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The ITC's Evolving Approach To Cease And Desist Orders

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Law360, New York (May 8, 2017, 5:10 PM EDT) -- Over the past few years, commissioners at the International Trade Commission have shown interest in grappling with questions of the breadth and nature of the ITC's power to issue cease and desist orders as a remedy for violations of Section 337. In the words of one commissioner, there is a "recurring and perhaps increasing diversity of opinion within the Commission concerning the Commission's authority to issue CDOs under Section 337."[1] Section 337 empowers the ITC to issue both exclusion orders and CDOs as remedies for violations of its statute.[2] Unlike an exclusion order that is automatically enforced against imported products by U.S. Customs and Border Protection, a CDO is directed at the party found violating Section 337, is enforced by the commission at the request of the complainant, and carries with it civil penalties of up to $100,000 per day of violation. In 2012, the Federal Circuit upheld a civil penalty of $11 million issued by the commission for 187 days of violation of a cease and desist order.[3] These penalties can be a powerful deterrent.

Subsection (f)(1) grants to the ITC the power to issue CDOs "in addition to, or in lieu of," exclusion orders, subject to certain public interest factors. Subsection (g) provides that, when a respondent has defaulted in a Section 337 investigation, 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 [respondent]," again subject to certain public interest factors. Neither subsection sets forth a test or factors that would show when a CDO should issue, but the commission has historically issued a CDO upon a showing of "commercially significant inventory" or significant commercial business operations within the United States. The "commercially significant inventory" test was developed in the early 1990s as a shortcut to determine when an exclusion order could be undercut by stockpiling inventory.[4] Even at its inception, this framework was controversial among the commissioners.[5]

After more than 25 years of applying the "commercially significant inventory" framework habitually, recent investigations have shown that the current commissioners have differing views when it comes to CDOs. In Certain Dental Implants, Inv. No. 337-TA-934, the commission declined to issue a CDO on a split 3-3 vote where the complainant had shown that respondents had commercially significant inventory, but the respondents claimed that inventory would reduce by the target date.[6] While Commissioners

Dean Pinkert, Irving Williamson and David Johanson found that the record showed a continuing reduction of inventory that would fall below a commercially significant amount by the target date,[7] Commissioners Meredith Broadbent, Rhonda Schmidtlein and F. Scott Kieff would have nonetheless issued a CDO.[8] Commissioners Schmidtlein and Kieff took this opportunity to question whether Section 337 requires a showing of commercially significant inventory before a CDO may issue. Commissioner Schmidtlein "fail[ed] to see the value gained by requiring parties and the Commission to expend time and resources addressing the extent of domestic inventory levels or operations as a predicate to issuing cease and desist orders," and she went on to note that she would have issued the requested CDO upon a showing that the Respondents "maintained some inventory of accused product during the investigation."[9] Commissioner Kieff expressed an interest in further briefing and debate on the standard for when the commission should issue CDOs, and also expressed his viewpoint that in light of the expense of litigating questions of inventory levels he considers the potential harms of a CDO to be relatively minor, especially when issued against a proven violator of Section 337.[10] These two commissioners continued to question the "commercially significant inventory" framework throughout the summer of 2016 in Certain Three-Dimensional Cinema Systems and Components Thereof, Inv. No. 337-TA-939; and Certain Stainless Steel Products, Certain Processes for Manufacturing or Relating to Same, and Certain Products Containing Same, Inv. No. 337-TA-933.[11] Although both of these cases resulted in the issuance of CDOs based on a finding of commercially significant inventory, Commissioners Kieff and Schmidtlein wrote separately to reiterate their views on the issue.

The commission has also recently addressed the issue whether it retains discretion over issuing CDOs against defaulting respondents under Section 337(g). In Electric Skin Care Devices, the ITC issued CDOs against defaulting respondents on the grounds of (1) an inference that defaulting domestic respondents maintain a commercially significant inventory since they are located in the United States, and (2) an inference that defaulting foreign respondents maintain a commercially significant inventory in the United States "through their use of online retailers as well as U.S. business operations through U.S. based retailers and distributors."[12] Commissioners Schmidtlein and Kieff both provided additional views, agreeing with the issuance of a CDO but separately arguing that subsection (g) does not grant the ITC any discretion in this matter: if the requirements of subsection (g)(1)(A)-(E) are met, and the complainant has requested a CDO, Commissioners Schmidtlein and Kieff believe that the commission is required to issue such relief.[13]

The most recent data point in this ongoing debate was the May 1, 2017, decision in Certain Arrowheads With Deploying Blades and Components Thereof & Packaging Therefor, Inv. No. 337-TA-977, where the commission majority declined to issue a CDO against all but one of the eight defaulting foreign respondents involved in importation and sale for importation of counterfeit arrowheads on the internet.[14] Despite conceding that it could not establish commercially significant inventory because of a lack of discovery, the complainant argued that a CDO was necessary to augment an exclusion order and asked the commission not to require proof of inventory. For the one foreign respondent where the commission did issue a CDO, the commission "presumed significant operations and inventories" based on the fact that "one shipment of infringing imported articles was shipped domestically from Las Vegas."[15] The commission majority held that the statutory language "shall, upon request, issue an exclusion from entry or a cease and desist order, or both" mandates that the ITC grant some form of relief, but grants the commission discretion to pick one of three options: (1) an exclusion order, (2) a CDO, or (3) both.[16] Commissioners Schmidtlein and Kieff disagreed, separately arguing that the statutory language "shall, upon request" mandates that the ITC grant whatever relief the complainant requested.[17] In their view, the discretion would instead lie with the complainant to select whether it is requesting (1) an exclusion order, (2) a CDO, or (3) both.

With the recent departure of Commissioner Pinkert, the expiry of Commissioner Williamson's term, and the near-expiry of Commissioner Broadbent's term, the ITC's approach to CDOs may soon change, depending on new appointments, as that could leave two commissioners — Kieff and Schmidtlein — in favor of expanding the ITC's precedent for issuing CDOs and only a sole commissioner — Johanson — on the other side of this debate. Although it is not clear how the debate will play out in the near term, there are several observations about the commission's recent decisions worth noting.

First, over the last few years, the commission has broadened its inquiry to include not only whether there is commercially significant inventory, but also to determine whether there are "significant domestic operations" and whether a CDO "is necessary to address the violation found in the investigation so as not to undercut the relief provided by the exclusion order."[18] This may be an acknowledgement that the commercially significant inventory test is a self-imposed limitation on the discretion Congress left to the ITC to determine the proper remedy.

Second, while the current majority of commissioners continue to view a showing of commercially significant inventory or significant domestic operations as a necessary prerequisite to the issuance of a CDO, the commission appears willing to infer or presume significant domestic inventory or operations with a showing of any activity in the United States by a defaulting respondent, as it did in the Arrowheads case.[19]

Third, although the commission has often enjoyed deference and discretion in appellate review of its remedy determinations, it is only a matter of time before the "commercially significant inventory" test is presented to the Federal Circuit for scrutiny. The commission may be repositioning itself for such judicial review by inching away from what has been a bright-line rule anchored in the legislative history of Section 337 but not in the language of the statute itself.[20]

Trade and commerce has changed significantly since the commission began asking the question whether there is commercially significant inventory of the accused products in the United States. The rise of e-commerce and more efficient international shipping methods have allowed smaller foreign entities easier access to U.S. consumers and markets while simultaneously reducing the need for a substantial domestic inventory to satisfy sales. The views of Commissioners Schmidtlein and Kieff suggest the ITC may think more broadly about additional scenarios in which a CDO is necessary to augment an exclusion order. As some recent complainants have argued, low volume imports can be just as damaging to a complainant: prototypes or samples can be imported for a demonstration that will lead to a large purchase order or "design win," and entities that operate in markets where each sale is highly prized can be significantly impacted by the loss of a single sale.[21]

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DISCLOSURE: Daniel Valencia was counsel to complainant FeraDyne in the Arrowheads case.

[1] Certain Electric Skin Care Devices, Brushes & Chargers Therefor, and Kits Containing the Same, Inv. No. 337-TA-959, Comm'n Op., Separate Views of Commissioner F. Scott Keiff as to Remedy for

Respondents in Default at 1 (Feb. 13, 2017) (“Electric Skin Care Devices”).

[2] 19 U.S.C. § 1337(d)-(g).

[3] Ninestar Tech. Co. v. Int’l Trade Comm’n, 667 F.3d 1373 (Fed. Cir. 2012).

[4] Certain Crystalline Cefadroxil Monohydrate, Inv. No. 337-TA-293, Comm’n Op., 1990 WL 10008086 at *14-15 (Mar. 21, 1990) (distinguishing “commercially significant inventory” from “inventories did not exist or were minimis,” holding there was no requirement to establish “stockpiling” of above-average inventory, and holding that an inventory of even “two weeks’ work of sales” could undercut the relief offered by a limited exclusion order).

[5] Id. at *15, n. 119.

[6] Inv. No. 337-TA-934, Comm’n Op at 49-50, n. 30.

[7] Id.

[8] Id. at 50, fn. 31.

[9] Id. at 50-51, fn. 32 (“while there may be other bases, this is a sufficient basis to issue a cease and desist order”).

[10] Id., Additional Views of Commissioner Kieff.

[11] Certain Three-Dimensional Cinema Sys. & Components Thereof, Inv. No. 337-TA-939, Comm’n Op. at 63-64, fn. 33 (Aug. 23, 2016) (“Cinema Sys.”) (citing 19 U.S.C. § 1337(i)(1)); see also Certain Stainless Steel Prods., Certain Processes For Mfg. Or Relating To Same, & Certain Prods. Containing Same, Inv. No. 337-TA-933, Comm’n Op. at 43-44, fn. 26 (June 9, 2016) (“Stainless Steel Prods.”) (same).

[12] Electric Skin Care Devices, Comm’n Op. at 31 (Feb. 13, 2017).

[13] Id., Separate Views Of Chairman Rhonda K. Schmidtlein On Cease & Desist Orders; id. Separate Views Of Commissioner F. Scott Kieff Concurring As To Remedy For Respondents In Default.

[14] Certain Arrowheads With Deploying Blades & Components Thereof & Packaging Therefor, Inv. No. 337-TA-977, Comm’n Op. (Apr. 6, 2017) (“Arrowheads”).

[15] Id. at 21.

[16] Id. at 16.

[17] Id. at 15, fn. 5 (incorporating Commissioner Kieff’s separate views for Elec. Skin Care Devices); id., Dissenting Views Of Chairman Rhonda K. Schmidtlein On Cease And Desist Orders at 2-3.

[18] Arrowheads, Comm’n Op. at 17 (Apr. 6, 2017).

[19] Id. at 21-22 (presuming “significant domestic operations and inventory” based on a single shipment from Las Vegas).

[20] S. Rep. No. 100-71, at 131 (1987).

[21] See, e.g., Certain Hardware Logic Emulation Systems & Components Thereof, Inv. No. 337-TA-383 (Temporary Relief), USITC Pub. 2991, Comm'n Op. at 6-7 (Sept. 1996) (finding that a single unit of accused products constituted a significant commercial inventory).
