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Section 337 and GATT in the *Akzo* Controversy: A Pre- and Post-Omnibus Trade and Competitiveness Act Analysis

I. INTRODUCTION

The burgeoning of new technology such as semiconductor chips, computer software, genetic engineering, pharmaceuticals and other chemical processes raises important international trade issues for the protection of intellectual property rights. Inadequate protection has left the door open for pirating and counterfeiting.¹ According to a recently declassified International Trade Commission ("ITC") report, United States firms lose an estimated \$43 to \$61 billion annually from foreign piracy.² Failure to remedy the current situation could have a chilling effect on the economic incentives for companies to engage in the expensive research and development of new technology.

Section 337 of the United States Tariff Act of 1930 ("Section 337")³ protects intellectual property rights from international pirating and counterfeiting. It provides a mechanism for excluding infringing imports from the United States marketplace. Before the Omnibus Trade and Competitiveness Act of 1988 (the "Omnibus Trade Act"),⁴ some argued that Section 337 should be amended to provide for further protection.⁵

¹ See Dam, *The Growing Importance of International Protection of Intellectual Property*, 21 INT'L LAW. 627, 628 (1987). See also U.S., *Trading Partners Must Step Up Efforts to Protect Goods from Piracy*, ITC Head Says, 5 Int'l Trade Rep. (BNA) 509 (Apr. 4, 1988).

² U.S., *Trading Partners Must Step Up Efforts to Protect Goods from Piracy*, ITC Head Says, 5 Int'l Trade Rep. (BNA) 509 (Apr. 4, 1988).

³ Tariff Act of 1930, ch. 497, title III, § 337, 46 Stat. 703 (1930)(codified as amended at 19 U.S.C. § 1337 (1982 & Supp. III 1985)).

⁴ Pub. L. No. 100-418, 1988 U.S. Code Cong. & Admin. News (102 Stat.) 1107 [hereinafter Omnibus Trade Act].

⁵ Since late 1985, Congress has debated possible amendments to section 337 which would minimize or eliminate certain substantive requirements necessary to qualify for section 337 protections when dealing with allegations of infringement of intellectual property rights. Lever, *Unfair Methods of Competition in Import Trade: Actions before the International Trade Commission*, 41 BUS. LAW. 1165, 1183 (1986). See also Lautenberg *Offers Bill to Eliminate Injury Requirement, Make Other Section 337 Changes*, 4 Int'l Trade Rep. (BNA) 229 (Feb. 18, 1987); *House Bill Incorporates Proposed Process Patent, Section 337 Reforms in One Measure*, 2 Int'l Trade Rep. (BNA) 1532 (Dec. 4,

Others maintained that Section 337 conflicts with United States obligations under the General Agreement on Tariffs and Trade ("GATT")⁶ or that further substantive amendments of Section 337 would conflict with GATT.⁷ A GATT Panel in *Imports of Certain Automotive Spring Assemblies*⁸ found that Section 337 proceedings did not conflict with GATT because Section 337 proceedings were an Article XX(d) exception to Article III of GATT.⁹ The court noted, however, that its holding was very narrow and that it left open the possibility of future examinations of Section 337.¹⁰ Furthermore, even after the amendments to Section 337 in the Omnibus Trade Act, whether Section 337 conflicts with Article III is still an open question.¹¹

Before the Omnibus Trade Act, a patent dispute between Akzo, a Netherlands company, and Du Pont raised this question again. In *Akzo N.V. v. United States Int'l Trade Comm'n*,¹² the United States Court of Appeals for the Federal Circuit affirmed the ITC's Section 337 exclusion order which prohibited the importation of Akzo's aramid fibers.¹³ The court held that the Section 337 protection of process patent rights¹⁴ was consistent with Article III of GATT.¹⁵ Subsequently, Akzo filed a complaint with the European Community Commission ("EC Commission") alleging that the Section 337 proceedings of the ITC were an illicit commercial practice.¹⁶ In *Re United States Litigation between E.I. Dupont de Nemours & Co. and Akzo N.V.*,¹⁷ the EC Commission determined that

1985); *Proposed Changes in Section 337 would ease complainant's Burden of Proof*, 2 Int'l Trade Rep. (BNA) 1196-97 (Sept. 25, 1985).

⁶ General Agreement on Tariffs and Trade, *opened for signature* Oct. 30, 1947, 61 Stat. A3, T.I.A.S. No. 1700, 55 U.N.T.S. 187 (effective Jan. 1, 1948)[hereinafter GATT].

⁷ *Lever*, *supra* note 5, at 1184-85.

⁸ THE CONTRACTING PARTIES TO THE GENERAL AGREEMENT ON TARIFFS AND TRADE, BASIC INSTRUMENTS AND SELECTED DOCUMENTS 107, 126-27 (30th Supp. 1984)(hereinafter *Imports of Spring Assemblies*).

⁹ *Id.* at 126-127.

¹⁰ *Id.* at 127.

¹¹ Lodewijk Briet, EC Commission official, commented that the Omnibus Trade Act (the House Bill at that time) did not do anything "to make the 'excessive protection' of U.S. intellectual property any more compatible with GATT." Also, he argued that Section 337 discriminates against foreigners and that the challenge before a GATT panel (the one hearing the dispute discussed in this note) was still a legitimate claim. *EC Official Says Commission Proposal to Gatt Leaves Several Areas Open for Negotiations*, 5 Int'l Trade Rep. (BNA) 1106 (Aug. 3, 1988).

¹² 808 F.2d 1471 (Fed. Cir. 1986), *cert. denied*, 55 U.S.L.W. 3808, 107 S.Ct. 2490 (1987).

¹³ *Id.* at 1490.

¹⁴ A process patent is a patent on the process of making the product rather than on the product itself.

¹⁵ *Akzo*, 808 F.2d at 1485.

¹⁶ *Re United States Litigation between E.I. Dupont de Nemours & Co. and Akzo N.V.*, 30 O.J. Eur. Comm. (No. L 117) 18, [1987] 2 Common Mkt. L.R. 545, 546 (1987).

¹⁷ *Id.* at 18, [1987] 2 Common Mkt. L.R. at 546.

the procedure followed under Section 337 contradicts Article III of GATT and is an illicit commercial practice by the United States Government.¹⁸ This decision was the first EC Commission decision based on Commercial Protection Regulation 2641/84¹⁹ ("Regulation 2641/84") which established the standards of an illicit commercial practice.²⁰ Ironically, Regulation 2641/84 is similar to Section 337,²¹ and its first use may lay the groundwork for a determination that it conflicts with Article III of GATT.

Contrary to the EC Commission's determination, Section 337 does not conflict with the United States obligations under Article III of GATT. Nor do the substantive amendments to Section 337 by the Omnibus Trade Act create a conflict with Article III of GATT. This Comment will analyze the purported conflict between Section 337 and Article III in the *Akzo* cases²² and briefly analyze the Post-Omnibus Trade Act situation. First, Section 337, Commercial Protection Regulation 2641/84, relevant portions of GATT, and *Imports of Spring Assemblies* will be examined.²³ Second, both the United States and European *Akzo* cases will be discussed and analyzed.²⁴ Third, the *Akzo* situation will be reevaluated in light of the changes made by the Omnibus Trade Act.²⁵ Finally, the economic impact of these two opinions and the Omnibus Trade Act will be considered.²⁶

¹⁸ *Id.* at 20, [1987] 2 Common Mkt. L.R. at 548-49.

¹⁹ 27 O.J. Eur. Comm. (No. L 252) 1 (1984), 2 Common Mkt. Rep. (CCH) ¶ 3845 (Jan. 15, 1985). See *infra* notes 95-105 and accompanying text.

²⁰ *EC to Bring GATT Complaint Against U.S. Law in First Use of its Section 301 Procedures*, 4 Int'l Trade Rep. (BNA) 408 (Mar. 25, 1987).

²¹ See *infra* text accompanying notes 94-108.

²² Some other issues raised by this dispute in the United States courts are tangential to the concerns of this note. For example, whether *Akzo* has a valid U.S. process patent, *N.V. Akzo v. E.I. DuPont de Nemours*, 810 F.2d 1148 (Fed. Cir. 1987), *aff'g*, 635 F.Supp. 1336 (E.D. Va. 1986), whether *Akzo* was denied due process, whether *Akzo's* product would substantially injure *Du Pont* if imports continued, whether § 337 adjudication by a non-Article III tribunal is lawful, whether *Du Pont's* value-in-use pricing violates the antitrust laws, and whether *Du Pont* committed inequitable conduct by infringing an *Akzo* patent were all issues raised in this case. See *Akzo*, 808 F.2d 1471.

In addition, the specific approach of this note seems warranted given the narrow and factually specific holding of the GATT Panel in *Certain Spring Assemblies*. See *infra* text accompanying notes 137-52.

²³ See *infra* text accompanying notes 27-152.

²⁴ See *infra* text accompanying notes 153-211.

²⁵ See *infra* text accompanying notes 212-73.

²⁶ See *infra* text accompanying notes 274-280.

II. BACKGROUND

A. Section 337 and Patent Law Protection of Process Patents

1. *Pre-Omnibus Trade Act*

Section 337 protects intellectual property rights from infringing imports by providing a remedy for unfair practices in import trade.²⁷ It empowers the ITC to investigate alleged “unfair methods of competition and unfair acts in the importation of articles into the United States.”²⁸ If the ITC determines that an unfair act has been committed and that the effect or tendency is to injure a domestic industry efficiently and economically functioning, it can issue a cease and desist order or an exclusion order.²⁹ The ITC, however, can refrain from issuing a cease and desist order or an exclusion order if it thinks this is in the public interest.³⁰ Even if the ITC issues a cease and desist or exclusion order, the President has sixty days to intervene and disapprove of the ITC’s actions for policy reasons.³¹ If the President does not respond within sixty days, the ITC’s determination becomes final.³²

In the majority of Section 337 cases, the sole “unfair act” involved is a patent infringement.³³ Patent infringement³⁴ has long been held to be an unfair method or unfair act of competition.³⁵ If the patent owner manufactures products in the United States, there is usually not a question of whether there is a domestic industry.³⁶ Furthermore, no domestic industry has ever been denied relief because it was not efficiently and

²⁷ 19 U.S.C. § 1337(a) (1982)(amended 1988).

²⁸ Section 337(a) specifically provides:

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, 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. *Id.*

²⁹ 19 U.S.C. § 1337(a), (d), (f) (1982)(amended 1988).

³⁰ 19 U.S.C. § 1337(d)-(f) (1982)(amended 1988).

³¹ 19 U.S.C. § 1337(g) (1982).

³² *Id.*

³³ Herrington, *U.S. International Trade Commission: Imported Articles Made by Patented Processes*, 14 J. WORLD TRADE L. 549 (1980); Kaye & Plaia, *Unfair Trade Practices in International Trade Competition: A Review of Developments Under Section 337*, 64 J. PAT. OFF. SOC’Y 360 (1982); Lever, *supra* note 5, at 1169; Perry, *Administration of Import Trade Laws by the United States International Trade Commission*, 3 B.U.L. INT’L L.J. 345, 439 (1985).

³⁴ Section 271 INFRINGEMENT OF PATENT provides in pertinent part that “whoever without authority makes, uses or sells any patented invention, within the United States during the term of the patent therefor, infringes the patent.” 35 U.S.C. § 271(a) (1982).

³⁵ Lever, *supra* note 5, at 1169.

³⁶ *Id.* at 1173.

economically operated.³⁷ Finally, the patent owner can satisfy the injury requirement with even a relatively small sales loss because the patent owner is allowed a monopoly of sales from the patented product.³⁸

Section 337a, an ancillary provision which was repealed by the Omnibus Trade Act,³⁹ provided that an article produced by a patented process was also covered by Section 337.⁴⁰ Sections 337 and 337a protected process patents by treating the infringement of a patented process the same as an infringement of a patented product.⁴¹ The unauthorized production of articles by a patented process were treated as an unfair act of importation or an unfair method of competition, and the products produced by that process were usually excluded from the United States market.⁴² Under Section 337, process patent rights were given protection which is not available under United States patent law but which is restricted to unfair competition in import situations.⁴³

Prior to the Omnibus Trade Act, the protection of process patent rights under Section 337 and under United States patent law differed in three respects. First, the importation of a product produced by a patented process did not constitute a patent infringement under United States law.⁴⁴ No patent infringement occurred because the process (patented invention) was not used within the United States.⁴⁵ Also, the use or sale of the product did not constitute use or sale of the process used to make the product.⁴⁶ Thus, the owner of a process patent had no recourse for patent infringement against imported articles produced in foreign countries by its patented process.⁴⁷

³⁷ Perry, *supra* note 33, at 444.

³⁸ *Id.* at 445. However, the ITC has found infringement of a process patent in the importation of products but denied relief for failure to meet the burden of proof. *Certain Combination Locks, Inv. No. 337-TA-45*, 205 U.S.P.Q. (BNA) 1124 (1979).

³⁹ Omnibus Trade Act, *supra* note 4, at 1215-16 (repealing 19 U.S.C. § 1337a (1982)). Section 337a was repealed by the Omnibus Trade Act and will be referred to in the past tense. *See infra* text accompanying note 75. Also, the past tense will be used to refer to the portions of Section 337 and of the process patent laws which are no longer in force.

⁴⁰ Section 337a provided that:

The importation hereafter 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, whether issued heretofore or hereafter, shall have the same status for the purposes of section 337 of the Tariff Act of 1930 as the importation of any product or article covered by the claims of any unexpired valid United States letters patent. 19 U.S.C. § 1337a (1982)(repealed 1988).

⁴¹ *Id.*

⁴² *See Id.*; 19 U.S.C. § 1337(a)(1) (1982).

⁴³ Herrington, *supra* note 33, at 550.

⁴⁴ 35 U.S.C. § 271(a) (1982)(amended 1988).

⁴⁵ *Id.*

⁴⁶ *Id.*

⁴⁷ *See Note, Importation of Articles Produced by Patented Processes: Unfair Trade Practices or*

Second, a process patent had to be enforced against the manufacturer which required *in personam* or personal jurisdiction.⁴⁸ Conversely, the question of personal jurisdiction is "irrelevant" to the exclusion of goods pursuant to Section 337.⁴⁹ An exclusion order under Section 337 only requires *in rem* jurisdiction.⁵⁰ In *Sealed Air Corp. v. United States International Trade Commission*⁵¹, the Court of Customs and Patent Appeals stated that

An exclusion order operates against goods, not parties. Accordingly, that order was not contingent upon a determination of personal or "*in personam*" jurisdiction over a foreign manufacturer. The Tariff Act of 1930 (Act) and its predecessor, the Tariff Act of 1922, were intended to provide an adequate remedy for domestic industries against unfair methods of competition and unfair acts instigated by foreign concerns operating beyond the *in personam* jurisdiction of domestic courts.⁵²

Nevertheless, for a cease and desist order, the ITC does need *in personam* jurisdiction.⁵³ If the final sanction is an exclusion, however, the ITC can replace the cease and desist order with an exclusion order.⁵⁴ Thus, in contrast with a patent infringement action, a foreign manufacturer cannot evade the ITC's jurisdiction in a Section 337 exclusion order proceeding for lack of personal jurisdiction.⁵⁵

Third, with a process patent, determining whether the products were produced by the patented process is very difficult when the evidence of the infringement is abroad.⁵⁶ In a patent infringement action these discovery problems may prove insurmountable. The Trade Act of 1974 ("1974 Act") alleviated some of the discovery problems in Section 337 proceedings by placing Section 337 investigations under the Administra-

Infringement?, 18 GEO. WASH. J. INT'L L. & ECON. 129 (1984)(hereinafter Note, *Patented Processes*).

⁴⁸ *Id.* at 139. *In personam* or personal jurisdiction is jurisdiction over the person. Traditionally, this has meant that the court has physical control over the parties because they are within its tribunal's territory. The court can subject an individual to its decision-making power only if the individual is personally served with process within the tribunal's territory or if the individual consents to the court's jurisdiction. J. FRIEDENTHAL, M. KANE, & A. MILLER, CIVIL PROCEDURE 98 (1985).

⁴⁹ *Sealed Air Corp. v. United States International Trade Commission*, 645 F.2d 976, 986 (C.C.P.A. 1981).

⁵⁰ Perry, *supra* note 33, at 437-39 (1985). *In rem* jurisdiction is jurisdiction over the thing or property which is within its territory. The court's jurisdiction operates on the thing and only indirectly on the parties. Thus, the decision does not bind the individual personally but settles the dispute over the property. J. FRIEDENTHAL, M. KANE, & A. MILLER, CIVIL PROCEDURE 98 (1985).

⁵¹ 645 F.2d 976 (C.C.P.A. 1981).

⁵² *Id.* at 985.

⁵³ *Id.*

⁵⁴ 19 U.S.C. § 1337(f)(1) (1982)(amended 1988).

⁵⁵ *Id.*

⁵⁶ Herrington, *supra* note 33, at 551; Note, *Patented Processes*, *supra* note 47, at 135.

tive Procedure Act.⁵⁷ Before the 1974 Act, the ITC could only request that the Attorney General compel the alleged infringer to produce evidence of the manufacturing process.⁵⁸ After the 1974 Act amended Section 337, the ITC could require disclosure of the production process used by the foreign country, or if the evidence was not forthcoming, could presume the articles were produced by the patented process and issue an exclusion order.⁵⁹ As a result, Section 337 discovery procedures for an alleged process patent infringement abroad eliminate many of the discovery problems encountered in a suit in federal district court.

Section 337 proceeding also have many similarities with the district court patent infringement proceedings. In both forums, the determinations are made on the record.⁶⁰ The patent is presumed to be valid in both proceedings pursuant to 35 U.S.C. § 282.⁶¹ The defendant, in either tribunal, can propose "all legal and equitable defenses."⁶² These defenses include patent invalidity and unenforceability.⁶³ Furthermore, all affected parties have the opportunity to appeal the decision from either forum.⁶⁴

2. *Post-Omnibus Trade Act*

In the portions relevant to this Comment, the Omnibus Trade Act has both amended Section 337 and implemented the Process Patent

⁵⁷ 19 U.S.C. § 1337(c) (1982)(amended 1988).

⁵⁸ Herrington, *supra* note 33, at 551; Note, *Patented Processes*, *supra* note 47, at 135.

⁵⁹ Note, *Patented Processes*, *supra* note 47, at 135.

⁶⁰ 19 U.S.C. § 1337(c) (1982 & Supp. III 1985)(amended 1988).

⁶¹ 35 U.S.C. § 282 (1982 & Supp. III 1985) provides in pertinent part:

PRESUMPTION OF VALIDITY; DEFENSES

A patent shall be presumed valid. Each claim of a patent (whether in independent, dependent, or multiple dependent form) shall be presumed valid independently of the validity of other claims; dependent or multiple dependent claims shall be presumed valid even though dependent upon an invalid claim. The burden of establishing invalidity of a patent or any claim thereof shall rest on the party asserting such invalidity.

See also Medtronic, Inc. v. Cardiac Pacemakers, Inc., 721 F.2d 1563, 1567 (Fed. Cir. 1983)(35 U.S.C. § 282 requires the court to begin with the presumption that the invention is useful, novel, and nonobvious); Heyman, *Section 337 Practice and Procedure: A Comparative Presentation*, 10 APLA QT'LY J. 134, 139 (1982).

⁶² 19 U.S.C. § 1337(c) (1982 & Supp. III 1985)(amended 1988); *See also* 35 U.S.C. § 282 (1982 & Supp. III 1985).

⁶³ Heyman, *supra* note 61, at 139. *See also* Comment, *Scope of Action Against Unfair Import Trade Practices Under Section 337 of the Tariff Act of 1930*, 4 NW. J. INT'L L. & BUS. 234, 312 (1982). A patent can be shown invalid if it does not meet the conditional requirements of utility, novelty, and nonobviousness. *Cf. Akzo N.V. v. E.I. Dupont de Nemours*, 635 F.Supp. 1336, 1352 (E.D. Va. 1986), *aff'd*, 810 F.2d 1148 (Fed. Cir. 1987). Also, the patent can be unenforceable if the patent was procured by inequitable conduct by the patentee before or after the patent was granted. *Id.* at 1355.

⁶⁴ 19 U.S.C. § 1337(c) (1982 & Supp. III 1985)(amended 1988).

Amendment Act of 1988 ("Process Patent Act").⁶⁵ The purpose of the amendments to Section 337 were to "make it a more effective remedy for the protection of intellectual property rights."⁶⁶ First, the Omnibus Trade Act eliminated the injury requirement for alleging infringements of intellectual property rights.⁶⁷ The only injury necessary is the infringement of a valid patent, copyright, process patent, trademark, or mask works (semiconductor designs).⁶⁸ For example, Section 337 makes unlawful:

The importation into the United States, the sale for importation, or the sale within the United States after importation by the owner, importer, or consignee, of articles that . . . are made, produced, processed, or mined under, or by means of, a process covered by the claims of a valid and enforceable United States patent.⁶⁹

Second, the Omnibus Trade Act has relaxed the industry requirement.⁷⁰ Before the Omnibus Trade Act, complainants had to show injury to a domestic industry "efficiently and economically operated."⁷¹ The Omnibus Trade Act, however, gave a more liberal definition of industry and removed the "efficiently and economically operated" requirement.⁷² Complainants must only show that an industry "exists or is in the process of being established."⁷³ At the very least, complainants must show that they had: (1) "a significant investment in plant and equipment"; (2) "significant employment of labor or capital"; or (3) "substantial investment in its [intellectual property rights] exploitation, including engineering, research and development, or licensing" to qualify as an industry and have a remedy.⁷⁴

Third, Section 337a has been repealed,⁷⁵ but the Omnibus Trade Act reenacts prior Section 337a as part of Section 337(a)(1).⁷⁶ Section 337(a)(1) protects United States process patent owners from the importation of products made by the unauthorized use of the process patent.

⁶⁵ See Omnibus Trade Act, *supra* note 4, at 1212-16 (amending 19 U.S.C. § 1337 (1982)), 1563-67 (amending 35 U.S.C. §§ 154, 271, 287 (1982)).

⁶⁶ *Id.* at 1212.

⁶⁷ 134 Cong. Rec. S10711, S10714 (daily ed. Aug. 3, 1988).

⁶⁸ Omnibus Trade Act, *supra* note 4, at 1212 (amending 19 U.S.C. § 1337(a)(1)).

⁶⁹ *Id.*

⁷⁰ 134 Cong. Rec. S10711, S10714 (daily ed. Aug. 3, 1988).

⁷¹ 19 U.S.C. § 1337(a) (1982)(amended 1988); 19 C.F.R. § 210.20(a)(8) (1985).

⁷² Omnibus Trade Act, *supra* note 4, at 1212 (amending 19 U.S.C. § 1337(a) (1982)).

⁷³ *Id.*

⁷⁴ *Id.* at 1213.

⁷⁵ *Id.* at 1215-16 (repealing 19 U.S.C. § 1337a (1982)).

⁷⁶ *Id.* at 1212 (amending 19 U.S.C. § 1337(a) (1982)). The Omnibus Trade Act reads in pertinent part: "are made, produced, processed, or mined under, or by means of, a process covered by the claims of a valid and enforceable United States patent." *Id.*

Finally, the Omnibus Trade Act gives the ITC the power of seizure and forfeiture of goods in addition to simply ordering their exclusion from the United States market.⁷⁷ Moreover, the Omnibus Trade Act increases the protection of intellectual property rights under Section 337.

The Omnibus Trade Act has also made significant changes in the process patent laws through the Process Patent Act. The Process Patent Act finally makes "[w]hoever without authority imports into the United States or sells or uses within the United States a product which is made by a process patented in the United States" liable as an infringer.⁷⁸ As part of a compromise in Congress,⁷⁹ retailers and non-commercial users cannot be held liable for infringement unless no other adequate remedy is available from importers, sellers, and users.⁸⁰ The Process Patent Act, however, does give the holder of a United States process patent "the right to exclude others from using or selling throughout the United States, or importing into the United States, products made by that process."⁸¹ This amendment enables the patent owner to sue the importer, seller, or user rather than only the manufacturer using the process. The vicarious liability of the importer, seller, or user is an indirect way to get at the manufacturer in a different country. The foreign manufacturer does not technically violate the process patent because he does not use the process within the United States.⁸²

The reason for making importers, sellers, and users liable was pragmatic; they are the only parties reachable by the United States courts.⁸³ The importer, seller, or user must then turn to the manufacturer practicing the patented process for reimbursement. Vicarious liability gives the importers, sellers, and users an incentive to put pressure on the foreign manufacturer to come forward for the dispute.⁸⁴ Holding importers, sellers, and users liable also eliminates many of the discovery and personal jurisdiction problems previously encountered by complainants in process

⁷⁷ *Id.* at 1214 (amending 19 U.S.C. § 1337(e) (1982)).

⁷⁸ *Id.* at 1564 (amending 35 U.S.C. § 271 (1982 & Supp. III 1985)(effective February 23, 1989).

⁷⁹ *Witnesses Argue Over Accommodations to Retailers in Process Patent Bills*, 4 Int'l Trade Rep. (BNA) 614-15 (May 6, 1987); *New Process Patent Bills Would Limit Imports, Focus of Dispute is Liability of Retailers*, 4 Int'l Trade Rep. (BNA) 340-41 (Mar. 11, 1987); *Measure to Bar Import of Products Produced by Process Patent gets Senate Panel Hearing*, 2 Int'l Trade Rep. (BNA) 1407-08 (Nov. 6, 1985).

⁸⁰ Omnibus Trade Act, *supra* note 4, at 1564 (amending 19 U.S.C. § 271 (1982 & Supp. III 1985)).

⁸¹ *Id.* at 1564 (amending 35 U.S.C. § 154 (1982)).

⁸² See 35 U.S.C. § 271(a) (1982)(amended 1988).

⁸³ 134 Cong. Rec. S10711, S10714 (daily ed. Aug. 3, 1988).

⁸⁴ For example, sellers and importers could refuse to sell any more goods manufactured by the alleged infringer unless he/she comes forward to defend the patent infringement suit.

patent suits in federal district court.⁸⁵

The new process patent laws, however, place great burdens on plaintiffs with complex notice provisions, limitations on damages, and a conditional presumption of validity. The notice provisions are very complex and define notice as "actual knowledge, or receipt by a person of a written notification, or a combination thereof, of information sufficient to persuade a reasonable person that it is likely that a product was made by a process patented in the United States."⁸⁶ The complexity of the notice provisions will probably increase the burden and cost to the plaintiff of protecting process patent rights in federal district court. The damages available are limited to the point after which importers, sellers, and users have notice of infringement.⁸⁷

The reasons for the limitation on vicarious liability seem to stem from the possibility that importers, sellers, and users may not be able to recover from the foreign manufacturer practicing the patented process. Consequently, Congress has limited vicarious liability to the point from which these parties have notice of infringement. These limitations do not apply, however, to any person who: (1) "practiced the patented process"; (2) "owns or controls, or is owned or controlled by, the person who practiced the patented process"; or (3) "had knowledge before the infringement that a patented process was used to make the product the importation, use, or sale of which constitutes the infringement."⁸⁸

The Omnibus Trade Act also creates a new provision dealing with the presumption of validity in cases where the alleged actions of infringement are "importation, sale, or use of a product which is made from a process patented in the United States."⁸⁹ In these cases, the court requires a showing that there was a "substantial likelihood" that the process was used to produce the product and "that the plaintiff made a reasonable effort to determine the process actually used in the production of the product and was unable so to determine."⁹⁰ In cases where the manufacturer practicing the patented process is sued, the court, as in all patent disputes against the alleged actual infringer, presumes that the patent is valid without any preconditions.⁹¹ The conditional presumption of validity against vicarious infringers, however, tries to mitigate the

⁸⁵ See *supra* text accompanying notes 48-59.

⁸⁶ Omnibus Trade Act, *supra* note 4, at 1565.

⁸⁷ *Id.* at 1564.

⁸⁸ *Id.*

⁸⁹ *Id.* at 1566-67 (creating 35 U.S.C. § 295 entitled Presumption: Product made by patented process).

⁹⁰ *Id.*

⁹¹ 35 U.S.C. § 282 (1982 & Supp. III 1985).

liability of importers, sellers, and users because they are not practicing the patented process themselves.

The Process Patent Act does not "deprive a patent owner of any remedies available under subsections (a) through (f) of section 271 of title 35, United States Code," or "under section 337 of the Tariff Act of 1930."⁹² This implies that the special provisions for enforcing process patent rights against importers, sellers, or users in federal district court will not apply in a patent infringement action against the person practicing the patented process or in a Section 337 proceeding. In these cases, the court presumes that the patent is valid without any preconditions.⁹³ Thus, these other remedies provide relief without the complex notice procedures, limitation on damages, or conditional presumption of validity.

B. Commercial Protection Regulation 2641/84

As in the United States, the European Community has recognized the need to protect its members from "illicit commercial practices."⁹⁴ Commercial Protection Regulation 2641/84⁹⁵ performs a purpose very similar to Section 337, which protects United States industry from unfair acts of importation or unfair methods of competition.⁹⁶ It delegates power to the EC Commission "to defend vigorously the legitimate interests of the Community in the appropriate bodies, in particular GATT. . . ."⁹⁷ The regulation provides procedures for the EC Commission to respond "to any illicit commercial practice."⁹⁸

⁹² Omnibus Trade Act, *supra* note 4, at 1567. *See also* 19 U.S.C. § 271(a)-(f) (1982 & Supp. III 1985).

⁹³ 35 U.S.C. § 282 (1982 & Supp. III 1985).

⁹⁴ *Cf.* 19 U.S.C. § 1337 (1982 & Supp. III 1985)(amended 1988)(Section 337 protects United States companies from "[u]nfair methods of competition and unfair acts in the importation of articles into the United States").

⁹⁵ 27 O.J. Eur. Comm. (No. L 252) 1 (1984), 2 Common Mkt. Rep. (CCH) ¶ 3845 (Jan. 15, 1985). Regulation 2641/84 provides in pertinent part that:

Whereas in the light of experience and of the conclusions of the European Council of June 1982, which considered that it was of the highest importance to defend vigorously the legitimate interests of the Community in the appropriate bodies, in particular GATT, and to make sure the Community, in managing trade policy, acts with as much speed and efficiency as its trading partners, it has become apparent that the common commercial policy needs to be strengthened, notably in the fields not covered by the rules already adopted;

Whereas to this end it is advisable to provide the Community with procedures enabling it:

—to respond to any illicit commercial practice with a view to removing the injury resulting therefrom,

—to ensure full exercise of the Community's rights with regard to the commercial practices of third countries

⁹⁶ Regulation 2641/84 is even modeled after Section 301 of the United States trade law. *EC to Bring GATT Complaint Against U.S. Law in First Use of its Section 301 Procedures*, 4 Int'l Trade Rep. (BNA) 408 (Mar. 25, 1987).

⁹⁷ 27 O.J. Eur. Comm. (No. L 252) at 1, 2 Common Mkt. Rep. (CCH) ¶ 3845 (Jan. 15, 1985).

⁹⁸ Illicit commercial practices are "any international trade practices attributable to third coun-

The procedures and remedies of Commercial Protection Regulation 2641/84 are also similar to those of Section 337. Any person or legal entity associated with a Community industry⁹⁹ may lodge a written complaint on its behalf if the industry has suffered an injury¹⁰⁰ from an illicit commercial practice.¹⁰¹ The EC Commission then investigates the complaint and may conduct a hearing with the parties involved.¹⁰² Based on its investigations, the EC Commission issues an opinion which states the reasons for its decision.¹⁰³ The EC Commission may respond to the illicit commercial practices with a variety of remedies: customs duties, import or export restrictions, suspension or withdrawal of trade concessions.¹⁰⁴ The EC Commission's decision will become effective for all the Member States if after ten days, no Member State refers the matter to the Council.¹⁰⁵ Likewise, the ITC will investigate any alleged unfair act or method of competition in violation of Section 337.¹⁰⁶ After the parties have had an opportunity for a hearing, the ITC makes a determination on the record.¹⁰⁷ Its remedies include an exclusion order and a cease and desist order.¹⁰⁸ Consequently, Commercial Protection Regulation 2641/84 has empowered the EC Commission to perform a very similar function to that of the ITC in Section 337 proceedings.

C. GATT and National Treatment

Both the United States and the Netherlands are members of the GATT Organization which requires them to meet the standards of and to promote the purposes of GATT.¹⁰⁹ The purposes of GATT include

tries which are incompatible with international law or with the generally accepted rules." *Id.* at 2, 2 Common Mkt. Rep. (CCH) at ¶ 3845B.

⁹⁹ A Community industry means all Community producers:

—of products identical or similar to the product which is the subject of illicit practices or of products competing directly with that product, or

—who are consumers or processors of the product which is the subject of illicit practices, or all those producers whose combined output constitutes a major proportion of total Community production of the products in question

Id., 2 Common Mkt. Rep. (CCH) at ¶ 3845B.

¹⁰⁰ An "injury shall be any material injury caused or threatened to Community industry" *Id.*, 2 Common Mkt. Rep. (CCH) at ¶ 3845B.

¹⁰¹ *Id.*, 2 Common Mkt. Rep. (CCH) at ¶ 3845C.

¹⁰² *Id.* at 3-4, 2 Common Mkt. Rep. (CCH) at ¶ 3845F.

¹⁰³ *Id.* at 5, 2 Common Mkt. Rep. (CCH) at ¶ 3845K.

¹⁰⁴ *Id.*, 2 Common Mkt. Rep. (CCH) at ¶ 3845K.

¹⁰⁵ *Id.* at 6, 2 Common Mkt. Rep. (CCH) at ¶ 3845M. A Member State is a country which is a member of the European Economic Community.

¹⁰⁶ 19 U.S.C. § 1337(b) (1982)(amended 1988).

¹⁰⁷ 19 U.S.C. § 1337(c) (1982 & Supp. III 1985)(amended 1988).

¹⁰⁸ 19 U.S.C. § 1337(d) & (f)(amended 1988).

¹⁰⁹ See GATT, *supra* note 6, preamble. GATT refers to the Agreement between the contracting parties while "GATT Organization" refers to the institutional organization administering GATT.

raising living standards, attaining full employment, increasing the volume of real income and effective demand, utilizing the world's resources to their fullest, and broadening the protection and exchange of goods.¹¹⁰ GATT and its purposes are based on the economic assumption that non-discriminatory liberal trade will benefit the member nations by increasing not only their real income but also the world's as a whole.¹¹¹ Fulfilling these purposes depends upon GATT's legal framework of international rules.¹¹² This legal framework prevents government and private restraints of trade and promotes the use of efficient, non-discriminatory trade policy.¹¹³ Moreover, GATT is the only multilateral agreement in the history of international trade relations that has applied such a legal framework for the reduction of tariffs, for the removal of non tariff trade barriers, and for a forum for continuous discussion, negotiation and settlement of international trade problems.¹¹⁴

GATT, however, has never come into force and is not what it was intended to be.¹¹⁵ GATT has never come into force because the contracting parties wanted to implement GATT at the same time as the proposed International Trade Organization ("ITO").¹¹⁶ The ITO was to be the supervising organization for GATT.¹¹⁷ The ITO Charter was scheduled to be finished the year after GATT had been negotiated.¹¹⁸ Some parties wanted to implement GATT immediately, but others wanted to wait for the ITO Charter and then implement them together.¹¹⁹ The solution was to put GATT into effect as a legal norm under a Protocol of Provisional Application.¹²⁰ The Protocol of Provisional Application included a grandfather clause which provided for the implementation of GATT only to the extent that it did not interfere with existing regulation.¹²¹ GATT was originally only an agreement or a contract between the member nations on tariffs and trade without an organization.¹²²

¹¹⁰ *Id.*

¹¹¹ See Petersmann, *International and European Foreign Trade Law: Gatt Dispute Settlement Proceedings Against the EEC*, 22 COMMON MKT. L. REV. 441, 452 (1985).

¹¹² *Id.* at 452-53.

¹¹³ *Id.*

¹¹⁴ *Id.* at 452.

¹¹⁵ Jackson, *GATT and Recent International Trade Problems*, 11 MD. J. INT'L L. & TRADE 1, 5 (1987).

¹¹⁶ See *id.* at 9.

¹¹⁷ *Id.* at 8.

¹¹⁸ *Id.* at 9.

¹¹⁹ *Id.*

¹²⁰ *Id.*

¹²¹ *Id.*

¹²² *Id.* at 8.

However, the ITO never came into existence.¹²³ GATT filled the vacuum and became both an organization and an agreement.¹²⁴ Thus, even though GATT became an organization after its provisional application as a treaty, the United States is still legally bound by its requirements under the Protocol of Provisional Application.¹²⁵

The GATT obligations that allegedly impinge on the domestic protection of intellectual property rights under Section 337 are contained in Article III. Article III requires "national treatment," which means that governments must treat imported products at least as well as domestic products in terms of taxation and regulation.¹²⁶ In other words, the products imported by any contracting party into the territory of another contracting party must not be accorded any less favorable treatment than like products of national origin.¹²⁷ The purpose of the national treatment requirement is to prevent non-tariff trade barriers which may be disguised as regulation.

Article III, however, is modified by Article XX, which provides for general exceptions to all GATT provisions.¹²⁸ Special devices against imports can be used in a regulatory scheme if the devices are not arbitrary or unjustifiable discrimination or disguised restriction on international trade and if they are necessary to secure compliance with laws consistent with GATT.¹²⁹ The protection of patent rights is explicitly mentioned in Article XX(d) as a justifiable exception to other GATT obligations such as national treatment.¹³⁰ The exception allows different treatment of domestic products and imports but only if the difference

¹²³ *Id.*

¹²⁴ *See id.*

¹²⁵ *Id.*

¹²⁶ GATT, *supra* note 6, art. III:2. Article III:2 provides in pertinent part that:

The products of the territory of any contracting party imported into the territory of any other contracting party shall be accorded treatment no less favorable 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

¹²⁷ *Id.*

¹²⁸ *See* J. JACKSON, *WORLD TRADE AND THE LAW OF GATT* 742-45 (1969).

¹²⁹ GATT, *supra* note 6, art. XX. Article XX provides in pertinent part that:

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: I. (d) necessary to secure compliance with laws or regulations which are not inconsistent with the provisions of this Agreement, including those relating to customs enforcement, . . . the protection of patents, trade marks and copyrights

See also Executive Branch GATT Study No. 2: GATT Provisions on Unfair Trade Practices, 93rd Cong., 1st Sess. 6 (1973)(explicit discussion of Article XX(d) and the protection of intellectual property rights).

¹³⁰ *See* GATT, *supra* note 6, art. XX(d).

relates to the enforcement mechanisms and not any difference in the patent laws themselves.¹³¹ In other words, the patent law applied to imports must be the same as that applied to domestic products to be consistent with GATT.¹³²

If a dispute arises between contracting parties, Article XXII, Consultations, and Article XXIII, Nullification or Impairment, state the consultation and dispute settlement procedures to be followed by contracting members.¹³³ Article XXII provides for notification of the alleged infringement to the breaching party. Its purpose is to foster voluntary dispute settlement. Article XXIII provides additional procedures for parties who cannot voluntarily settle a dispute. As a last resort, the matter may be referred to the contracting parties who form a GATT panel to investigate the dispute.¹³⁴ The GATT Council convenes a panel of independent experts to examine the dispute in question and to report its conclusions and recommendations. The Council must then decide whether or not to accept the panel's conclusions and implement its recommendations. However, in the overwhelming majority of cases, such adoption does not take place. One reason that adoption does not occur is because the decision must be unanimously approved by the contracting members. The party who is found at fault may veto the decision.¹³⁵ Consequently, GATT dispute settlement procedures have not proved to be very effective at settling disputes. Therefore, even though the EC Commission has initiated Article XXIII conciliation and dispute settlement procedures,¹³⁶ these proceedings would not necessarily settle the dispute between Akzo and Du Pont.

D. *Imports of Certain Automotive Spring Assemblies*

A GATT Panel decided a case similar to the *Akzo* case in *Imports of Certain Automotive Spring Assemblies*.¹³⁷ In that case, a patent dispute arose between Kuhlman Corporation ("Kuhlman"), a United States spring assembly manufacturer, and Wallbank Manufacturing Co. Lim-

¹³¹ *Id.*

¹³² *Id.*

¹³³ *Id.*

¹³⁴ *Id.*

¹³⁵ *But see Results and Follow-up of Gatt Ministerial Meeting: Hearing Before the Subcomm. on Trade of the Comm. on Ways and Means of the House of Rep.*, 98th Cong., 1st Sess. 8 (1983)(ministers in the Geneva round resolved not to let a single party block GATT Council decisions but no amendment to GATT occurred).

¹³⁶ *Re United States Litigation between E.I. Dupont de Nemours & Co. and Akzo N.V.*, 30 O.J. Eur. Comm. (No. L 117) at 20-21, [1987] 2 Common Mkt. L.R. at 550.

¹³⁷ *Imports of Spring Assemblies*, *supra* note 8.

ited ("Wallbank"), a Canadian manufacturer.¹³⁸ Kuhlman brought a Section 337 proceeding to exclude imports which infringed a United States product patent and which were produced by a process which if practiced in the United States would infringe a United States process patent.¹³⁹ The ITC issued an exclusion order prohibiting the importation of certain spring assemblies from all foreign sources.¹⁴⁰ Subsequently, the United States and Canada had bilateral consultations under Article XXIII:1 which were unsuccessful.¹⁴¹ A Canadian representative then requested the establishment of a GATT Panel to investigate the matter.¹⁴²

The Panel first determined that the Article XX(d) exception applied to the Section 337 proceedings.¹⁴³ Because the spring assemblies were protected by a valid product patent,¹⁴⁴ the Panel considered the alternative of Kuhlman proceeding in United States district court.¹⁴⁵ Kuhlman could have sued Wallbank on the product patent in district court and joined General Motors, Ford and other known users.¹⁴⁶ If the patent was found valid, Kuhlman could have prevented these parties from utilizing spring assemblies produced by Wallbank with an injunction or cease and desist order.¹⁴⁷ Nevertheless, the district court remedy would not have effectively protected Kuhlman from other possible foreign infringers of the patent or from other potential users of these infringing products.¹⁴⁸ As a result, the Panel held that Section 337 proceedings were "necessary" to secure compliance with the United States patent laws and qualified as a XX(d) exception.¹⁴⁹

The panel, however, left open the possibility that under other circumstances Section 337 proceedings would not qualify as an Article XX(d) exception and could be in conflict with Article III of GATT.¹⁵⁰ It suggested that in cases involving "high-cost products of an advanced technical nature and with a very limited number of potential users in the

¹³⁸ *Id.* at 109.

¹³⁹ *Id.* at 108.

¹⁴⁰ *Id.*

¹⁴¹ *Id.* at 107.

¹⁴² *Id.*

¹⁴³ *Id.* at 124.

¹⁴⁴ *Id.* at 110. See also *In re Spring Assemblies and Components Thereof* Inv. No. 337-TA-88, 216 U.S.P.Q. 225, 236 *aff'd sub nom.*, *General Motors Corp. v. United States International Trade Commission*, 687 F.2d 476, 215 U.S.P.Q. 484 (C.C.P.A. 1982), *cert. denied*, 459 U.S. 1105, 103 S.Ct. 729, 74 L.E.2d 953 (1983).

¹⁴⁵ Imports of Spring Assemblies, *supra* note 8, at 126.

¹⁴⁶ *Id.*

¹⁴⁷ *Id.*

¹⁴⁸ *Id.*

¹⁴⁹ *Id.*

¹⁵⁰ *Id.* at 127.

United States," the United States district court might be able to provide the patent owner with an effective remedy.¹⁵¹ Consequently, Section 337 might not be necessary in Article XX(d) terms, and it would be subject to other relevant GATT provisions such as Article III.¹⁵² Therefore, *Imports of Spring Assemblies* is not dispositive of the *Akzo* case, but left open the possibility of future examinations of Section 337 proceedings in terms of Article III and Article XX(d).

III. DISCUSSION

A. Factual Background

The process patent dispute between Akzo and Du Pont involved an unusually long history of battles both in the United States and in Europe. In addition to patent invalidity, Akzo alleged improper discovery procedures, due process and antitrust violations, lack of jurisdiction under Article III of the United States Constitution, and inequitable conduct by Du Pont.¹⁵³ The facts relevant to the focus of this Comment, however, concern the Section 337 exclusion order and its alleged conflict with Article III of GATT.

On April 18, 1984, Du Pont filed a Section 337 complaint with the ITC.¹⁵⁴ Du Pont claimed that Akzo had violated Section 337 by engaging in unfair methods of competition and unfair acts by the importation, sale and marketing of certain aramid fibers¹⁵⁵ which were produced in the Netherlands by a process infringing Du Pont's United States Letters Patent No. 3,767,756 (the Blades or '756 patent).¹⁵⁶ Du Pont also alleged that the importation of the aramid fibers had the effect or tendency to destroy or substantially injure an efficiently and economically operated United States industry.¹⁵⁷ The ITC instituted an investigation pursuant to Section 337(b) of the Tariff Act and assigned an administrative law judge ("ALJ") to preside over the case.¹⁵⁸

The ALJ found that the Blades patent was valid and that Akzo had violated Section 337(a).¹⁵⁹ Akzo petitioned for review by the ITC.¹⁶⁰

¹⁵¹ *Id.*

¹⁵² *Id.*

¹⁵³ *See Akzo*, 808 F.2d at 1475.

¹⁵⁴ *Id.*

¹⁵⁵ Aramid fibers are a high strength synthetic polyamide fiber which when spun together are five times stronger pound for pound than steel. They have a variety of applications such as roping, spacecraft and airplane parts, bullet resistant clothing and armor, tires, and boat hulls. *Id.* at 1477.

¹⁵⁶ *Id.* at 1475.

¹⁵⁷ *Id.*

¹⁵⁸ *Id.*

¹⁵⁹ *Id.* at 1476.

The ITC partially reviewed the ALJ's findings but finally approved them and issued an exclusion order on November 25, 1985.¹⁶¹ The order became final on January 25, 1986 because the President declined to overrule the exclusion order pursuant to Section 337(g).¹⁶²

Akzo appealed from the exclusion order granted by the ITC to the United States Court of Appeals for the Federal Circuit.¹⁶³ Akzo claimed that the Section 337 proceedings had violated United States GATT treaty obligations.¹⁶⁴ The court, however, found that the treaty obligations had not been violated and that Akzo had not been discriminated against because of its Dutch nationality.¹⁶⁵ Hence, on December 22, 1986, the Court of Appeals affirmed the ITC's exclusion order prohibiting Akzo's importation of certain aramid fibers.¹⁶⁶ Akzo then applied to the United States Supreme Court, but certiorari was denied on June 1, 1987.¹⁶⁷

On May 6, 1985, after the ITC's exclusion order became final but before the Court of Appeals decision, Akzo filed a complaint in the United States District Court for the Eastern District of Virginia.¹⁶⁸ The complaint alleged that Du Pont had infringed Akzo's United States Patent 4,308,374 (the "374 patent").¹⁶⁹ Du Pont counterclaimed claiming that Akzo's '374 patent was invalid.¹⁷⁰ The District Court held that the '374 patent was invalid and therefore not infringed.¹⁷¹ The Court of Appeals affirmed.¹⁷²

Concurrently, Akzo filed a complaint with the EC Commission on December 9, 1985.¹⁷³ On March 12, 1987, the EC Commission held that the application of Section 337 to the case of the aramid fibers violated Article III of GATT and thus was an illicit commercial practice by the

¹⁶⁰ *Id.*

¹⁶¹ *Id.*

¹⁶² *Id.*

¹⁶³ *Id.* at 1475.

¹⁶⁴ *Id.* at 1485.

¹⁶⁵ *Id.*

¹⁶⁶ *Id.* at 1490.

¹⁶⁷ *Akzo N.V. v. United States Int'l Trade Comm'n*, 55 U.S.L.W. 3808, 107 S.Ct. 2490 (1987) *denying cert.* to 808 F.2d 1471 (Fed. Cir. 1986).

¹⁶⁸ *Akzo N.V. v. E.I. Dupont de Nemours*, 635 F.Supp. 1336, 1337 (E.D. Va. 1986), *aff'd*, 810 F.2d 1148 (Fed. Cir. 1987).

¹⁶⁹ *Id.*

¹⁷⁰ *Id.*

¹⁷¹ *Id.* at 1356.

¹⁷² *N.V. Akzo v. E.I. Dupont de Nemours*, 810 F.2d 1148, 1153 (Fed. Cir. 1987).

¹⁷³ *Re United States Litigation between E.I. Dupont de Nemours & Co. and Akzo N.V.*, 30 O.J. Eur. Comm. (No. L 117) at 18, [1987] 2 Common Mkt. L.R. at 546.

United States Government.¹⁷⁴ The EC Commission also initiated complaint procedures against the United States under Article XXIII of GATT.¹⁷⁵

Many new developments have occurred since the conclusion of the EC Commission decision. The EC Commission requested a GATT Panel in July 1987.¹⁷⁶ In October 1987, the GATT Council established a panel, and by November 1987, the members of the panel had been chosen.¹⁷⁷ In addition, Akzo and Du Pont made an out-of-court settlement of the aramid fibers dispute in May 1988.¹⁷⁸ The settlement allowed both companies to manufacture and sell the fibers world-wide.¹⁷⁹ The reason given for the settlement was that the long litigation had created uncertainty in the market.¹⁸⁰ Customers were confused and anxious over the continuity of supply.¹⁸¹ Du Pont expected that demand for the fibers would rise despite the increased competition from Akzo.¹⁸² Akzo, however, would still be subject to some restrictions on its shipments but would not be subject to the exclusion order, which is in effect until 1990.¹⁸³ Despite the out-of-court settlement, the complaint by the EC Commission would stay in force and the GATT Panel is scheduled to make its decision by October 23, 1990.¹⁸⁴

B. *Akzo N.V. v. United States International Trade Commission*

The Court of Appeals for the Federal Circuit held that the Section 337 proceedings did not violate the United States GATT treaty obligations.¹⁸⁵ Akzo, however, argued that it was denied the rights that would have been available to a domestic firm suing for patent infringement in a federal district court.¹⁸⁶ Akzo claimed that this was "inferior treatment"

¹⁷⁴ *Id.* at 20, [1987] 2 Common Mkt. L.R. at 549.

¹⁷⁵ *Id.* at 20-21, [1987] 2 Common Mkt. L.R. at 550. The GATT Panel decision will not be conclusive of the dispute unless all contracting parties agree to it. However, this is unlikely because both the United States and the Netherlands have a one vote veto power. *See supra* text accompanying notes 134-36.

¹⁷⁶ *Operation of the Trade Agreements Program 39th Report 1987*, 2095 Int'l Trade Comm'n Pub. 17 (1988)[hereinafter *ITC Report*].

¹⁷⁷ *Id.*

¹⁷⁸ *DuPont, Akzo End Long Patent Fight on Aramid Fibers*, Wall St. J., May 11, 1988, at 31, col. 5.

¹⁷⁹ *Id.*

¹⁸⁰ *Id.*

¹⁸¹ *Id.*

¹⁸² *Id.*

¹⁸³ *Id.*

¹⁸⁴ *ITC Report*, *supra* note 176, at 686.

¹⁸⁵ *Akzo*, 808 F.2d at 1485.

¹⁸⁶ *Id.*

and thus discrimination based on nationality.¹⁸⁷ The court characterized Akzo's argument as *non sequitur*.¹⁸⁸ This implied that Akzo's argument entailed the premise that they were treated the same as Du Pont in the Section 337 proceeding but that it did not follow that they were not discriminated against because of their nationality.¹⁸⁹

The court found that Akzo's argument missed the mark because Akzo was given the same rights as any domestic firm in a Section 337 proceeding before the ITC.¹⁹⁰ The court stressed two factors.¹⁹¹ First, Akzo and Du Pont were "bound by identical procedures regarding confidentiality and discovery."¹⁹² Second, that the ITC had rejected the same argument in *Certain Spring Assemblies*.¹⁹³ In that case, the ITC stated that Section 337 did not discriminate against foreign companies but applied to foreign and domestic companies alike.¹⁹⁴ Furthermore, the ITC emphasized this point by stating that it has jurisdiction under Section 337 over products imported from a foreign company "*even if they are manufactured and/or imported by a U.S. corporation.*"¹⁹⁵ From these two points, the *Akzo* court implied that Section 337 did not violate the "national treatment" requirement of Article III of GATT.¹⁹⁶

C. *Re United States Litigation*

Akzo filed a complaint with the EC Commission on December 9, 1985.¹⁹⁷ The EC Commission investigated the complaint pursuant to Commercial Protection Regulation 641/84.¹⁹⁸ This is the first EC Commission decision based on regulation 2641/84.¹⁹⁹ From this investigation, the EC Commission concluded that Section 337 of the United States Tariff Act constituted an "illicit commercial practice" by the United

¹⁸⁷ *Id.*

¹⁸⁸ *Id.* *Non sequitur* is latin and means "it does not follow." BLACK'S LAW DICTIONARY 954 (5th ed. 1979).

¹⁸⁹ Akzo, 808 F.2d at 1485.

¹⁹⁰ *Id.*

¹⁹¹ *Id.*

¹⁹² *Id.*

¹⁹³ *Id.*

¹⁹⁴ *Id.* citing *In re Spring Assemblies*, 216 U.S.P.Q. at 231.

¹⁹⁵ *Id.* citing *In re Spring Assemblies*, 216 U.S.P.Q. at 231 (emphasis added by Akzo court).

¹⁹⁶ Akzo, 808 F.2d at 1485.

¹⁹⁷ *Re United States Litigation*, 30 O.J. Eur. Comm. (No. L 117) at 18, [1987] 2 Common Mkt. L.R. at 546.

¹⁹⁸ *Id.*, [1987] 2 Common Mkt. L.R. at 545.

¹⁹⁹ *EC to Bring GATT Complaint Against U.S. Law in First Use of its Section 301 Procedures*, 4 Int'l Trade Rep. (BNA) 408 (Mar. 25, 1987). The EC Commission has recently used Regulation 2641/84 for the third time to provide Community cassette copyright holders with protection from pirating in Indonesia. *Complaint Re Indonesian Pirate Cassettes*, 30 O.J. Eur. Comm. (No. C 136) 3, [1987] 3 Common Mkt. L.R. 547.

States Government.²⁰⁰

The EC Commission agreed that Section 337 applies, in principle, to goods imported by foreign and United States undertakings.²⁰¹ But the EC Commission pointed out that "in practice Section 337 applies almost exclusively to foreign firms and products."²⁰² Furthermore, the EC Commission focused on the different rules of procedure in the ITC under Section 337.²⁰³ The EC Commission held that Akzo was denied national treatment required by Article III:4 of GATT because the Section 337 proceeding does not allow a respondent to plead a counterclaim as in United States civil court.²⁰⁴ The EC Commission argued that this could have an impact on the outcome of a case because Akzo could have alleged an infringement of its own patent.²⁰⁵ Moreover, the EC Commission held that the separate and distinct procedure of protecting intellectual property rights under Section 337 results in less favorable treatment for goods of non-United States origin which is contrary to Article III of GATT.²⁰⁶

In addition, the EC Commission decided that Section 337 proceedings are not necessary to protect United States patent rights.²⁰⁷ The EC Commission pointed out that many other countries deal with patent infringements by imports as they do with infringements by domestic goods.²⁰⁸ Thus, Section 337 proceedings do not qualify as a XX(d) exception to national treatment and constitute an "illicit commercial practice" under Regulation 2641/84.²⁰⁹ The EC Commission also added that "the previous findings of GATT in *Spring Assemblies* case did not deal with the question of the compatibility of Section 337 with Article III of GATT."²¹⁰ Finally, the EC Commission initiated the procedures for consultation and dispute settlement under Article XXIII of GATT.²¹¹

IV. ANALYSIS

Contrary to the EC Commission's determination, Section 337 does

²⁰⁰ *Re United States Litigation*, 30 O.J. Eur. Comm. (No. L 117) at 20, [1987] 2 Common Mkt. L.R. at 549.

²⁰¹ *Id.* at 20, [1987] 2 Common Mkt. L.R. at 548.

²⁰² *Id.*, [1987] 2 Common Mkt. L.R. at 548.

²⁰³ *Id.*, [1987] 2 Common Mkt. L.R. at 548-549.

²⁰⁴ *Id.*, [1987] 2 Common Mkt. L.R. at 549.

²⁰⁵ *Id.*, [1987] 2 Common Mkt. L.R. at 549.

²⁰⁶ *Id.*, [1987] 2 Common Mkt. L.R. at 548-549.

²⁰⁷ *Id.*, [1987] 2 Common Mkt. L.R. at 549.

²⁰⁸ *Id.*, [1987] 2 Common Mkt. L.R. at 549.

²⁰⁹ *Id.*, [1987] 2 Common Mkt. L.R. at 549.

²¹⁰ *Id.*, [1987] 2 Common Mkt. L.R. at 550.

²¹¹ *Id.* at 20-21, [1987] 2 Common Mkt. L.R. at 550.

not conflict with the United States obligations under Article III of GATT. Section 337 proceedings are necessary to protect United States process patent rights from infringing imports. Neither the United States Court of Appeals nor the EC Commission make these points clear in their opinions. Their contrary holdings represent different interpretations of Article III's "national treatment" and Article XX(d)'s "necessary" qualification of exceptions. Both of these decisions will be analyzed to show how Section 337 is consistent with the United States obligations under GATT. Further, a brief analysis of the Omnibus Trade Act will show the continued consistency of Section 337 and Article III. Finally, the economic impact of the *Akzo* cases and the Omnibus Trade Act will be explored.

A. Critique of *Akzo*

In *Akzo*, the Court of Appeals for the Federal Circuit gave a very brief opinion on the question of Section 337's consistency with the United States obligations under the GATT treaty.²¹² The court dismissed *Akzo*'s arguments as "missing the mark."²¹³ The court's opinion has two weaknesses. First, the court did not address *Akzo*'s main claim that it had been denied the rights afforded to a domestic firm in district court because of its nationality.²¹⁴ *Akzo* argued that it does not follow (*non sequitur*) that it was not discriminated against because it was afforded the same rights as a domestic firm in the Section 337 proceeding.²¹⁵ The court, however, did not address this argument but summarily dismissed it.

Second, the court did not fully state the ITC's argument in *Certain Spring Assemblies*.²¹⁶ In that case, the ITC observed that if the alleged infringing articles are not imported then the alleged infringer can be sued for the same unfair act in United States District Court in a patent infringement action.²¹⁷ The ITC stressed that while the complainant must substantially support several allegations to succeed in a Section 337 complaint, he/she need only show patent infringement in district court. In other words, the respondent is treated more favorably in a Section 337 proceeding than in district court because of the higher burden of proof for the same substantive claim.²¹⁸ The ITC's additional argument, then,

²¹² *Akzo*, 808 F.2d at 1485.

²¹³ *Id.*

²¹⁴ *Id.*

²¹⁵ *Id.*

²¹⁶ *Id.*

²¹⁷ *In re Spring Assemblies*, 216 U.S.P.Q. at 231.

²¹⁸ *See id.*

was that respondents in a Section 337 proceeding are not just treated the same as respondents in district court, but better.

The court's brevity, however, may indicate its desire not to get involved in decisions involving international law. The court deferred to the ITC's comments on this issue in *Certain Spring Assemblies*.²¹⁹ Furthermore, the court ignored the GATT Panel decision on *Certain Spring Assemblies* which held that the use of Section 337 qualified as an exception to Article III (and other GATT provisions) under Article XX(d) of GATT.²²⁰ This indicates a possible concern for the separation of powers. The court emphasized in the latter part of its opinion that Section 337 investigations by the ITC represent a valid delegation of the Congressional power to regulate commerce for the public purpose of protecting domestic industry from unfair practices in importation.²²¹ Hence, the court's opinion about the consistency of Section 337 and Article III of GATT may not be persuasive, but it may indicate an implicit policy decision to defer to Congress in the regulation of commerce.

B. Critique of *Re United States Litigation*

In *Re United States Litigation*, the EC Commission held that Section 337 was inconsistent with Article III of GATT and that it was an illicit commercial practice by the United States Government.²²² The EC Commission decision stressed that the different procedures used in Section 337 denied Akzo national treatment required by Article III of GATT and that these additional procedures were not necessary under Article XX(d).²²³ This decision had two main weaknesses. First, the EC Commission's interpretation of the requirements of Article III of GATT was too formalistic. The EC Commission stressed the "separate and distinct" procedure of Section 337 and the inability of respondents to raise counterclaims as affording less favorable treatment to respondents than the procedures of the United States courts.²²⁴ The Section 337 proceed-

²¹⁹ Akzo, 808 F.2d at 1485.

²²⁰ Imports of Spring Assemblies, *supra* note 8, at 126.

²²¹ Akzo, 808 F.2d at 1488.

²²² *Re United States Litigation*, 30 O.J. Eur. Comm. (No. L 117) at 20, [1987] 2 Common Mkt. L.R. at 548-49.

²²³ *Id.*, [1987] 2 Common Mkt. L.R. at 548-49.

²²⁴ *Id.*, [1987] 2 Common Mkt. L.R. at 548-49. Akzo could have disputed that they could be subjected to concurrent cases in federal district court and before the ITC. Finlayson, *Rethinking the Overlapping Jurisdictions of Section 337 and the US Courts*, 21 J. WORLD TRADE L. 41, 46-51 (1987). The court, however, could have pointed out that the district courts seem to be giving *de facto* deference to the ITC by suspending concurrent jurisdiction. *Id.* at 63. Further, Akzo could have protested the possibility of subsequent retrying of the case in federal district court (double jeopardy). This was a possibility, but the ITC decisions are beginning to take on full *res judicata*

ing, however, did not result in a less favorable substantive treatment of the patent infringement by a foreign infringer. This will be shown by analyzing and balancing the advantages and disadvantages of a Section 337 proceedings.

Section 337 proceedings have some disadvantages for the parties. These "separate and distinct" Section 337 proceedings put a higher burden of proof on the complainant. The initial pleadings filed with the ITC before discovery are much more extensive than notice pleading²²⁵ in federal district court.²²⁶ The allegations in the complaint must be supported with detailed factual statements.²²⁷ The ITC can refuse to investigate if the allegations are not given sufficient substantiation; this has been criticized as requiring proof of the allegations before discovery.²²⁸ In addition, the patent owner must prove injury to a domestic industry which is efficiently and economically operated.²²⁹ The allegation of injury requires "figures for production, sales, profits, inventories, pricing and number of employees relating to the domestic product."²³⁰ The complainant may even need to include figures for the three preceding years to meet the required level of injury.²³¹

Further, both parties have only a short time to gather evidence for the hearing. The accelerated proceedings (within 12 to 18 months),²³² however, can work for or against each party. In some cases, the complainant and the ITC will not have enough time to gather the necessary evidence for a Section 337 violation. Likewise, the respondent may not have enough time to mount an adequate defense. An empirical study would have to be done to conclude that the time pressures are more detrimental to the complainant or the respondent.

Third party involvement by the ITC can be disadvantageous to both the complainant and the respondent. The respondent may be disadvantaged by the additional investigatory powers of the ITC to the complain-

effect on district courts. *Id.* at 51-55, 63. Further, these avenues are open to both parties and do not favor domestic companies over foreign ones. Also, as a practical matter parties are deterred to some extent by the cost of duplicative proceedings. Duplicative adjudication also lengthens the litigation process and thus extends the uncertainty of rights that business people like to avoid.

²²⁵ FED. R. CIV. P. 8(a).

²²⁶ See Budoff, *A Practitioner's Guide to Section 337 Litigation Before the International Trade Commission*, 17 L. & POL'Y INT'L BUS. 519, 523-24, 528-31 (1985).

²²⁷ *Id.* at 523-24.

²²⁸ *Id.* at 524.

²²⁹ 19 U.S.C. § 1337(a) (1982)(amended 1988).

²³⁰ Budoff, *supra* note 226, at 529 (citing 19 C.F.R. § 210.20(a)(8) (1985)).

²³¹ *Id.*

²³² See 19 U.S.C. § 1337(b)(1) (1982)(amended 1988).

ant's benefit.²³³ Even if the ITC determines that there is a violation, however, it can decide not to provide the complainant with a remedy if it would be against the public interest.²³⁴ Also, the President can nullify a remedy "for policy reasons."²³⁵ Both the complainant and respondent, then, are helped and hurt by the third party involvement.

Also, the complainant must file a separate suit in federal district court to receive any damages for the patent infringement.²³⁶ A Section 337 action provides only an exclusion order or a cease and desist order,²³⁷ while a domestic patent infringement case allows damages²³⁸ for past infringement as well as an injunction²³⁹ from future infringement. Finally, the respondent in a Section 337 proceeding, in contrast with federal courts,²⁴⁰ cannot file counterclaims.²⁴¹ Respondents can make all "legal and equitable defenses"²⁴² which can serve the same purposes and are not easy to distinguish. For example, in *N.V. Akzo v. E.I. DuPont de Nemours*,²⁴³ Akzo claimed Du Pont had infringed its process patent '374. Du Pont's counterclaim asserted invalidity under 35 U.S.C. § 103 (1982). Likewise, in a Section 337 proceeding, Akzo could have countered the presumption of patent validity with the defense of invalidity provided for in 35 U.S.C. § 282 (1982).

On the other hand, there are many advantages to a Section 337 proceeding.²⁴⁴ The ITC has expertise in ascertaining the likelihood of harm to complainants and in intellectual property law.²⁴⁵ In addition, the swiftness of Section 337 proceedings decreases the time of uncertainty about the rights involved.²⁴⁶ By statute, the ITC must complete its investigation within one year or within eighteen months in complicated circumstances.²⁴⁷ This is beneficial to the complainant and the respondent. In federal district court where cases can take years, respondents may be cautious about expanding legal operations because of the uncertainty of the potential increased liability for damages. If the complainant has a

²³³ See 19 U.S.C. § 1337(b) (1982).

²³⁴ 19 U.S.C. § 1337(d)-(f) (1982)(amended 1988).

²³⁵ 19 U.S.C. § 1337(g) (1982)(amended 1988).

²³⁶ *Lever*, *supra* note 5, at 1168.

²³⁷ 19 U.S.C. § 1337(d)-(f) (1982)(amended 1988).

²³⁸ 35 U.S.C. § 284 (1982).

²³⁹ 35 U.S.C. § 283 (1982).

²⁴⁰ See FED. R. CIV. P. 13.

²⁴¹ See 19 U.S.C. § 1337 (1982 & Supp. III 1985)(amended 1988); 19 C.F.R. § 210 (1985).

²⁴² 19 U.S.C. § 1337(c) (1982 & Supp. III 1985)(amended 1988).

²⁴³ 810 F.2d 1148 (Fed. Cir. 1987), *aff'g*, 635 F.Supp. 1336 (E.D. Va. 1986).

²⁴⁴ *Lever*, *supra* note 5, at 1167.

²⁴⁵ *Finlayson*, *supra* note 224, at 45.

²⁴⁶ *Lever*, *supra* note 5, at 1167.

²⁴⁷ 19 U.S.C. § 1337(b)(1) (1982)(amended 1988).

valid patent, his/her injury is minimized by the speedy adjudication of patent rights. Du Pont, for example, could have lost more market share while a lengthy federal court patent suit proceeded.

Another advantage concerns the types of remedies available in a Section 337 proceeding. In a Section 337 proceeding, the patent owner can get an injunction-like remedy which causes the total cessation of foreign imports.²⁴⁸ District courts do not usually issue injunctions but award damages,²⁴⁹ and the remedy is applicable only to named defendants. Section 337 proceedings, however, decrease the number of subsequent suits to exclude other infringing goods which decreases the policing costs for the complainant.

As pointed out above, Section 337 also eliminates discovery and personal jurisdiction problems. Section 337 investigations are against the goods, not the parties.²⁵⁰ There is no need for personal jurisdiction, as in a district court proceeding, to get an exclusion order against the goods.²⁵¹ Thus, Section 337 discovery procedures eliminate the difficulties of proving a process patent infringement in a foreign country.²⁵²

Overall, Section 337 has both advantages and disadvantages for process patent owners, but Sections 337 and 337a combined to provide protection for process patent owners which was substantively similar to the protection under United States patent law against a domestic infringer. Consequently, the only real difference is one of form or procedure, not substance.²⁵³ Thus, Section 337 does not violate Article III of GATT but affords treatment for foreign products which is no less favorable than for products of "national origin."

Second, the EC Commission's cursory treatment of the necessity of Section 337 proceedings was inaccurate. The EC Commission argued that Section 337 is not necessary because other countries use the same forum to decide patent infringements by either domestic products or imports.²⁵⁴ In other words, Section 337 is not necessary in the absolute

²⁴⁸ *Lever, supra* note 5, at 1167.

²⁴⁹ *Id.*

²⁵⁰ *Id.*

²⁵¹ *Id.*

²⁵² Note, *Patented Processes, supra* note 47, at 135.

²⁵³ The EC Commission's emphasis on the form reflects the narrow European view of GATT as the definition of what trade regulation will be permitted. Ehrenhaft, *A US View of the GATT*, INT'L BUS. LAW. 146, 149 (May 1986). The EC Commission's formal analysis is based on the assumption that the difference in procedure represents a hidden regulation. The EC Commission does not examine the substantive treatment of Section 337 claims. The United States, however, views the purpose of GATT is to formulate clear rules to promote free trade. *Id.* Thus, the substance of the rule, free trade, not the form takes precedence.

²⁵⁴ *Re United States Litigation*, 30 O.J. Eur. Comm. (No. L 117) at 20, [1987] 2 Common Mkt.

sense or from the GATT community's point of view. In the United States, the patent laws only protect patents from infringements within the United States.²⁵⁵ Without Section 337, foreign pirates would be able to escape the United States patent laws. Thus, from the United States point of view, Section 337 is a necessary procedure to protect substantive patent rights. Therefore, it is an acceptable Article XX(d) exception to Article III.²⁵⁶

The EC Commission also stressed that in practice Section 337 proceedings have been instigated almost exclusively against foreign companies.²⁵⁷ However, the difficulties of obtaining *in personam* jurisdiction and of discovery against a foreign infringer make Section 337 proceedings a practical necessity.²⁵⁸ Further, if Section 337 cases are almost exclusively against foreign companies, then cases against United States companies importing products of non-United States origin must usually be brought in federal district court. This seems to indicate that district court is preferable to a Section 337 proceeding. The patent owners have a choice of forums because the practical problems of personal jurisdiction and discovery are absent. The complainant can serve the domestic office to obtain personal jurisdiction and compel discovery. Thus, the complainant's choice of federal district court seems to indicate that district court provides more protection to its patent rights (damages and injunction) than the less preferable Section 337 proceedings.

Ironically, the EC Commission's critique of the ITC's proceedings under Section 337 applies to their own proceedings under Commercial Protection Regulation 2641/84.²⁵⁹ Regulation 2641/84 requires an injury to a Community industry from an illicit commercial practice.²⁶⁰ An

L.R. at 549. The EC Commission view expresses the European approach of resolving international economic problems through consensus. The GATT rules get their authority from the norms and values of the GATT community. Thus, normative consensus is premier in the resolution of disputes. R Phan van Phi, *A European View of the GATT*, INT'L BUS. LAW. 150, 151 (May 1986). Here the normative consensus is that the national patent laws and the national courts should decide patent disputes involving both domestic products and imports. The United States use of Section 337 proceedings to protect patents from infringing imports is outside the norm. Thus, it is not necessary in the literal sense (the only way), and it is unnecessary from the point of view of the normative consensus of the GATT community.

²⁵⁵ 35 U.S.C. § 271(a) (1982)(amended 1988). See *supra* text accompanying notes 44-47.

²⁵⁶ See GATT, *supra* note 6, art. III & art. XX(d).

²⁵⁷ *Re United States Litigation*, 30 O.J. Eur. Comm. (No. L 117) at 20, [1987] 2 Common Mkt. L.R. at 548.

²⁵⁸ See *supra* text accompanying notes 48-59.

²⁵⁹ Compare the similarities between 19 U.S.C. § 1337 (1982 & Supp. III 1985) and Regulation 2641/84, 27 O.J. Eur. Comm. (No. L 252) at 1, 2 Common Mkt. Rep. (CCH) at ¶ 3845. See *supra* text accompanying notes 27-77, 94-108.

²⁶⁰ 27 O.J. Eur. Comm. (No. L 252) at 2, 2 Common Mkt. Rep. (CCH) at ¶ 3845A.

“illicit commercial practice” and “Community industry” are broadly defined.²⁶¹ Akzo is the only producer of aramid fibers in the Community, and thus, it constitutes an industry by itself.²⁶² If Akzo’s process patent was valid and if Du Pont exported aramid fibers produced by Akzo’s process to the Community, then the EC Commission could have determined that the patent infringement was an illicit trade practice and restricted the importation of those fibers. However, if Akzo could also enforce these process patent rights under the laws of the Netherlands, then, under the EC Commission’s own analysis, the EC Commission would be violating Article III of GATT and would be guilty of illicit commercial practices. Thus, not only does the EC Commission’s decision have many weaknesses, but it also undermines its own authority to make a decision in this case.

C. Post-Omnibus Trade Act Analysis

The Omnibus Trade Act does not affect the consistency of Section 337 and Article III of GATT. Foreign respondents will not be treated substantively less favorable in a Section 337 proceeding than in federal district court. From the United States point of view, the Omnibus Trade Act significantly amended Section 337 and the process patent laws, but the Omnibus Trade Act retains the process patent owners cause of action under the general patent laws and under Section 337.²⁶³ Section 337, then, will still play a role in enforcing process patent rights.

The amendments to Section 337 eliminated the injury requirement for infringement claims, defined industry more liberally, and eliminated the “efficiently and economically operated” qualifier from the industry requirement.²⁶⁴ The elimination of the efficiently and economically operating requirement was not really a change from what was already happening in practice. No domestic industry has ever been denied relief because it was not efficiently and economically operated.²⁶⁵

The other amendments to Section 337 and the process patent law amendments are significant, but they have made Section 337 proceedings more similar to district court proceedings for the protection of process patent rights against foreign infringers. Before the Omnibus Trade Act, a process patent could not be infringed unless the process was used in the

²⁶¹ *Id.*, 2 Common Mkt. Rep. (CCH) at ¶ 3854B.

²⁶² *Re United States Litigation*, 30 O.J. Eur. Comm. (No. L 117) at 18, [1987] 2 Common Mkt. L.R. at 546.

²⁶³ Omnibus Trade Act, *supra* note 4, at 1567.

²⁶⁴ *Id.* at 1212-13.

²⁶⁵ Perry, *supra* note 33, at 444.

United States.²⁶⁶ Only a Section 337 proceeding for an unfair method of competition, patent infringement, could protect the process patent rights.²⁶⁷ However, the Omnibus Trade Act has made the importation, sale, or use of products made by a patented process illegal under both the domestic patent law and Section 337. Further, relief against importers, sellers, and users is preconditioned in both these fora. In federal district court, the presumption of validity is conditioned on a showing of the substantial likelihood that the process was used to make the product and that, although unsuccessful, "the plaintiff made a reasonable effort to determine the process actually used in the production of the product."²⁶⁸ In a Section 337 proceeding, the patent is presumed valid without any preconditions, but the complainant has the burden of proving the precondition that an industry in the United States was affected by the patent infringement.²⁶⁹ Thus, the Omnibus Trade Act has made both the formal and substantive requirements in federal district court and under Section 337 more similar.

One remaining difference between federal district court and Section 337 is the availability of damages. Even though the damages are limited, a complainant in federal district court can receive damages from importers, sellers, and users.²⁷⁰ This can be balanced with the availability of an exclusion or cease and desist order in a Section 337 proceeding.²⁷¹ An exclusion order reduces policing costs, which makes up for the lack of damages. However, the Pre-Omnibus Trade Act empirical evidence seems to indicate that complainants prefer damages. As indicated by the EC Commission, Section 337 proceedings are usually against foreign companies.²⁷² If Section 337 cases are almost exclusively against foreign companies, then cases against United States companies importing products of non-United States origin must usually be brought in federal district court. This seems to indicate that when complainants have a choice between federal district court and the ITC, they seem to choose federal district court. This implies that federal district court is more favorable to complainants, or less favorable to respondents, than Section 337 proceedings, because both damages and an injunction are available. Consequently, without any conclusive empirical evidence to the contrary, it

²⁶⁶ 35 U.S.C. § 271(a) (1982)(amended 1988).

²⁶⁷ 19 U.S.C. § 1337(a) (1982)(amended 1988).

²⁶⁸ Omnibus Trade Act, *supra* note 4, at 1566.

²⁶⁹ *Id.* at 1212-13.

²⁷⁰ *Id.* at 1564-66.

²⁷¹ 19 U.S.C. § 1337(d)-(f) (1982)(amended 1988).

²⁷² *Re United States Litigation*, 30 O.J. Eur. Comm. (No. L 117) at 20, [1987] 2 Common Mkt. L.R. at 548.

appears that the differences between the district court and Section 337 proceedings are formal and not substantive. Post-Omnibus Trade Act Section 337 proceedings are not less favorable, and may be more favorable, to foreigner importers. Thus, Section 337 is consistent with Article III of GATT.

Even if the Post-Omnibus Trade Act Section 337 are inconsistent with GATT, Section 337 proceedings could still qualify as an Article XX(d) exception to Article III. The Omnibus Trade Act has made the importation of products produced by the unauthorized use of a process patented under the United States patent laws patent infringement. Further, the ability of patent owners to sue importers, sellers, and users has helped eliminate the personal jurisdiction and evidentiary problems of suing the actual foreign infringer.

Section 337, however, is still necessary to protect process patent rights for two reasons. First, the importers, sellers, or users held vicariously liable for the actual infringer in federal district court can escape the domestic patent laws because of the conditional presumption of validity. It is foreseeable that in many cases process patent owners will not be able to meet the burden of the conditional presumption of validity. Process patent owners would then have to pursue the foreign manufacturer. The use of the process in a foreign country is still not an infringement of the process patent; the process must be used within the United States for an infringement.²⁷³ As a result, the process patent owner will be in the same position as before the Omnibus Trade Act where discovery and jurisdiction problems are significant. Even if there was an infringement, these practical problems could eliminate relief. Consequently, this represents a case of practical necessity for using Section 337 to enforce process patent rights and is an Article XX(d) exception to Article III.

Second, Section 337 is also practically necessary to protect process patent rights because the cost of pursuing each importer, seller, and user in federal district court could be prohibitively high. This would particularly be the case if importers and sellers were numerous, because the discovery costs to meet the conditions of presumed validity would be significant. Thus, process patent rights would be practically unenforceable without Section 337 because of prohibitively high enforcement costs.

V. ECONOMIC IMPACT

Eliminating Section 337 proceedings would have severe economic implications both for the United States and for other GATT members.

²⁷³ 35 U.S.C. § 271(a) (1982)(amended 1988).

Not only would the incentives for investment in developing new technology decrease but also the efficiency of Section 337 adjudication would be lost.

The EC Commission argued that other countries are able to enforce patent rights only in their court systems.²⁷⁴ The Process Patent Act amended the patent laws to include the importation, use, or sale of products made by a process patent, without authorization, as a patent infringement.²⁷⁵ However, even if the process patent owner could hold importers, sellers, or users liable, he/she can only get damages from the point of notice of the infringement.²⁷⁶ The process patent owner would not be adequately compensated for the infringement. Also, the manufacturer could pay the importer's damages and find a new importer, without notice of the continued infringement, to continue importing the product made by an unauthorized use of a patented process. The limited damages are less than the full value of the lost sales from the infringed patent rights; there is a margin to be gained from infringement. Thus, the manufacturer would not be deterred by the limited damages because the cost of infringing would be less than the gain from infringing. Further, in many other cases, the complainant will not be able to meet the preconditions to the presumption of patent validity and will not even receive limited damages. Consequently, the domestic court system is not adequate to protect process patent rights even after the Omnibus Trade Act amendments.

Without adequate protection, pirates would be able to steal new technology without fear of reprisal. The court in *Akzo* emphasized the large research and development costs and the long time period to recapture these costs.²⁷⁷ If corporations cannot anticipate recouping these costs by the exclusive use of the technology developed by these expenditures, they will be discouraged from making large expenditures on research and development.²⁷⁸ The result will be a decrease in research and investment which translates into a decrease in the economic efficiencies that would have been gained from this new technology.

In addition to slowing down the development of valuable technol-

²⁷⁴ *Re United States Litigation*, 30 O.J. Eur. Comm. (No. L 117) at 20, [1987] 2 Common Mkt. L.R. at 549.

²⁷⁵ Omnibus Trade Act, *supra* note 4, at 1563-67.

²⁷⁶ *See id.* at 1564.

²⁷⁷ *Akzo*, 808 F.2d at 1487-88.

²⁷⁸ *See* A. MILLER & M. DAVIS, *INTELLECTUAL PROPERTY PATENTS, TRADEMARKS, AND COPYRIGHT IN A NUTSHELL* 14 (1983). The bargain theory of patent law assumes that if people get a reward as an incentive for developing technology, they will be encouraged to produce new inventions.

ogy, the United States would probably find other means to protect intellectual property rights. Subsidies, quotas, tariffs, and other trade restrictions could be used to protect intellectual property rights. However, these restrictions are exactly what GATT was created to eliminate.²⁷⁹ Insisting on the elimination of Section 337, because the form of the proceedings conflicts with Article III, could result in a conflict with the substantive requirements of Article III.

The elimination of Section 337 would also result in a decrease in adjudicative efficiency and the benefits from it. Section 337 investigations take only one year to eighteen months.²⁸⁰ However, the federal district courts take much longer, and the current system could become even more overloaded than it already is. Further, the slower federal district courts also increase the uncertainty of process patent rights. The longer uncertainty increases the possible injury to patent owner's market share. This decreases the patent owner's incentive to invest assets in the further development of those patent rights and in the creation of new ones. Thus, the economic costs of eliminating Section 337 proceedings could be extremely high.

VI. CONCLUSION

The United States should continue to enforce Section 337 of the United States Tariff Act to protect United States patents. As shown by the *Akzo* controversy, Section 337 treats foreign patent infringements substantively the same as domestic patent infringements are treated in federal district court. Section 337 proceedings are thus consistent with Article III of GATT.

Even if Section 337 violated Article III, under the United States patent laws both before and after the Omnibus Trade Act, Section 337 is necessary to give United States patents adequate protection. Section 337 is practically necessary to enforce patent rights because of the difficulties of *in personam* jurisdiction and discovery against foreign companies. Furthermore, under the new process patent laws, patent owners will not always be able to meet the higher standards of the presumption of patent validity and will then be in a position similar to that of the *Akzo* case. Also, the limitations on damages make the domestic patent laws inadequate to protect process patent owners against foreign infringers. Finally, the practical problem of suing each infringer under the domestic

²⁷⁹ See GATT, *supra* note 6, art. III.

²⁸⁰ 19 U.S.C. § 1337(b) (1982)(amended 1988).

patent law could also be prohibitively expensive. Thus, Section 337 proceedings qualify as an Article XX(d) exception to Article III.

Without Section 337, pirating and counterfeiting of intellectual property would have a chilling effect on new investment in technology. Section 337, however, has provided fair and efficient protection of intellectual rights both before and after the Omnibus Trade Act amendments. Section 337 adjudication increases the incentives to spend more money in developing new technology by increasing the protection of intellectual property rights. In the future, GATT may provide adequate protection for process patent rights without Section 337.²⁸¹ Until then, however, Section 337 provides effective and efficient protection of United States intellectual property rights while complying with Article III of GATT.

Mark Modak-Truran

²⁸¹ In addition to, or as an alternative to, Section 337 protection, a resolution has been proposed to include intellectual property rights in GATT. Dam, *supra* note 1, at 627. At a government ministers' meeting, international protection of intellectual property was declared a trade issue for the next GATT round. *Id.* (citing Ministerial Declaration on the Uruguay Round of Multilateral Trade Negotiations, Sept. 1986, at 7-8). Further, on July 7, 1988, the European Community has presented a detailed proposal for the protection of intellectual property to the Uruguay Round of negotiations under GATT. *EC Presents Detailed Proposal for GATT Coverage of Intellectual Property Rights*, 5 Int'l Trade Rep. 1012 (July 13, 1988). In addition to allowing individual countries to protect patents from foreign infringement, GATT may also provide a means for unifying and improving the international protection of international property rights. Dam, *supra* note 1, at 636-38.