Moving Forward in the Face of an ITC Exclusion Order

*Contributed by **Ken Parker** and **Daniel Lammie**, Haynes and Boone*

June 2023

Print

An investigation before the US International Trade Commission (ITC) is complete, and the ITC issued an exclusion order preventing the respondent from importing infringing goods into the US. A party might wonder: Now what?

Indeed, any exclusion order carries with it the immense power of bringing the importation and sales of a good to a screeching halt. A respondent might wonder whether it can import redesigned or newly designed goods potentially subject to the exclusion order, and a complainant might believe that the worst is behind them.

There are a variety of options available to parties after an exclusion order issues, and any exclusion order is unlikely to be the final word on the matter. This article provides a brief introduction to exclusion orders and details those options available to parties after the ITC issues an exclusion order.

The ITC's Injunctive Power

Despite being unable to issue monetary damages, the ITC has significant discretion in the precise remedy to issue at the conclusion of a Section 337 investigation. That is, the ITC has the power to enter and issue injunctive remedies, including exclusion orders among other things. Of those remedies, the ITC often elects to issue an exclusion order at the end of a Section 337 investigation where it finds infringement.

There are two different types of exclusion orders: (1) a limited exclusion order, and (2) a general exclusion order.

Typically, the ITC will issue a limited exclusion order where it finds that one or more imported goods accused in a Section 337 investigation infringe the intellectual property rights of a party or otherwise unfairly compete. In effect, a limited exclusion order will prevent the entry of an infringing good originating from the named respondents into the US.

In contrast, a general exclusion order is a far broader remedy and requires meeting a higher standard. A general exclusion order will lead Customs and Border Protection (CBP) to exclude from entry to the US all goods that are covered by the intellectual property at issue, without regard to source. But this order will only be entered when the ITC believes it necessary to prevent parties from avoiding enforcement of a limited exclusion order or there is a larger pattern of Section 337 violations but the source's identity is hard to determine.

An exclusion order will generally extend to redesigns or “design-arounds” of an infringing good. Once an exclusion order is entered, the burden of establishing noninfringement of the redesigned or newly designed goods rests with the importers of potentially infringing goods. For example, in *Certain Fitness Devices, Streaming Components Thereof, and Systems Containing the Same*, USITC Inv. 337-TA-1265, the ITC declined to circumscribe the scope of a limited exclusion order to particular models of goods, electing to follow regular ITC practice by extending the scope of its order to cover goods from the named respondents that were not adjudicated as noninfringing in the initial Section 337 investigation.

However, an exclusion order will generally not permit CBP to seize goods—rather CBP will simply deny entry of those goods. A seizure and forfeiture order can only be issued where (i) the importer previously attempted to import a good subject to the order, (ii) CBP denied entry, and (iii) the Secretary of the Treasury provided the importer with written notice of the exclusion order and that seizure and forfeiture would result from any further attempt to import the good. 19 C.F.R. § 12.39(c)(1)(i)–(iii); 19 C.F.R. § 210.75(a)(6)(i)–(iii).

Rather, should a party violate an exclusion order, that order can be enforced by a complainant or the ITC. As discussed below, a complainant can pursue enforcement proceedings before the ITC to seek additional remedial orders or civil penalties, if applicable. In addition, if a respondent continues to import infringing goods in the face of an exclusion order, a complainant can also file suit in US district court to recover for infringement and enjoin the importation of infringing goods. The ITC may also initiate proceedings in US district court to enforce its remedial orders through a mandatory injunction or civil penalties, if applicable.

Preparing for Potential Entry of an Exclusion Order

Although the focus of this article is primarily on options available after the 60-day Presidential review period has expired, there are important issues to address after the Administrative Law Judge's (ALJ) initial determination and recommendation of an exclusion order and before that order goes into effect.

Exhibit 1108
Eunsung v. Hydrafacial
IPR2024-01491

CBP Communications After ALJ's Initial Determination But Prior to Commission Decision & Presidential Review. Before the ITC issues its final determination in the initial Section 337 investigation, CBP will typically meet individually with the complainant and the respondent to discuss the implementation of any prospective ITC order. At this meeting, CBP will discuss its post-exclusion order procedures, including certification and Rule 177 proceedings outlined below, and both parties will be allowed to offer input and present on issues relevant to any prospective exclusion order.

Preparation of Design-Arounds. Design-arounds should be actively discussed well prior to the ALJ issuance of an initial determination. Whether to raise a design-around during the initial Section 337 investigation is a complex tactical issue that is not the subject of this article, but whether the design-around is raised in the investigation or not, a respondent should actively discuss and consider design-arounds with an eye on CBP and subsequent ITC procedures that are available.

Presidential Review. From the time the ITC ultimately issues a remedial order, the President has 60 days to approve or disapprove of that order. During this period, non-party industry and legislative and executive branch officials can actively lobby the White House. Nonetheless, these lobbying efforts are rarely successful, with the most recent example taking place in 2013 when President Barrack Obama vetoed the ITC's orders barring the sales and imports of certain iPhones and iPads. Notably, during this review period, a respondent can continue to import and sell the infringing goods by posting a bond with the ITC as well as with CBP.

Options Available After Entry of an Exclusion Order

After an exclusion order comes into effect, parties have various options available before CBP as well as the ITC.

Options Before Customs

Before CBP, a respondent can (1) certify that goods are not subject to the exclusion order, (2) pursue a Rule 177 ruling, or (3) import a redesigned good "at-risk" and file a protest challenging exclusion of the good. Notably, these options are generally only open to respondents. However, as in the case of Rule 177 proceedings discussed below, some proceedings will involve participation of complainants.

Certification. If a respondent has a viable redesign, it can be very advantageous to adjudicate redesigns before the ITC during the initial Section 337 investigation. This can open the "certification" avenue, permitting a party to import goods so long as it certifies that the goods are not subject to the exclusion order.

Importantly, this "certification" provision can only be used to import goods already adjudicated as noninfringing. The lack of availability of certification absent prior adjudication by the ITC is an issue that trips up practitioners unfamiliar with ITC post-exclusion-order proceedings. Thus, even if strong defenses exist, it can be in a respondent's best interest to adjudicate redesigns before the ITC *during* the initial Section 337 investigation.

Rule 177 Proceeding. For those goods not adjudicated by the ITC, a respondent may seek an administrative ruling from CBP under 19 C.F.R. § 177 that these goods are beyond the scope of an ITC exclusion order and thus not subject to the order.

A Rule 177 proceeding is a speedy procedure that typically sees both the original complainant and respondent engage in briefing and discussion before CBP. These will typically be resolved quickly, with a brief survey of decisions from the past year revealing timeframes ranging between 7–26 weeks.

During a Rule 177 proceeding, the burden rests with the respondent—the party seeking to import goods—to prove noninfringement by a preponderance of the evidence, and CBP can make a substantive decision as to whether the good in question infringes.

If the Rule 177 ruling is favorable, the respondent can then begin to import the good into the US.

If a Rule 177 ruling is unfavorable, the ruling may be reviewed by the Court of International Trade (CIT). However, such review is only available where a party can show that it would be "irreparably harmed unless given an opportunity to obtain judicial review prior to . . . importation." 28 U.S.C. § 1581(h). Harm from price erosion, loss of goodwill, or loss of business opportunities may constitute such irreparable harm. Notably, for complainants wishing to challenge the outcome of a Rule 177 proceeding before CIT, the question of jurisdiction in such cases is unclear.

A Rule 177 ruling can be a powerful tool for a respondent—offering expedited procedures and relief from an exclusion order's impact on redesigned goods that were not ruled upon in the original ITC investigation. Thus, a respondent should consider pursuing a Rule 177 ruling to minimize the impact of an exclusion order. However, while a Rule 177 ruling represents the official position of CBP with respect to the narrow facts and goods addressed moving forward, such a ruling has no binding authority on the ITC.

Import "At-Risk" & Protest CBP Action. Alternatively, a respondent can choose to import the redesigned good "at-risk." In that event, should CBP prevent the importation of the good, the respondent can file a protest with CBP under 19 C.F.R. § 174.

This protest must be filed within 180 days of the decision to exclude the given goods and must be done using CBP Form 19. Once a protest is filed, the protest will be ruled upon within 30 days.

Should CBP deny the protest, the respondent may seek review by CIT—given that jurisdiction lies under 28 U.S.C. § 1581(a) and the appeal is filed in accordance with 28 U.S.C. § 2636. In turn, the respondent may appeal any CIT decision to the Federal Circuit.

Should CBP allow entry of the goods, complainants wishing to challenge this ruling will also be faced with difficult jurisdictional questions in seeking CIT review, much like complainants wishing to challenge an unfavorable Rule 177 ruling.

While importing "at-risk" may offer an expedited process, a protest under 19 C.F.R. § 174 is not necessarily binding on CBP with respect to prospective imports unlike a Rule 177 ruling. In addition, this avenue requires that the goods be imported and subsequently denied entry to initiate a protest. As such, importing "at-risk" can set the stage for a seizure and forfeiture order, enforcement proceedings, or other penalties. Thus, respondents should exercise caution in importing "at-risk" as this avenue involves far more risk than pursuing a Rule 177 ruling.

Options Before the ITC

Before the ITC, any party can petition the ITC for (1) an advisory opinion or (2) a modification of an exclusion order. Additionally, a complainant may wish to initiate (3) an enforcement proceeding.

Advisory Opinion. Any party may seek an advisory opinion from the ITC on whether a particular course of action or conduct would violate an exclusion order. For example, a respondent may seek an advisory opinion stating that its planned course of action would not violate an exclusion order. A non-party to the initial Section 337 investigation impacted by an exclusion order may also seek an advisory opinion.

In deciding whether to issue an advisory opinion, the ITC will consider whether an opinion would be in the interest of enforcing Section 337, be in the public interest, or benefit consumers and competition within the US. In general, a party requesting an advisory opinion must (1) demonstrate a compelling business need for the advice sought, and that (2) the course of action be more than hypothetical.

In recent years, the ITC began a pilot program to expedite advisory opinion and modification proceedings before the ITC. Nonetheless, these proceedings may take longer than a Rule 177 proceeding, require more briefing, and are more costly. During FY 2022, advisory opinion proceedings were resolved on average in less than 4 months. For those proceedings placed in ITC's pilot program before the Office of General Counsel, it took 3.2 months on average from start to finish. Similarly, those proceedings placed before an ALJ under the pilot program took only a little longer during FY 2022, taking an average of 3.9 months.

Advisory opinions can be powerful tools—CBP will generally follow these opinions in enforcing ITC exclusion orders. A favorable advisory opinion will generally permit a respondent to import a redesigned good. Moreover, advisory opinions can be sought at the same time a party is pursuing other options before CBP.

Importantly, if a party succeeds in seeking an advisory opinion, the losing party will be unable to appeal the decision since such an opinion is neither a final determination nor legally binding and thus is not appealable to the Federal Circuit. Thus, parties may want to pursue this avenue with caution.

Modification. In addition, any party may seek a modification of an existing remedial order before the ITC. Under 19 C.F.R. § 210.76, a party may initiate a modification proceeding to assess whether a redesigned good is covered by the existing exclusion order or whether the ITC should carve out an exception for the redesigned good.

A modification may be sought by complainants as well as respondents. A complainant may seek to expand the scope of an exclusion order and clarify that a particular redesign is subject to that order. In contrast, a respondent may seek to add a carve-out clarifying that a redesigned good is not covered by an existing exclusion order.

As mentioned above, the ITC began a pilot program in recent years to expedite modification proceedings before the ITC. However, modification proceedings typically take longer than advisory proceedings. For example, while there's no data available for FY 2022, modification proceedings before an ALJ under the ITC's pilot program took an average of 10.4 months in FY 2021. However, since FY 2018, those modification proceedings outside of the pilot program were resolved far more quickly. Of course, this difference likely reflects the complexity of each individual investigation. Nonetheless, modification proceedings will on average be resolved in under 12 months.

Unlike a Rule 177 ruling, a modification is appealable directly to the Federal Circuit. Moreover, a respondent may pursue a modification of an exclusion order in tandem to pursuing a Rule 177 proceeding or a protest before CBP.

Enforcement Proceedings. If a complainant believes that a respondent is violating the ITC's exclusion order, a complainant can enforce that order through formal enforcement proceedings before the ITC. An enforcement proceeding is much like a usual Section 337 investigation. Through this proceeding a complainant may secure additional remedial orders, or request that the ITC impose a civil penalty, if a party is in violation of a cease and desist order or consent order in addition to an exclusion order.

Lasting longer than both advisory and modifications proceedings, enforcement proceedings take on average longer than 12 months. Since FY 2018, the average time to resolution for these proceedings has been over 12 months, with an average time from start to finish in FY 2022 of 12.76 months. Nonetheless, this figure represents a marked improvement from FY 2018, where the average length of an enforcement proceeding was 17 months.

Enforcement proceedings can be useful tools for complainants when a respondent fails to comply with an exclusion order. However, complainants should be aware that in enforcement proceedings, respondents will generally be able to raise all relevant defenses, including patent invalidity.

It's also worth mentioning that the ITC, itself, may “obtain judicial enforcement of an exclusion order, a cease and desist order, a consent order, or a sanctions order” through initiating “a civil action in the U.S. district court.” 19 C.F.R. § 210.75(b). In this action, the ITC can seek a mandatory injunction or recovery of civil penalties, if applicable, to enforce its remedial orders. Similarly, if a respondent continues to import infringing goods in the face of an exclusion order, a complainant can also file suit in US district court to recover for infringement and enjoin the importation of infringing goods.

Conclusion

In sum, the issuance of an exclusion order can have a dramatic impact. An issuance of an exclusion order can be a crushing victory for complainants or a stinging loss for respondents. However, the initial Section 337 investigation is just one—albeit very important—battle, not the entire war.

A variety of avenues are available to both complainants and respondents after the ITC issues an exclusion order, and parties should be aware of these options during the initial Section 337 investigation. For example, a respondent may want to have the ITC adjudicate a redesign during the initial Section 337 investigation to allow for certification. In contrast, a complainant should keep these available avenues in mind when assessing settlement options as an exclusion order is unlikely to be the final word on the matter.

And for both parties, it's important to keep in mind that post-remedy proceedings before both CBP and the ITC move rather quickly in comparison to proceedings in more traditional litigation fora, much like the fast pace of the initial Section 337 investigation.