessities to settle the case by agreement were left without a ruling on the legal issues.

Responses by the United States

4.9 In response, the United States put forward the following arguments additional to those summarised in the preceding Section of this report:

- Separate procedures relating solely to imported goods were common in the area of protection of intellectual property rights, health regulations, competition law etc. Their mere

existence did not constitute less favourable treatment of imported goods or a disguised restriction on international trade.

- With respect to imports of products produced by means of a process patented in the United States, Section 337 proceedings were not additional to those available under United States patent law.

- Institution of a proceeding by the complainant under United States patent law after a negative determination on validity/enforceability by the USITC would expose the patent owner to defences of patent misuse and potentially to treble damages for anti-trust violation. (The Community argued that such antitrust liability was very unlikely and that there had not been a single case where a party had incurred such liability for filing a patent infringement 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 possibility to relitigate the patent issues before a federal district court gave, on the one hand, the respondent an additional opportunity to defend its case and, on the other hand, enabled the complainant to pursue remedies for past damage not available under Section 337. If the federal district court decision of invalidity/non-infringement/unenforceability was upheld on appeal, the USITC would rescind an outstanding order.

- Although application of the rules on hearsay evidence differed under Section 337 procedures from practice in federal district courts, the administrative law judge took into account its status as hearsay evidence in assessing the weight that would be accorded to it.

- The authority of administrative law judges to draw inferences under Section 337 based on failure to produce evidence was the same as that exercised by federal judges, with one exception where it was more limited. USITC rules did not provide for awarding costs of litigation to secure compliance with discovery orders.

- Temporary exclusion orders under Section 337 were in some ways more favourable to respondents than preliminary injunctions from federal district courts. Unlike the latter, temporary exclusion orders did not prevent importation; importation could continue if the respondent posted (not paid) a bond. If a negative final determination were issued, the bond was discharged and no longer applied. Losses, such as those complained of before the Panel, were therefore not possible.

- Although preliminary injunctions were typically issued four months after request, temporary exclusion orders might not be available until seven months after the initiation of the investigation and lasted only while the investigation continued.

- A patent owner could obtain a temporary exclusion order under Section 337 only upon proof that there was reason to believe that there was patent infringement and substantial injury to an efficiently and economically operated industry in the United States and that all the requirements for obtaining a preliminary injunction in a district court were met. Moreover, temporary relief was subject to a USITC finding on public interest and to Presidential review.

- The contention that the potential scope of unfair trade practices that could violate Section 337 was overbroad in relation to GATT obligations ignored the wording of Article XX(d) of the General Agreement, which was not limitative in the "laws or regulations", not inconsistent with the GATT, that it authorised, subject to the conditions stated, measures to enforce.

- Contrary to assertions, administrative law judges liberally granted extensions of time to respond to the complaint. In the Certain Aramid Fibre investigation, Akzo had requested and received such an extension of time.

Extension of process patent protection to products

4.10 In response to a question put by the Panel, Canada, Japan and Switzerland informed the Panel that in their countries the exclusive right of the owner of a process patent covered not only the use of the process but also extended to products obtained directly by means of the patented process. They also said that their countries provided for a reversal of the normal burden of proof so that, where a patent related to a process for obtaining a new product, there was a presumption that the same product produced by a party other than the patentee had been obtained by the patented process. The presumption could be rebutted by evidence from the party producing the goods in question. The Community also indicated that, in its member States, process patent protection was extended to products and that generally the burden rested with the defendant to establish or to demonstrate that the products were made without using the patented process.

V. FINDINGS

(i) Scope of findings

5.1 The Panel's terms of reference refer both to the application of Section 337 in general and to its application in the case concerning Certain Aramid Fibre which prompted the European Economic Community to submit its complaint to the CONTRACTING PARTIES. During the course of the Panel's proceedings, the parties to the Certain Aramid Fibre case reached a settlement (see paragraph 2.9 above), and thereafter the Community withdrew its request to the Panel to make findings in respect of that case. The Panel therefore limited its examination to Section 337 as such, plus the related Section 337a which the Council clearly intended to be covered by the Panel's term of reference since it was the provision applicable in the Certain Aramid Fibre case. (Hereinafter references to Section 337 should therefore be understood as references to both Section 337 and Section 337a.)

5.2 During the course of the Panel's work, Section 337 was amended by the Omnibus Trade and Competitiveness Act of 1988. The Panel's findings are based on Section 337 as it was at the time that the Panel was established by the Council, in October 1987. A summary of the main changes made to Section 337 by the 1988 Act is contained in Annex II to this report.

5.3 Section 337 is not limited to patent disputes; indeed, except in Section 337a, it does not even mention patents but merely speaks of "unfair methods of competition and unfair acts in the importation of articles into the United States". It has also been used in disputes concerning alleged infringement by imported products of other United States intellectual property rights, including trademarks and copyrights, as well as in disputes outside the field of intellectual property. While many of the observations that follow may be relevant to such cases as well, the complaint in this case, as well as the submissions of the parties, concentrated on the application of Section 337 to patent-based cases, and the Panel's findings and conclusions are limited to such cases.

5.4 The central and undisputed facts before the Panel are that, in patent infringement cases, proceedings before the USITC under Section 337 are only applicable to imported products alleged to infringe a United States patent; and that these proceedings are different, in a number of respects, from those applying before a federal district court when a product of United States origin is challenged on the grounds of patent infringement. The Community maintained that the differences between the two proceedings are such that the treatment accorded to imported products is less favourable than that accorded to like products of United States origin, inconsistently with Article III:4 of the General Agreement, and that this less favourable treatment cannot be justified under Article XX(d) of the General Agreement. The United States maintained that Section 337 is justifiable under Article XX(d) and, in any event, is not inconsistent with Article III:4 since it does not accord imported products less favourable treatment than that accorded to like products of United States origin.

5.5 The United States suggested that the scope of the complaint was confined to matters of legal procedure, and that the issues raised by the Community concerning in rem general exclusion orders and the possibility of imported products being subject to simultaneous proceedings under Section 337 and in federal district courts are not matters of procedure. However, the Panel noted that its terms of reference refer without limitation to "the different rules applicable under Section 337" to which 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 the General Agreement" (C/M/168, item 7).

(ii) Relevant provisions of the General Agreement

5.7 The main provisions invoked by the parties to the dispute are Article III:4 and Article XX(d). The relevant part of Article III:4 reads:

> "The products of the territory of any contracting party imported into the territory of any other contracting party shall be accorded treatment no less favourable than that accorded to like products of national origin in respect of all laws, regulations and requirements affecting their internal sale, offering for sale, purchase, transportation, distribution or use."

This provision is supplemented by an interpretative note, the relevant part of which reads:

> "... any law, regulation or requirement ... which applies to an imported product and to the like domestic product and is ... enforced in the case of the imported product at the time or point of importation, is ... subject to the provisions of Article III."

The relevant part of Article XX(d) reads:

> "Subject to the requirement that such 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, nothing in this Agreement shall be construed to prevent the adoption or enforcement by any contracting party of measures: ... (d) necessary to secure compliance with laws or regulations which are not inconsistent with the provisions of this Agreement, including those relating to ... the protection of patents, trade marks and copyrights..."

(iii) Relation of Article III to Article XX(d)

5.8 The parties to the dispute agreed that Article III:4 applies to substantive patent law, since such law affects the "internal sale, offering for sale, purchase, transportation or use" of imported and domestic products. They also agreed that the consistency of the substantive provisions of United States patent law with the General Agreement is not at issue. Further, the parties agreed that Section 337, when applied in cases of alleged patent infringement, is a means to secure compliance with United States patent law in respect of imported products. They disagreed, however, on the question of whether a measure to secure compliance with patent laws - in contrast to the substantive patent law itself - is covered by Article III:4. In the view of the United States, measures to secure compliance with patent legislation are covered only by Article XX(d). The Community took the position that Article III:4 requires national treatment also for procedures designed to enforce internal legislation, and that Article XX(d) provides for an exception to be considered only after conduct inconsistent with another provision of the General Agreement has been established.

5.9 The Panel noted that Article XX is entitled "General Exceptions" and that the central phrase in the introductory clause reads: "nothing in this Agreement shall be construed to prevent the adoption 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 imported products. The positions of the United States and the Community on this were different (paragraphs 3.6 to 3.10 above). The Panel noted that the text of Article III:4 makes no distinction between substantive and procedural laws, regulations or requirements and it was not aware of anything in the drafting history that suggests that such a distinction should be made. A previous Panel had found that "the selection of the word 'affecting' would imply ..... that the drafters of the Article intended to cover in paragraph 4 not only the laws and regulations which directly governed the conditions of sale or purchase but also any laws or regulations which might adversely modify the conditions of competition

between the domestic and imported products on the internal market."[1] In the Panel's view, enforcement procedures cannot be separated from the substantive provisions they serve to enforce. If the procedural provisions of internal law were not covered by Article III:4, contracting parties could escape the national treatment standard by enforcing substantive law, itself meeting the national treatment standard, through procedures less favourable to imported products than to like products of national origin. The interpretation suggested by the United States would therefore defeat the purpose of Article III, which is to ensure that internal measures "not be applied to imported or domestic products so as to afford protection to domestic production" (Article III:1). The fact that Section 337 is used as a means for the enforcement of United States patent law at the border does not provide an escape from the applicability of Article III:4; the interpretative note to Article III states that any law, regulation or requirement affecting the internal sale of products that is enforced in the case of the imported product at the time or point of importation is nevertheless subject to the provisions of Article III. Nor could the applicability of Article III:4 be denied on the ground that most of the procedures in the case before the Panel are applied to persons rather than products, since the factor determining whether persons might be susceptible to Section 337 proceedings or federal district court procedures is the source of the challenged products, that is whether they are of United States origin or imported. For these reasons, the Panel found that the procedures under Section 337 come within the concept of "laws, regulations and requirements" affecting the internal sale of imported products, as set out in Article III of the General Agreement.

(b) <u>The "no less favourable" treatment standard of Article III:4</u>

5.11 The Panel noted that, as far as the issues before it are concerned, the "no less favourable" treatment requirement set out in Article III:4, is unqualified. These words are to be found throughout the General Agreement and later agreements negotiated in the GATT framework as an expression of the underlying principle of equality of treatment of imported products as compared to the treatment given either to other foreign products, under the most favoured nation standard, or to domestic products, under the national treatment standard of Article III. The words "treatment no less favourable" in paragraph 4 call for effective equality of opportunities for imported products in respect of the application of laws, regulations and requirements affecting the internal sale, offering for sale, purchase, transportation, distribution or use of products. This clearly sets a minimum permissible standard as a basis. On the one hand, contracting parties may apply to imported products different formal legal requirements if doing so would accord imported products more favourable treatment. On the other hand, it also has to be recognised that there may be cases where application of formally identical legal provisions would in practice accord

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[1] Panel on Italian Discrimination Against Imported Agricultural Machinery (BISD 7S/60, paragraph 12), adopted on 23 October 1958.

less favourable treatment to imported products and a contracting party might thus have to apply different legal provisions to imported products to ensure that the treatment accorded them is in fact no less favourable. For these reasons, the mere fact that imported products are subject under Section 337 to legal provisions that are different from those applying to products of national origin is in itself not conclusive in establishing inconsistency with Article III:4. In such cases, it has to be assessed whether or not such differences in the legal provisions applicable do or do not accord to imported products less favourable treatment. Given that the underlying objective is to guarantee equality of treatment, it is incumbent on the contracting party applying differential treatment to show that, in spite of such differences, the no less favourable treatment standard of Article III is met.

5.12 The Panel noted the differing views of the parties on how an assessment should be made as to whether the differences between Section 337 and federal district court procedures do or do not accord imported products less favourable treatment than that accorded to products of United States origin (paragraphs 3.15-3.20 above). In brief, the United States believed that this determination could only be made on the basis of an examination of the actual results of past Section 337 cases. It would follow from this reasoning that any unfavorable elements of treatment of imported products could be offset by more favourable elements of treatment, provided that the results, as shown in past cases, have not been less favourable. The Community's interpretation of Article III:4 would require that Section 337 not be capable of according imported products less favourable treatment; elements of less and more favourable treatment could thus only be offset against each other to the extent that they always would arise in the same cases and necessarily would have an offsetting influence on each other.

5.13 The Panel examined these arguments carefully. It noted that a previous Panel had found that the purpose of the first sentence of Article III:2, dealing with internal taxes and other internal charges, is to protect "expectations on the competitive relationship between imported and domestic products".[1] Article III:4, which is the parallel provision of Article III dealing with the "non-charge" elements of internal legislation, has to be construed as serving the same purpose. Article III:4 would not serve this purpose if the United States interpretation were adopted, since a law, regulation or requirement could then only be challenged in GATT after the event as a means of rectifying less favourable treatment of imported products rather than as a means of forestalling it. In any event, the Panel doubted the feasibility of an approach that would require it to be demonstrated that differences between procedures under Section 337 and those in federal district courts had actually caused, in a given case or

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[1] Report of Panel on United States - Taxes on Petroleum and Certain Imported Substances (L/6175, paragraph 5.1.9), adopted by the Council on 17 June 1987.

cases, less favourable treatment. The Panel therefore considered that, in order to establish whether the "no less favourable" treatment standard of Article III:4 is met, it had to assess whether or not Section 337 in itself may lead to the application to imported products of treatment less favourable than that accorded to products of United States origin. It noted that this approach is in accordance with previous practice of the CONTRACTING PARTIES in applying Article III, which has been to base their decisions on the distinctions made by the laws, regulations or requirements themselves and on their potential impact, rather than on the actual consequences for specific imported products.[1]

5.14 The Panel further found that the "no less favourable" treatment requirement of Article III:4 has to be understood as applicable to each individual case of imported products. The Panel rejected any notion of balancing 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 purposes of Article III.

(c) Appraisal of Section 337 in terms of Article III:4

Contentions by the United States that more favourable treatment is accorded to imported products

5.15 The United States contended (paragraphs 3.47-3.54; see also paragraphs 2.8(e), (i), (j) and (k)) that Section 337 accords imported products more favourable treatment than that accorded to domestic products in district court proceedings because of:

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[1]For example: Working Party on Brazilian Internal Taxes (BISD II/184-5, paragraph 13-16); Panel on Italian Discrimination against Imported Agricultural Machinery (BISD 7S/63-64, paragraphs 11-12); Panel on EEC - Measures on Animal Feed Proteins (BISD 25S/65, paragraph 4.10); Panel on Canada - Administration of the Foreign Investment Review Act (BISD 30S/167, paragraph 6.6); Panel on United States - Taxes on Petroleum and Certain Imported Substances (L/6175, paragraphs 5.1.1-5.1.9).

- the substantive economic elements relating to injury and industry that a Section 337 complainant has to prove and that do not have to be proved in patent litigation in federal district courts;

- the possibility that relief under Section 337 might be modified or not applied on public interest or policy grounds, which possibility does not exist in federal district courts; and

- certain procedural differences from federal district court procedures that accord Section 337 respondents more favourable treatment.

The Panel examined whether these elements of claimed more favourable treatment could within the meaning of Article III:4 offset any elements of less favourable treatment of imported products alleged by the Community.

5.16 As has already been stated above, an element of more favourable treatment would only be relevant if it would always accompany and offset an element of differential treatment causing less favourable treatment. The Panel had no difficulty in recognising that the economic requirements and the possibility of denial or limitation of relief on public interest or policy grounds could decisively influence the outcome of certain Section 337 cases in favour of imported products, as might the requirement on a complainant to make a prima facie case in a default situation, and that no equivalent advantages are enjoyed by defendants in federal district court litigation in respect of products of United States origin.[1] However, the Panel found, on the one hand, that these requirements may involve the respondent in litigation, defence and discovery of business secrets unrelated to the underlying patent issue; and, on the other hand, there is no reason to believe that such dispositive influences would always operate in each individual case where a negative effect on the respondent might result from the operation of an element of less favourable treatment claimed by the Community. Further, the Panel noted that, in each case over which both the USITC and federal district courts have jurisdiction, the complainant has the choice whether to proceed before the USITC or before the regular courts (see paragraph 5.18 below).

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[1]The Panel noted that several of the elements said to give advantages to respondents - notably the requirement that a complainant must show injury to an industry and the requirement that a complainant must show that the industry was being "efficiently and economically operated" - were repealed, at least as far as certain intellectual property based cases are concerned, by the Omnibus Trade and Competitiveness Act adopted by the United States in the Summer of 1988 (see Annex II).

5.17 The Panel noted that some of the procedural advantages that, according to the United States (paragraph 3.54), are given to respondents could operate in all cases. The Panel also recognised that the substantive economic requirements put procedural burdens not only on the respondent but also on the complainant, which has the burden of proof on these matters, and that these procedural burdens could operate in all cases. The Panel took these factors into account to the extent that they might be capable of exerting an offsetting influence in each individual case of less favourable treatment resulting from an element cited by the Community.

Contentions by the Community that less favourable treatment is accorded to imported products

5.18 In cases concerning imported products over which both federal district courts and the USITC have jurisdiction, the complainant has the choice of which forum to use, or possibly to initiate a complaint in both fora; no equivalent choice of forum is available to a plaintiff in a case concerning products of United States origin. This option was referred to on numerous occasions by the Community and by third contracting parties making submissions. The Panel found that, given the differences between the proceedings of the USITC and of federal courts, to provide the complainant with the choice of forum where imported products are concerned and to provide no corresponding choice where domestically-produced products are concerned is in itself less favourable treatment of imported products and is therefore inconsistent with Article III:4. It is also a reason why in practice Section 337 is more likely to be employed in those cases where the specific elements that might accord less favourable treatment to imported products are significant. The complainant will tend to avoid recourse to Section 337 in cases where elements of more favourable treatment of the respondent than that accorded in federal district court litigation might play a rôle, for example where public interest or policy considerations might be expected to intervene.

5.19 The Panel considered the specific differences between Section 337 proceedings and those in federal district courts referred to by the Community to assess whether they accord less favourable treatment to imported products than that accorded to products of United States origin in patent-based cases:

- Time-limits (paragraphs 2.8(f) and (n) and 3.29-3.34). The Panel found that the relatively short and fixed time-limits for the completion of proceedings under Section 337 could put the respondent in a significantly less favourable position than it would have been in before a federal district court where no fixed time-limits apply, both because the complainant has a greater opportunity than the respondent to prepare his case before bringing the complaint and because defence in general benefits from delay. It is true that the short time-limits might benefit the respondent in cases where a negative finding is made, since any damage to his business resulting from the 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 has in federal district court proceedings - deprives the respondent of an option that is available where products of United States origin rather than imported products are concerned. Moreover, the existence of this option, which applies to unrelated as well as related counterclaims, could act as a dissuasive factor on a potential complainant in filing a complaint in the first place. The Panel noted the observation of the United States that many of the points that might be the subject of a related counterclaim in court proceedings could be made in USITC proceedings by way of defence. However, the complainant runs no risk of an affirmative adverse finding on these points, or of adverse findings or need to litigate in respect of unrelated issues, and in the Panel's view this gives complainants before the USITC advantages that might well be significant. The Panel therefore found that the non-availability of the opportunity to raise counterclaims constitutes less favourable treatment of imported products within the meaning of Article III:4.

- In rem exclusion orders (paragraphs 2.8(l) and (m) and 3.43-3.44). The Community and some third contracting parties raised two issues concerning in rem exclusion orders. One of these issues - enforcement of orders - concerns both limited exclusion orders (orders directed only to products produced by respondents and found to be infringing - the more common type of exclusion order) and general exclusion orders (orders applicable to products found to be infringing produced by any person). While such exclusion orders are automatically enforced by the United States Customs Service, enforcement of an injunction ordered by a federal district court, the equivalent relief in respect of products of United States origin, requires individual proceedings brought by the successful plaintiff. The Panel found that this difference results in less favourable treatment of imported products within the meaning of Article III:4 of the GATT. In respect of the second issue, which concerns general exclusion orders only, the Panel noted that relief against persons other than the parties to a

proceeding is not generally available to successful plaintiffs in actions against domestic infringers. This difference therefore results in less favourable treatment of imported products within the meaning of Article III:4 of the General Agreement.

- Double proceedings (paragraphs 2.8(d)(iii) and 3.41-3.42). The Community raised the question of the possibility of simultaneous proceedings. Canada and Korea raised similar points (paragraphs 4.2 and 4.5). Under United States law, where a product patent is involved and the jurisdictional requirements of federal district court litigation and Section 337 investigations are met, imported products might be faced with double proceedings under Section 337 and before federal district courts, whereas like products of United States origin can only be challenged in proceedings in federal district courts.[1] The Panel found that, while the likelihood of having to defend imported products in two fora is small, the existence of the possibility is inherently less favourable than being faced with having to conduct a defence in only one of those fora. It therefore subjects imported products to less favourable treatment within the meaning of Article III:4 of the General Agreement.

- Treatment of confidential information (paragraphs 2.8(g) and 3.24-3.28). Apart from what has been said in paragraph 5.16, the Panel did not find that the techniques used under Section 337 to protect confidential information are effectively different from those generally employed in federal district courts in the United States. It therefore did not find that they disadvantage imported products.

- Decision-making under Section 337 (paragraphs 2.4-2.5 and 3.35-3.40). The Community contended that USITC Commissioners are less qualified than federal district court judges to adjudicate legal issues in patent disputes. The Panel examined this contention but did not find that the difference in decision-makers between the USITC and federal district courts is such as to lead intrinsically to less-favourable treatment of imported products in respect of patent adjudication. The Panel noted also that there is at least a nominal difference in the standard used by the Court of Appeals for the Federal Circuit to review, on the one hand, findings of fact by the USITC, which like findings by juries in federal district courts can only be overturned if not supported by "substantial evidence", and on the other hand findings of fact by federal judges, which can be set aside if found to be "clearly erroneous". However, the Panel did not find that this difference in the standard of review in itself results in less favourable treatment of imported products in terms of Article III:4.

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[1] As a result of the Omnibus Trade and Competitiveness Act of 1988, this possibility now also applies where process patents are concerned. See Annex II for details.

(d) Summary of findings under Article III:4

5.20 The Panel found that Section 337, inconsistently with Article III:4 of the General Agreement, accords to imported products alleged to infringe United States patents treatment less favourable than that accorded under federal district court procedures to like products of United States origin as a result of the following factors:

(i) the availability to complainants of a choice of forum in which to challenge imported products, whereas no corresponding choice is available to challenge products of United States origin;

(ii) the potential disadvantage to producers or importers of challenged products of foreign origin resulting from the tight and fixed time-limits in proceedings under Section 337, when no comparable time-limits apply to producers of challenged products of United States origin;

(iii) the non-availability of opportunities in Section 337 proceedings to raise counterclaims, as is possible in proceedings in federal district court;

(iv) the possibility that general exclusion orders may result from proceedings brought before the USITC under Section 337, given that no comparable remedy is available against infringing products of United States origin;

(v) the automatic enforcement of exclusion orders by the United States Customs Service, when injunctive relief obtainable in federal court in respect of infringing products of United States origin requires for its enforcement individual proceedings brought by the successful plaintiff;

(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, in cases where a measure consistent with other GATT provisions is not reasonably available, a contracting party is bound to use, among the measures reasonably available to it, that which entails the least degree of inconsistency with other GATT provisions. The Panel wished to make it clear that this does not mean that a contracting party could be asked to change its substantive patent law or its desired level of enforcement of that law, provided that such law and such level of enforcement are the same for imported and domestically-produced products. However, it does mean that, if a contracting party could reasonably secure that level of enforcement in a manner that is not inconsistent with other GATT provisions, it would be required to do so.

5.27 Bearing in mind the foregoing and that it is up to the contracting party seeking to justify measures under Article XX(d) to demonstrate that those measures are "necessary" within the meaning of that provision[1], the Panel considered whether the inconsistencies that it had found with Article III:4 can be justified as "necessary" in terms of Article XX(d). The Panel first examined the argument of the United States that the Panel should consider not whether the individual elements of Section 337 are "necessary" but rather whether Section 337 as a system is "necessary" for the enforcement of United States patent laws (paragraphs 3.57-3.58). The Panel did not accept this contention since it would permit contracting parties to introduce GATT inconsistencies that are not necessary simply by making them part of a scheme which contained elements that are necessary. In the view of the Panel, what has to be justified as "necessary" under Article XX(d) is each of the inconsistencies with another GATT Article found to exist, i.e. in this case, whether the differences between Section 337 and federal district court procedures that result in less favourable treatment of imported products within the meaning of Article III:4, as outlined above (paragraph 5.20), are necessary.

(c) <u>The necessity of the specific inconsistencies with Article III:4</u>

5.28 The United States suggested that Section 337 can be justified because, under United States law, it provides the only means of enforcement of United States patent rights against imports of products manufactured abroad by means of a process patented in the United States (paragraph 3.62). The Panel considered that, even if it were accepted that a different scheme for

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[1]See Report of the Panel on Canada - Administration of the Foreign Investment Review Act, paragraph 5.20 (BISD 30S/164), adopted on 7 February 1984.

imports alleged to infringe process patents is necessary, this could not in itself justify as "necessary" in terms of Article XX(d) any of the specific inconsistencies with Article III:4 summarised in paragraph 5.20 above. In any event, the Panel did not consider that a different scheme for imports alleged to infringe process patents is necessary, since many countries grant to their civil courts jurisdiction over imports of products manufactured abroad under processes protected by patents of the importing country. The Panel noted that, in the 1988 Omnibus Trade and Competitiveness Act, the United States has in fact amended its law to this effect (see Annex II).

5.29 The United States also suggested that certain features of Section 337 are necessary in order to permit Presidential review, which is in the interests of respondents (paragraph 3.66). The Panel did not believe that this provided an argument for necessity in terms of Article XX(d), since Presidential review is not necessary in order to secure compliance with United States patent legislation; it is not, of course, available in United States patent litigation involving challenged products of domestic origin.

5.30 The United States suggested that Section 337 is needed because of difficulties with service of process on and enforcement of judgments against foreign manufacturers (paragraphs 3.63-3.65). As 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 <u>in rem</u> 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 <u>in rem</u> 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, that is at the point of their production, would generally be more difficult in respect of imported products than in respect of products of national origin: imported products are produced outside the jurisdiction of national enforcement bodies and it is seldom feasible to secure enforcement of the rulings of a court of the country of importation by local courts in the country of production. <u>In personam</u> action against importers would not in all cases be an adequate substitute for action against the manufacturer, not only because importers might be very numerous and not easily brought into a single judicial proceeding, but also, and more importantly, because as soon as activities of known importers were stopped it would often be possible for a foreign

manufacturer to find another importer. For these reasons the Panel believed that there could be an objective need in terms of Article XX(d) to apply limited in rem exclusion orders to imported products, although no equivalent remedy is applied against domestically-produced products.

5.32 A limited in rem order applying to imported products can thus be justified, for the reasons presented in the previous paragraph, as the functional equivalent of an injunction enjoining named domestic manufacturers. However, these reasons do not justify as "necessary" in terms of Article XX(d) the inconsistency with Article III:4 found in respect of general exclusion orders; this is that such orders apply to products produced by persons who have not been named as respondents in the litigation, while no equivalent measure applicable to non-parties is available where products of United States origin are concerned. The United States informed the Panel that the situations which under Section 337 could justify a general exclusion order against imported products are a widespread pattern of unauthorised use of the patented invention or process and a reason to infer that manufacturers other than respondents to the investigation might enter the United States market with infringing products. However, the Panel saw no reason why these situations could not also occur in respect of products produced in the United States. Nevertheless, the Panel did not rule out entirely that there could sometimes be objective reasons why general in rem exclusion orders might be "necessary" in terms of Article XX(d) against imported products even though no equivalent measure was needed against products of United States origin. For example, in the case of imported products it might be considerably more difficult to identify the source of infringing products or to prevent circumvention of orders limited to the products of named persons, than in the case of products of United States origin. Of course, the United States could bring the provision of general exclusion orders into consistency with Article III:4 by providing for the application in like situations of equivalent measures against products of United States origin.

5.33 As noted above, the Panel found an inconsistency with Article III:4 in the fact that Section 337 exclusion orders are automatically enforced by the Customs Service, whereas the enforcement of injunctions against products of United States origin requires the successful plaintiff to bring individual proceedings. However, in this case the Panel accepted the argument of necessity in terms of Article XX(d). A United States manufacturer which has been enjoined by a federal district court order can normally be expected to comply with that injunction, because it would know that failure to do so would incur the risk of serious penalties resulting from a contempt proceeding brought by the successful plaintiff. An injunction should therefore normally suffice to stop enjoined activity without the need 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 above, some of the inconsistencies with Article III:4 of individual aspects of procedures under Section 337 could be justified under Article XX(d) in certain circumstances.

VI. CONCLUSIONS

6.1 To avoid any misunderstanding as to the scope and implications of the above findings, the Panel stresses that neither Article III:4 nor Article XX(d) puts obligations on contracting parties specifying the level of protection that they should accord to patents or the effectiveness of procedures to enforce such protection. The only task entrusted to the Panel was to see whether the treatment accorded to imported products under Section 337 is compatible with the rules of the General Agreement.

6.2 The Panel also wishes to state that, although it found that some elements of Section 337 are inconsistent with the GATT obligations of the United States, it found no evidence that these elements had been deliberately introduced so as to discriminate against foreign products.

6.3 On the basis of the findings set out in paragraphs 5.1 - 5.35 above the Panel concluded that Section 337 of the United States Tariff Act of 1930 is inconsistent with Article III:4, in that it accords to imported products challenged as infringing United States patents treatment less favourable than the treatment accorded to products of United States origin similarly challenged, and that these inconsistencies cannot be justified in all respects under Article XX(d).

6.4 The Panel recommends that the CONTRACTING PARTIES request the United States to bring its procedures applied in patent infringement cases bearing on imported products into conformity with its obligations under the General Agreement.

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 involving similar questions concerning the subject matter of such investigation.

(2) During the course of each investigation under this section, the Commission shall consult with, and seek advice and information from the Department of Health and Human Services, the Department of Justice, the Federal Trade Commission, and such other departments and agencies as it considers appropriate.

(3) Whenever, in the course of an investigation under this section, the Commission has reason to believe, based on information before it, that a matter, in whole or in part, may come within the purview of section 1303 of this title or of part II of subtitle IV of this chapter, it shall promptly notify the Secretary of the Treasury so that such action may be taken as is otherwise authorized by such section and such part II. If the

Commission has reason to believe the matter before it is based solely on alleged acts and effects which are within the purview of section 1303, 1671, or 1673 of this title, it shall terminate, or not institute, any investigation into the matter. If the Commission has reason to believe the matter before it is based in part on alleged acts and effects which are within the purview of section 1303, 1671 or 1673 of this title, and in part on alleged acts and effects which may, independently from or in conjunction with those within the purview of such section, establish a basis for relief under this section, then it may institute or continue an investigation into the matter. If the Commission notifies the Secretary or the administering authority (as defined in section 1677(1) of this title) with respect to a matter under this paragraph, the Commission may suspend its investigation during the time the matter is before the Secretary or administering authority for final decision. For purposes of computing the one-year or eighteen-month periods prescribed by this subsection, there shall be excluded such period of suspension. Any final decision of the Secretary under section 1303 of this title or by the administering authority under section 1671 or 1673 of this title with respect to the matter within such section 1303, 1671 or 1673 of this title of which the Commission has notified the Secretary or administering authority shall be conclusive upon the Commission with respect to the issue of less-than-fair-value sales or subsidization and the matters necessary for such decision.

(c) Determinations; review. The Commission shall determine, with respect to each investigation conducted by it under this section, whether or not there is a violation of this section. Each determination under subsection (d) or (e) of this section shall be made on the record after notice and opportunity for a hearing in conformity with the provisions of subchapter II of chapter 5 of title 5. All legal and equitable defences may be presented in all cases. Any person adversely affected by a final determination of the Commission under subsection (d), (e) or (f) of this section may appeal such determination within sixty days after the determination becomes final, to the United States Court of Appeals for the Federal Circuit for review in accordance with chapter 7 of title 5. Notwithstanding the foregoing provisions of this subsection, Commission determinations under subsections (d), (e) and (f) of this section with respect to its findings on the public health and welfare, competitive conditions in the United States economy, the production of like or directly competitive articles in the United States, and United States consumers, the amount and nature of bond, or the appropriate remedy shall be reviewable in accordance with section 706 of title 5.

(d) Exclusion of articles from entry. If the Commission determines, as a result of an investigation under this section, that there is violation of this section, it shall direct that the articles concerned, imported by any person violating the provision of this

section, be excluded from entry into the United States, unless, after considering the effect of such exclusion upon the public health and welfare, competitive conditions in the United States economy, the production of like or directly competitive articles in the United States, and United States consumers, it finds that such articles should not be excluded from entry. The Commission shall notify the Secretary of the Treasury of its action under this subsection directing such exclusion from entry, and upon receipt of such notice, the Secretary shall, through the proper officers refuse such entry.

(e) Exclusion of articles from entry during investigations except under bond. If, during the course of an investigation under this section, the Commission determines that there is reason to believe that there is a violation of this section, it may direct that the articles concerned, imported by any person with respect to whom there is reason to believe that such person is violating this section, be excluded from entry into the United States, unless, after considering the effect of such exclusion upon the public health and welfare, competitive conditions in the United States economy, the production of like or directly competitive articles in the United States, and United States consumers, it finds that such articles should not be excluded from entry. The Commission shall notify the Secretary of the Treasury of its action under this subsection directing such exclusion from entry, and upon receipt of such notice, the Secretary shall, through the proper officers, refuse such entry, except that such articles shall be entitled to entry under bond determined by the Commission and prescribed by the Secretary.

(f) Cease and desist orders; civil penalty for violation of orders.

(1) In lieu of taking action under subsection (d) or (e) of this section, the Commission may issue and cause to be served on any person violating this section, or believed to be violating this section, as the case may be, an order directing such person to cease and desist from engaging in the unfair methods or acts involved, unless after considering the effect of such order upon the public health and welfare, competitive conditions in the United States economy, the production of like or directly competitive articles in the United States, and United States consumers, it finds that such order should not be issued. The Commission may at any time, upon such notice and in such manner as it deems proper, modify or revoke any such order, and, in the case of a revocation, may take action under subsection (d) or (e) of this section, as the case may be.

(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 with the record upon which such determination is based.

(2) If, before the close of the sixty-day period beginning on the day after the day on which he receives a copy of such determination, the President, for policy reasons, disapproves such determination and notifies the Commission of his disapproval, then, effective on the date of such notice, such determination and the action taken under subsection (d), (e) or (f) of this section with respect thereto shall have no force or effect.

(3) Subject to the provisions of paragraph (2), such determination shall, except for purposes of subsection (c) of this section, be effective upon publication thereof in the Federal Register, and the action taken under subsection (d), (e) or (f) of this section, with respect thereto shall be effective as provided in such subsections, except that articles directed to be excluded from entry under subsection (d) of this section or subject to a cease and desist order under subsection (f) of this section shall be entitled to entry under bond determined by the Commission and prescribed by the Secretary until such determination becomes final.

(4) If the President does not disapprove such determination within such sixty-day period, or if he notifies the Commission before the close of such period that he approves such determination, then, for purposes of paragraph (3) and subsection (c) of this section such determination shall become final on the day after the close of such period or the day on which the President notifies the Commission of his approval, as the case may be.

(h) Period of effectiveness. Except as provided in subsections (f) and (g) of this section, any exclusion from entry or order under this section shall continue in effect until the Commission finds, and in the case of exclusion from entry notifies the Secretary of the Treasury, that the conditions which led to such exclusion from entry or order no longer exist.

(i) Importation by or for United States. Any exclusion from entry or order under subsection (d), (e) or (f) of this section, in cases based on claims of United States letters patent, shall not apply to any articles imported by and for the use of the United States, or imported for, and to be used for, the United States with the authorization or consent of the Government. Whenever any article would have been excluded from entry or would not have been entered pursuant to the provisions of such subsections but for the operation of this subsection, a patent owner adversely affected shall be entitled to reasonable and entire compensation in an action before the United States Claims Courts pursuant to the procedures of section 1498 of title 28.

(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 2 of the Tariff Schedule of the United States.

(17 June 1930, ch. 497, title III, §337, 46 Stat. 703; Proc. No. 2695; 4 July 1946, 11 F.R. 7517, 60 Stat. 1352; 20 August 1958, Pub. L. 85-686, §9(c)(1), 72 Stat. 679; 3 January 1975, Pub. L. 93-618, title III, §341(a), 88 Stat. 2053; 26 July 1979, Pub. L. 96-39, title I, §106(b)(1), title XI, §1105, 93 Stat. 193, 310; 17 October 1979, Pub. L. 96-88, title V, §509(b), 93 Stat. 695; 10 October 1980, Pub. L. 96-417, title VI, §604, 94 Stat. 1744; 2 April 1982, Pub. L. 97-164, title I, §§160(a)(5), 163(a)(4), 96 Stat. 48, 49; 11 November 1984, Pub. L. 98-620, §413, 98 Stat. 3362.)

§337a. Importation of products produced under process covered by claims of unexpired patent.

The importation for use, sale or exchange of a product made, produced, processed, or mined under or by means of a process covered by the claims of any unexpired valid United States letters patent, shall have the same status for the purposes of section 337 of this title as the importation of any product or article covered by the claims of any unexpired valid United States letters patent.

(2 July 1940, ch. 515, 54 Stat. 724.)

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 excluding liability for use of the process in products which have been materially changed. Thus, it is now possible for a United States process patent holder seeking to challenge importation of a product alleged to be made by the process in question to proceed either before the USITC under Section 337, as before, or to seek an injunction and/or damages in a federal district court, as has been true with respect to products challenged as infringing a product patent.

Fourth, the 1988 Act significantly broadens the statutory definition of activities that qualify a firm as an industry in the United States for purposes of bringing a Section 337 action. Under the amendments, substantial investment in the exploitation of the intellectual property right (including engineering, research and development, or licensing) constitute sufficient activity to qualify as an industry (Section 337(a)(3)(B)).

In addition to the four major changes described above, the Omnibus Trade and Competitiveness Act of 1988 made the following changes relevant to the subject of the present Panel report.

Protective Orders on Confidential Information

The practice of the USITC, as described in paragraph 2.8(g) of this Report, is made the subject of an express provision in the statute (Section 337(n)).

Default

In case of a complaint against a particular person, if that person fails to respond, the USITC may now presume the facts alleged to be true; in such cases relief is limited to the party found in default. Previously, the complainant was required to establish a prima facie case (compare paragraph 2.8(e) of the Report). If no respondent appears to contest an investigation, the USITC may now issue a general exclusion order (paragraph 2.8(l) of the Report), but only upon the basis of substantial, reliable, and probative evidence (Section 337(g)). As before, determinations in case of default remain subject to review for public interest considerations and to Presidential review. A party found in default may petition the USITC to eliminate or modify its order.

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(l)). 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 a bond by the complainant (compare Report, paragraph 2.8(n)).