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Import/Customs Regulation of Computer Technology

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United States computer and high technology concerns face a growing problem of commercial counterfeiting of their products by foreign firms. Because United States computer and high technology concerns often invest many of their resources in research and development, foreign firms that produce products in disregard of American copyright, patent, and trademark laws can undercut the price of domestic goods because of the absence of research and development costs. In the long run, such competition may force domestic concerns to decrease their research and development efforts, thereby stifling the enhancement and improvement of technology generally.

The United States Customs Service and the United States International Trade Commission have been given certain statutory powers to combat the piracy problem to meet the threat of unfair foreign competition in the high technology fields.1 This article discusses the nature of these statutory powers, the problems with the current statutory scheme, and changes that could improve the ability of the United States Government and industry to respond to the piracy problem.

I. The United States Custom Service

The United States Custom Service (Customs) is a service within the Treasury Department.2 The Commissioner of Customs, among other things, supervises the importation of goods at the various customs houses in United States ports through district directors.

The Copyright Act3 grants Customs the authority to regulate imported computer technology by giving Customs the power to seize

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1 Congress has plenary power to "regulate Commerce with foreign Nations." U.S. Const. art. 1, § 8, cl. 3. See also Sealed Air Corp. v. U.S. Int'l Trade Comm'n, 645 F.2d 976 (C.C.P.A. 1981).
articles that infringe a copyright recognized under the Act. Seized articles can be forfeited and destroyed, or if the Secretary of Treasury finds that the importer had no reasonable grounds for believing his acts were illegal, the articles can be returned to the country of export. In either case, Customs must act in accordance with regulations promulgated by the Secretary of the Treasury.

The regulations now in effect allow a copyright proprietor or any claimant of "actual or potential injury" because of "actual or contemplated" importation of copies to record a copyright. The copyright need not be registered under the Copyright Act if it is protected by the Universal Copyright Convention, to which over fifty countries are signatories. The regulations are liberally drafted and allow domestic computer concerns throughout the distribution chain the opportunity to put Customs on notice of protectable material. The Code of Federal Regulations sets out the procedure for applying for a copyright that secures Customs protection against importation of piratical copies. Application costs $190.00. If approved, notice of recordation is sent to all Customs field offices along with data regarding the source of possible infringing copies. Such data, as well as copies of the protected work, which can be used for comparison, may be provided by the proprietor.

Two types of copyright violations may be remedied by Customs. First, articles bearing a false notice of copyright may be seized. False notice is the bearing of words indicating that the articles are entitled to copyright protection in the United States, when in fact they are not so entitled. Such articles must be forfeited unless they are imported by mail, in which case they are returned to the postmaster for return to the sender as nondeliverable mail. False notice of copyrights is not a major concern to high technology firms, however, and the treasury regulations reflect their origin as prohibiting bootleg records and books.

The primary concern of domestic computer firms is what the Customs regulation refers to as "piratical copies." Actual or "sub-

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4 Id. §§ 602(b), 603(c).
5 Id. § 603(c).
6 Id. §§ 602(c), 603(a)-(b). The applicable regulations are found in 19 C.F.R. §§ 133.31-144.113 (1984).
7 19 C.F.R. § 133.31(b) (1984).
8 Id. § 133.31(a), (c).
9 Id. §§ 133.32, 133.33.
10 Id. § 133.41(b). The regulation refers to "books, periodicals, newspapers, music, moving picture films, and other articles." Id. § 133.41(a).
11 Id.
12 Id. § 133.41(b).
13 "Piratical copies" are defined as "actual copies, or substantial copies of a recorded copyrighted work, produced and imported in contravention of the rights of the copyright owner." Id. § 133.42(a).
substantial" copies of recorded works may be seized by Customs. All
district directors of Customs have the power to seize "piratical cop-
ies" if they determine a piratical copy exists or if they have "any rea-
son" to believe that piracy "may exist." Thus, district directors
have substantial discretion to seize goods upon any suspicion of
piracy. Once copies have been seized, the importer has due process
rights only if the district director is unable or unwilling to determine
that the goods are piratical.

In cases of suspicion the district director must inform the im-
porter of any goods that the district director has seized and of the
importer's rights to file a statement within thirty days denying piracy
and asserting that detention will result in loss. If the importer does
not deny piracy, the articles are forfeited. If the importer denies
piracy, the copyright owner, not merely a claimant of injury from
importation, must review a sample of the articles within thirty days of
the importer's denial, demand exclusion from entry, and post a bond
specified by the district director to prevent the articles from being
released. If the issue of piracy is contested, both parties have not
more than thirty days to submit further evidence, legal briefs, or
other pertinent material. The district director then forwards the
entire file, including a sample of the imported articles and his opin-
ion, to the Commissioner of Customs or the Commissioner's desig-
nee for a final decision. The copyright owner bears the burden of
proof by a preponderance of the evidence in such cases.

A decision results in either forfeiture of the goods and return of
the bond, or release of the goods and transmission of the copyright
owner's bond to the importer. Forfeiture will not result in destruc-
tion of the goods if the Secretary of the Treasury finds the importer
did not believe his acts were illegal.

Customs also can recall goods that initially entered the country
under the mistaken belief that piracy did not exist. If the articles
are not redelivered to Customs upon demand, liquidated damages
may be assessed against the importer, and, in certain circumstances,
against the actual owner. Such damages, which do not inure to the

14 Id.
15 Id. §§ 133.42(c), 133.43(a).
16 Id.
17 Id. § 133.43(a).
18 Id. § 133.43(c).
19 Id. § 133.43(b)(1)-(2).
20 Id. § 133.43(c)(1).
21 Id.
22 Id.
23 Id. § 133.44.
26 Id. § 141.113(d), (g).
copyright owner, often may be the only action Customs can take once the goods have entered the stream of commerce.

Although the statutes and regulations usually provide Customs with a swift and effective method of combating piracy, the discretion that district directors have can result in ineffectiveness and unfairness. The regulations provide no time guidelines within which the district directors must give notice of detention or submit cases to the Secretary of the Treasury. In addition, procedures for ultimate decisionmaking are not clearly defined and pose serious risks of deprivation of due process. While the Court of International Trade has some power to supervise the conduct of Customs officials, the current regulations are written very broadly.

In one instance involving one of the authors, the importer was able to make a lengthy ex parte presentation to “technical staff” at Customs headquarters in Washington, D.C. Presumably, the copyright owner made a comparable presentation, but this was never confirmed. In high-technology areas, the technical staff may become the de facto, if not the de jure, ultimate decisionmaker.

Even if there is a uniform and effective network for halting piracy, Customs officials may have little power if they cannot seize articles that constitute contributory infringement. At one time entire computer systems were imported, and copyright infringement could be determined simply by turning on the machine. Subsequently, parts of the system that contained copyrighted works were imported, which forced Customs to test the parts with the entire system. Today, however, parts of computer technology are imported that contain no copyrightable material, such as ROMs or software, but can be used with copyrightable material. If Customs cannot seize these arguably contributorily infringing articles, the domestic computer industry could find it difficult to compete in the marketplace.

In a decision issued in March 1984 after two years of proceedings, Customs concluded that articles that contributorily infringed certain Apple Computer software could not be detained under the


28 It is debatable whether such a procedure is analytically or legally sound. It was in fact a standard procedure, however, especially at the district court level.

29 For example, a microcomputer can be imported lacking the ROM chips needed to make it functional. Users then must obtain suitable ROMs independently. Certain importers are more able to guide purchasers to “independent” sources for the ROMs with minimal inconvenience, suggesting that there is less “independence” than might first appear.
current statute and regulations.\textsuperscript{30} This decision is a setback to the domestic computer industry, and it now may be desirable to amend the statute or regulations to allow seizure of articles that have no significant noninfringing use.\textsuperscript{31}

II. United States International Trade Commission

The computer industry also has a more cumbersome organization that can aid its efforts to stop the importation of copyright infringing articles. The United States International Trade Commission (Commission), composed of six Commissioners appointed for nine-year terms by the President,\textsuperscript{32} may order the exclusion of infringing articles from import.

Unlike in the Customs procedures, many parties can become involved in an administrative investigation by the Commission. The Commission, which has an extensive staff, may investigate an alleged violation either on its own initiative or as a result of allegations presented to it under oath.\textsuperscript{33} It must consult the Department of Health and Human Services, the Justice Department, and the Federal Trade Commission; it also may consult other governmental bodies as it considers appropriate.\textsuperscript{34} The importer and other interested parties have the right to participate pursuant to the rules of the Administrative Procedure Act.\textsuperscript{35} Notice is given in the Federal Register at the outset of an investigation, and the investigation must be completed within one year after the date of notice or within eighteen months in more complicated cases.\textsuperscript{36}

The Commission may make an exclusion order only if it finds that the importation constitutes unfair methods of competition or unfair acts and that the importation has the tendency or effect of harming United States industry.\textsuperscript{37} To constitute United States industry, domestic production must add significantly to the value of the goods in question. Thus, the Court of Appeals for the Federal

\textsuperscript{30} This decision is discussed in Blatt, The "ROMless" Dilemma: U.S. Customs Enforcement of Contributory Copyright Violations, I COMPUTER LAW. 22 (1984).

\textsuperscript{31} A principal factor influencing this decision was the practical difficulty of determining when contributory infringement occurs. Customs avoided this problem by deciding that it lacks the power to make such determination. As will be seen, the ITC has decided that it has that power and can issue exclusion orders directed to Customs. Thus, ironically, Customs has closed the front door, only to have the problem re-emerge through the back door.


\textsuperscript{33} Id. § 1337(b)(1).

\textsuperscript{34} Id. § 1337(b)(2).

\textsuperscript{35} Id. § 1337(c).

\textsuperscript{36} Id. § 1337(b)(1).

\textsuperscript{37} Id. § 1337(a), (d). The statute defines the harm as "to destroy or substantially injure an industry, efficiently and economically operated, in the United States, or to prevent the establishment of such an industry or to restrain or monopolize trade and commerce in the United States . . . ." Id. § 1337(a).
Circuit has held that when toys are designed in the United States, but manufactured in a foreign country, the Commission has no jurisdiction to find patent infringement if most of the packaging and quality control is performed outside the United States. The importation of copyright infringing material that sells at a lower price, however, causes sufficient injury to meet the effects test if even a small loss of sales to the domestic industry results.

Even if an adverse factual finding regarding unfair competition is made, the articles may be imported if importation would be beneficial to public health and welfare, to competitive conditions in the domestic economy, to the production of like or directly competitive articles in the United States, or to United States consumers. The goods also may be imported under bond during an investigation if allowed by the Commission and prescribed by the Secretary of the Treasury.

Commission determinations may be vetoed by the President for policy reasons within sixty days. A bond determined by the Commission and prescribed by the Secretary of the Treasury may be posted to allow entry within the sixty day-period. If the President vetoes only certain parts of an order in a blanket order, the Commission may renew those parts of the determination not affected by the veto. The Commission's determination and bond term decisions may be appealed to the Court of Appeals for the Federal Circuit under the Administrative Procedure Act. Factual findings will be upheld under the Act if they are supported by substantial evidence. The availability of appeal precludes the issuance of mandamus.

In addition to exclusion orders, the Commission may issue cease and desist orders to persons engaging in unfair acts or methods. Violation of such orders may result in civil fines of up to $10,000 per day or the value of the articles imported or sold on a given day. Moreover, an exclusion order may be modified if conditions change, such as if the infringed patent is found to be invalid. Finally, in some cases the Commission has exercised an implied power to enter

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38 Schaper, 717 F.2d at 1272.
39 Bally/Midway, 714 F.2d at 1124.
41 Id. § 1337(e).
42 Id. § 1337(g).
43 Id.
49 Id. § 1337(f)(2).
50 SSIH Equipment, 718 F.2d at 370.
A domestic firm may encounter several problems in using the processes of the Commission to exclude articles. First, there is uncertainty as to whether articles will be excluded, because both the Commission and the President make decisions based on shifting notions of public policy. Second, the administrative process can be expensive and time consuming, which many start-up companies find difficult to bear. Finally, there is the question of contributory infringement. In March 1984 the Commission determined that contributory infringement theory could be used to exclude articles if it has not found any other commercially significant noninfringing use. Despite the Commission provides better relief than Customs in this instance, the relief is not as prompt.

In sum, domestic computer firms facing the problem of importation of piratical copies of computer technology have several avenues by which to protect their own technology. First, the United States Customs Service, a branch of the Treasury Department, may, in accordance with the Copyright Act, grant protection through seizure of infringing articles and through recordation of copyrights. Second, the United States International Trade Commission may order the exclusion of infringing articles from import if it finds that the importation is an unfair method of competition that has a harmful effect on United States industry. Furthermore, the Commission may issue cease and desist orders to persons committing unfair acts or methods. Although these two avenues are helpful in combatting the piracy problem, the United States Government and the computer industry will be compelled to direct more energy toward the elimination of the increase in importation of piratical articles.

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