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To CDO Or Not To CDO: Commissioners At ITC Are Split

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Law360, New York (February 24, 2017, 11:59 AM EST) --One of the powerful remedies available from the U.S. International Trade Commission is a cease-and-desist order. CDOs are in personam remedies that bar respondents who have violated 19 U.S.C. § 1337 from engaging in specified commercial activities with respect to infringing articles. Civil penalties for violating a CDO can be severe and can potentially amount to $100,000 for each day a respondent violates the CDO.[1]

Several recent decisions from the commission have revealed a split between commissioners in their interpretations of 19 U.S.C. §§ 1337 (f)(1) and (g)(1) regarding whether, and the circumstances under which, a CDO should issue. Just this month, the commission lacked unanimity in its opinions in the Electric Skin Care Devices and Table Saws investigations.[2] These divisions are notable because a CDO can be a "highly effective"[3] deterrent against ongoing infringement of IP rights, the protection of which was the reason behind Congress' 1988 amendments to Section 337.[4] These differing views also might portend a broader fault line in how the commission views its role in enforcing trade laws designed to protect intellectual property rights. Practitioners would be advised to consider the contours of the commissioners' various perspectives as to CDOs in preparing and trying cases.

The Statutory Framework

Subsection (f)(1) states, in part: "In addition to, or 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 applicable public interest factors], it finds that such order should not be issued."[5] This provision applies when a respondent has appeared in an investigation and has been adjudicated to be in violation of Section 337.

In contrast to subsection (f)(1), subsection (g)(1) applies when a respondent has not appeared in an investigation and is found to be in default. In that situation, the statute provides that if certain specified conditions are met, "the Commission shall presume the facts alleged in the complaint to be true and shall, upon request, issue an exclusion from entry or a cease and desist order, or both, limited to that person unless, after considering the effect of such exclusion or order upon [the applicable public interest factors], the Commission finds that such exclusion or order should not be issued."[6]

The Question of Discretion to Issue CDOs and How It May be Exercised

All commissioners appear to agree that subsection (f)(1) gives the commission some measure of discretion to issue a CDO when a respondent appears in an investigation and is adjudicated to have violated Section 337. The disagreement centers generally on the limits of that discretion and how it may be exercised. A four-person majority of the six-member commission has held that a CDO may issue under (f)(1) when the complainant satisfies its burden to show that, with respect to imported infringing products, a respondent maintains commercially significant inventories in the United States or has significant domestic operations that could undercut the remedy provided by an exclusion order.[7] The commission's long-standing "standard practice," however, has been not to issue CDOs against respondents who have not been shown to have a commercially significant inventory in the United States.[8]

Two commissioners, on the other hand, have espoused the view that the statute does not require analysis of "commercially significant inventories" or otherwise does not establish any particular test or standard for issuing a CDO.[9]

Specifically, Chairman Rhonda K. Schmidtlein has contended that subsection (f)(1) gives the commission "broad discretion" in deciding whether to issue a CDO, and the commission may look to other factors in considering whether or not to issue a CDO, including whether there are domestic sales activities,[10] and whether there exist any inventory, regardless of whether commercially significant, that can undercut the exclusion order and prevent complete relief to the complainant.[11]

Commissioner F. Scott Kieff has questioned the commission's "presumptions, practice, [and] burdens" with respect to issuance of CDOs. For example, Commissioner Kieff has pointed out that the commission itself has acknowledged that "the presence of a U.S. inventory is not a statutory requirement" to issue a CDO.[12] Thus, although agreeing that "a crucial component" of the analysis of whether to issue a CDO under (f)(1) is "whether the addition of this remedy would reasonably avoid material risk that other remedies — typically a [general exclusion order] or [limited exclusion order] — may be undercut," Commissioner Kieff has stated that the commission can benefit from additional input from parties and the bar about how the commission "should evaluate such risk of undercutting before declaring whether there is or is not an established practice, exactly what its contours may be, what burdens and presumptions it may implicate, and whether it is properly grounded in the statute."[13]

The divergence of views as to issuance of CDOs in default cases under subsection (g)(1) appear even more pronounced than they are under (f)(1). In the recent opinion in Electric Skin Care Devices, the commission majority held that subsection (g)(1), read in conjunction with other subsections and the legislative history, does not require issuance of a CDO against a defaulting respondent even if the complainant requests a CDO (and in the absence of any public interest concerns).[14] Rather, the commission majority held that subsection (g)(1) requires only that the commission "issue relief as to the defaulting respondent in the form of three alternative choices—an exclusion order, a [CDO], or both."[15] The commission held that it has the authority to choose which of those three alternatives would be appropriate.[16] Further, the commission majority stated, "[i]n determining whether to issue a cease and desist order in default cases, the Commission has examined similar facts to determine appropriate relief in any investigation in which a violation is found, namely whether defaulting respondents maintain commercially significant inventories in the United States or have significant domestic operations that could undercut the remedy provided by an exclusion order."[17]

Both Chairman Schmidtlein and Commissioner Kieff, in contrast, would have held that subsection (g)(1)

requires the commission to issue a CDO if requested by the complainant and if the other statutory requirements and conditions are met.[18] Both also disagreed with the majority view that requires a showing of commercially significant inventories in the United States or other significant domestic operations that could undercut the remedy provided by an exclusion order, whether inferred from the record or not.[19]

Other Open Questions

As discussed above, under current commission precedent, a complainant is generally required to show the presence of commercially significant levels of domestic inventory to obtain a CDO. However, practitioners would be advised to consider how the contours of the various viewpoints of the commissioners might impact pending or future cases with regard to pleadings, discovery sought, presentation of evidence and arguments, and petitions for commission review, as well as subsequent appeals to the Federal Circuit.

While the diversity of viewpoints appears generally limited to the questions discussed above, it is conceivable that it might foretell a broader split in how the commission views its role in enforcing trade laws designed to protect IP rights. As indicated above, the purpose of the 1988 amendments to Section 337 was to make it a more effective remedy for the protection of United States intellectual property rights. Perhaps because of this, Commissioner Kieff has expressed a concern that "the Commission Majority's approach to remedies in the Section '337 part of our docket may threaten to undercut the basic statutory regimes our laws task us to enforce."[20] Notably, Commissioner Kieff expressed his concern not only with respect to issuance of CDOs but also with respect to setting of a bond under subsection (j)(3).[21]

The commission has in the recent past addressed concerns that have been expressed with the direction of its precedent without congressional intervention and largely without court intervention. A future case might present the commission with an appropriate opportunity to resolve the differing interpretations of the ITC's enabling statute and the resultant divergent viewpoints as to implementations of that statute.

—By Benjamin Levi, McKool Smith PC

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[1] See 19 U.S.C. § 1337(f)(2). Penalties for violating a CDO are payable to the United States treasury. Id.

[2] Certain Electric Skin Care Devices, Brushes and Chargers Therefor, and Kits Containing the Same, Inv. No. 337-TA-959 ("Electric Skin Care Devices"), Comm'n Op. at 21-31 & nn.5 & 6, Separate Views of Chairman Schmidtlein and Commissioner Kieff (Feb. 13, 2017); and Certain Table Saws Incorporating Active Injury Mitigation Technology and Components Thereof, Inv. No. 337-TA-965 ("Table Saws"), Comm'n Op. at 6-7 & nn.2 & 3, Separate Views of Commissioner Kieff (Feb. 1, 2017). Other recent decisions in which the Commission split on questions regarding CDOs include Certain Dental Implants, Inv. No. 337-TA-934, Comm'n Op. at 49-51 & nn.29-33, Additional Views of Chairman Broadbent, Vice

Chairman Pinkert and Commissioners Williamson and Johanson, Additional Views of Commissioner Kieff (May 11, 2016); Certain Three-Dimensional Cinema Systems and Components Thereof, Inv. No. 337-TA-939 ("Cinema Systems"), Comm'n Op. at 61-64 & nn.33 & 34 (Aug. 23, 2016); Certain Ink Cartridges and Components Thereof, Inv. No. 337-TA-946, Comm'n Op. at 13-15 & nn.2 & 3 (June 29, 2016); and Certain Stainless Steel Products, Certain Processes for Manufacturing or Relating to Same, and Certain Products Containing Same, Inv. No. 337-TA-933 ("Stainless Steel Products"), Comm'n Op. at 40-45 & nn.26 & 27 (June 9, 2016).

[3] Certain Digital Models, Digital Data, and Treatment Plans for Use in Making Incremental Dental Positioning Adjustment Appliances, the Appliances Made Therefrom, and Methods of Making the Same, Inv. No. 337-TA-833 ("Digital Models"), Comm'n Op. at 52 (April 9, 2014) (reversed on other ground).

[4] Electric Skin Care Devices, Comm'n Op. at 28 n.10 (noting that "the purpose of the 1988 amendments to Section 337 [was] 'to make it a more effective remedy for the protection of United States intellectual property rights.'" (quoting Omnibus Trade and Competitiveness Act of 1988, Pub. L. 100-418, § 1341-(b), 102 Stat. 1212 (1988)).

[5] 19 U.S.C. § 1337 (f)(1).

[6] 19 U.S.C. § 1337 (g)(1).

[7] See, e.g., Table Saws, Comm'n Op. at 4-5; see also Dental Implants, Additional Views of Chairman Broadbent, Vice Chairman Pinkert and Commissioners Williamson and Johanson.

[8] See, e.g., Electric Skin Care Devices, Comm'n Op. at 27-28; see also Certain Integrated Repeaters, Switches, Transceivers, and Products Containing Same, Inv. No. 337-TA-435, Comm'n Op. at 27 (Aug. 16, 2002) ("The Commission issues cease and desist orders where 'commercially significant' inventories of infringing products are present in the United State[s], and complainants bear the burden of proving that respondent has such an inventory." (citation omitted)).

[9] See, e.g., Electric Skin Care Devices, Separate Views of Chairman Schmidtlein at 1 (subsection (f)(1) "leaves it to the discretion of the Commission and does not establish any particular test or standard for issuing a [CDO] against a party in violation aside from consideration of the public interest factors."); Table Saws, Separate Views of Commissioner Kieff at 1-2 ("As Chairman Schmidtlein points out in her separate footnote in this case regarding the [CDO], and as she and I have been pointing out in most of the cases involving CDOs over the past year or so, our statutory framework's specific wording and legislative history make clear that access to the CDO remedy should generally be significantly more favored than suggested by the approach taken by the Commission Majority in these cases." (footnotes omitted)).

[10] See Stainless Steel Products, Comm'n Op. at 43-44 n.26.

[11] See Cinema Systems, Comm'n Op. at 63-64 n.33 (noting that "even the presence of one infringing product in domestic inventory can undercut the exclusion order and prevent complete relief to the complainant"); see also Table Saws, Comm'n Op. at 6-7 n.2.

[12] See Dental Implants, Additional Views of Commissioner Kieff at 1-2 & n.37 (quoting Digital Models, Comm'n Op. at 147).

[13] Electric Skin Care Devices, Separate Views of Commissioner Kieff at 3-4; see also Dental Implants, Additional Views of Commissioner Kieff.

[14] See Electric Skin Care Devices, Comm'n Op. at 24-25.

[15] Id. at 24.

[16] See Id. at 24-25.

[17] Id. at 28. It should further be noted that the Commission has "consistently inferred the presence of commercially significant inventories in the United States based on the facts of record" as to defaulting respondents located in the United States, while the Commission "has declined to automatically presume the presence of domestic inventories in the United States" as to defaulting respondents located outside the United States. Id. at 28-29.

[18] See Electric Skin Care Devices, Separate Views of Chairman Schmidtlein at 1-5, and Separate Views of Commissioner Kieff at 7-12.

[19] See Electric Skin Care Devices, Separate Views of Chairman Schmidtlein at 5, and Separate Views of Commissioner Kieff at 7-8.

[20] Table Saws, Separate Views of Commissioner Kieff at 1.

[21] Id., Separate Views of Commissioner Kieff at 3.
