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# Res Judicata Effects of Patent and Nonpatent Determinations under Section 337 of the Tariff Act of 1930

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# COMMENT

## Res Judicata Effects of Patent and Nonpatent Determinations Under Section 337 of the Tariff Act of 1930

The doctrine of res judicata prevents a party from relitigating identical issues or claims in a second court action after a decision has been rendered on the matter by another court.[1] Article III courts have traditionally only applied res judicata to decisions rendered by other Article III courts.[2] Increasingly, these courts have been willing to extend res judicata effect to decisions made by administrative agencies, so long as certain safeguards are met.[3]

Recently, the courts have considered whether or not to give preclusive effect to an International Trade Commission (ITC) determination when a party pleads it in bar to a claim in federal court. The courts have ruled that determinations by the ITC under section 337 of the Tariff Act of 1930[4] concerning patent claims are not to be given preclusive effect in federal court[5] while decisions involving nonpatent issues are to be given preclusive effect.[6] This Comment will review these determinations and discuss whether there is an adequate basis for the dichotomy created by the courts.

### I. Background

#### *A. Res Judicata*

Res judicata serves several useful purposes. First, it protects litigants from relitigating the same issue with the same party in a separate court proceeding.[7] This avoids unnecessary cost to the victorious party and also serves to foster judicial economy.[8] A second purpose served by res judicata is to prevent inconsistent deci-

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[1] 18 C. WRIGHT, A. MILLER & E. COOPER, FEDERAL PRACTICE AND PRODEDURE [hereinafter C. WRIGHT] § 4403 (1981).

[2] *Id.* § 4475.

[3] *Id.*

[4] 19 U.S.C. § 1337 (1988).

[5] *In re* Convertible Rowing Exerciser Patent Litigation, 721 F. Supp. 596 (D. Del. 1989).

[6] Baltimore Luggage Co. v. Samsonite Corp., 727 F. Supp. 202 (D. Md. 1989).

[7] *See* C. WRIGHT, *supra* note 1, § 4403.

[8] *Id.*

sions.[9] Litigating the same issue before two courts can produce conflicting decisions. This problem is avoided by giving binding effect to the judgment of the first court. Yet another benefit of res judicata is that it provides a final ending to disputes.[10] Upon the conclusion of the first court proceeding, the parties know their rights and are free from the prospect of endless litigation.[11]

Certain requirements must be met before a court can apply preclusive effect to a prior court determination. Res judicata is applicable if there is "(1) a final judgment on the merits in an earlier suit, (2) an identity of the cause of action in both the earlier and the later suit, and (3) an identity of parties or their privies in the two suits."[12] These requirements are necessary to ensure that both parties were present in the prior proceeding, that they were aware that the issue was contained in the prior litigation, and that they had a full and fair opportunity to litigate their claims in the first proceeding. Once these requirements are met, res judicata may be applied.

### *B. Administrative Preclusion*

Courts increasingly have given res judicata effect to decisions of administrative agencies. There are several reasons for this trend. First, agency proceedings have developed to the point where they are essentially adjudicatory proceedings.[13] Second, as agency proceedings have come more closely to resemble traditional judicial models which the court systems trust, the courts have been willing to afford them greater deference.[14] Finally, courts have come to realize that in many cases the administrative agency has greater expertise in its particular sphere and may be able to render a better decision than the courts.[15]

The question of administrative res judicata was addressed by the Supreme Court in *United States v. Utah Construction and Mining Co.*[16] The Court stated that it is proper for a court to give res judicata effect to an administrative proceeding "when an administrative agency is acting in a judicial capacity and resolves disputed issues of fact properly before it which the parties have had an adequate oppor-

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9 *Baltimore Luggage*, 727 F. Supp. at 205.

10 C. WRIGHT, *supra* note 1, § 4403.

11 *Id.*

12 *Baltimore Luggage*, 727 F. Supp. at 205.

13 C. WRIGHT, *supra* note 1 § 4475.

14 *Id.*

15 *Id.*

16 384 U.S. 394 (1966). Justice White, speaking for the majority, held that the Board of Contract Appeals was acting in a judicial capacity when it considered a government contractor's claims for additional compensation and additional time on account of alleged changed conditions. *Id.* at 422. The Court held that the Board's findings on factual disputes clearly relevant to the issues, on which both parties had full and fair opportunity to argue, were final and conclusive in a breach of contract action. *Id.*

tunity to litigate."[17] The fact that significant differences exist between administrative and judicial proceedings does not bar applying the doctrine of res judicata.[18] For example, res judicata "has been accepted despite the absence of jury trial, limitations on discovery, and general arguments that more evidence could be produced in a second proceeding."[19]

Another factor taken into consideration in determining whether to give preclusive effect to an administrative determination is the competence of the agency in the matter.[20] A court is more likely to preclude a claim when the prior administrative decision was within the particular agency's area of expertise.[21] Conversely, if the agency decision involves an issue outside of its jurisdiction or which it lacked authority to decide, courts will hesitate to apply res judicata.[22]

### *C. Section 337*

The International Trade Commission (ITC) is responsible for determining when section 337 of the Tariff Act of 1930 is violated.[23] Section 337 deals with unfair trade practices in the area of import trade. Specifically, it provides:

> 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 . . . 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 are declared unlawful.[24]

Upon the filing of a complaint, the ITC must initiate an investigation of the alleged unfair import act.[25] During the course of the investigation a party may present all legal and equitable defenses available.[26] If the ITC finds that section 337 has been violated it has three remedies. First, it may direct the exclusion of the articles concerned from the United States.[27] Alternatively, the ITC may allow

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17 *Id.*

18 C. WRIGHT, *supra* note 1, § 3375.

19 *Id.*

20 *Id.*

21 *Id.*

22 *Id.*

23 Tariff Act of 1930, 19 U.S.C.A. § 1337(c) (West 1982). Section 1337 was amended in 1988 and the text was substantially revised. For the purposes of this Comment the pre-1988 version will be used since it was the statute considered by the courts. While the text has changed, the general rules of the section are substantially the same and should not affect the analysis undertaken by the courts.

24 *Id.* § 1337(a).

25 *Id.* § 1337(b)(1).

26 *Id.* § 1337(c).

27 *Id.* § 1337(d) provides:

> If the Commission determines, as a result of an investigation under this section, that there is a violation of this section, it shall direct that the articles concerned, imported by any person violating the provision of this section, be

the articles to be imported under bond.[28] As a third option, the ITC may issue a cease and desist order.[29] Before ordering any of these three remedies the ITC must consider the effect of such an order "upon the public health and welfare, competitive conditions in the United States economy, the production of like or directly competitive articles in the United States, and United States consumers."[30] The remedy ordered by the ITC can be appealed by "any person adversely affected" by the decision.[31]

## II. Preclusive Effect of ITC Determinations

### *A. Determinations of Patent Issues*

The issue of whether an ITC decision concerning patent validity should be given res judicata effect recently was considered in depth in *In re Convertible Rowing Exerciser Patent Litigation*.[32] The plaintiff in that case initiated before the ITC a complaint that alleged that the defendant committed unfair trade acts and violated section 337 by

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excluded from entry into the United States, unless, after considering the effect of such exclusion upon the public health and welfare, competitive conditions in the United States economy, the production of like or directly competitive articles in the United States, and United States consumers, it finds that such articles should not be excluded from entry. The Commission shall notify the Secretary of the Treasury of its action under this subsection directing such exclusion from entry, and upon receipt of such notice, the Secretary shall, through the proper officials, refuse such entry.

[28] *Id.* § 1337(e) provides:

If, during the course of an investigation under this section, the Commission determines that there is reason to believe that there is a violation of this section, it may direct that the articles concerned, imported by any person with respect to whom there is reason to believe that such person is violating this section, be excluded from entry into the United States, unless, after considering the effect of such exclusion upon the public health and welfare, competitive conditions in the United States economy, the production of like or directly competitive articles in the United States, and United States consumers, it finds such articles should not be excluded from entry. The Commission shall notify the Secretary of the Treasury of its action under this subsection directing such exclusion from entry, and upon receipt of such notice, the Secretary shall, through the proper officers, refuse such entry, except that such articles shall be entitled to entry under bond determined by the Commission and prescribed by the Secretary.

[29] *Id.* § 1337(f)(1) provides:

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 public health and welfare, competitive conditions in the United States economy, the production of like or directly competitive articles in the United States, and United States consumers, it finds that such order should not be issued. The Commission may at any time, upon such notice and in such matter as it deems proper, modify or revoke any such order, and, in the case of a revocation, may take action under subsection (d) or (e) of this section as the case may be.

[30] *Id.* § 1337(d), (e) & (f)(1).

[31] *Id.* § 1337(c).

[32] 721 F. Supp. 596 (D. Del. 1989).

importing goods which infringed the plaintiff's patent.[33] The defendant asserted that the patent was invalid and therefore could not be infringed.[34] The administrative law judge (ALJ) who conducted the investigation concluded that the patent was invalid and that section 337 had not been violated.[35] This decision was sustained by the ITC and later affirmed by the Court of Appeals for the Federal Circuit.[36] The plaintiff then instituted an action in federal district court alleging that defendant infringed its patent.[37]

The question before the district court was whether the ITC's invalidation of the patent in the course of a section 337 determination that was upheld by the Federal Circuit should be given preclusive effect.[38] The defendant advanced two theories to prevent plaintiff from relitigating the validity of the patent in federal court. It first argued that "once a court determines a patent is invalid in a proceeding where the patent owner had a full and fair opportunity to adjudicate, the patent owner is precluded from re-litigating the validity of the patent against all others."[39] Here, the plaintiff was the patent owner who had full opportunity to argue the validity of his patent before the ITC. The defendant argued that the plaintiff should be prevented from relitigating its validity in the federal courts.[40] The defendant's second argument was that administrative res judicata prevented the district court from reviewing the ITC determination because the ITC is a federal agency, acting in a judicial capacity, before which the parties had a full opportunity to litigate their claims.[41]

The district court first considered the problems that would be created if it did not give preclusive effect to the ITC determination. The court pointed out that the failure to give preclusive effect to the ITC decision could result in the court reaching a conclusion opposite that of the ITC.[42] Thus the court "would be placed in the awkward position of disagreeing with a Federal Circuit decision . . . and the same Court of Appeals would be asked to hear the appeal of the

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[33] *Id.* at 597-98.

[34] *Id.*

[35] *Id.*

[36] *Id.*

[37] *Id.* at 597.

[38] *Id.*

[39] *Id.* at 598. The defendants argued that this rule, which was promulgated by the Supreme Court in *Blonder-Tongue Laboratories v. University of Ill. Found.*, 402 U.S. 313 (1971), barred the plaintiff from relitigating the validity of the patent. *Convertible Rowing*, 721 F. Supp. at 598. The district court agreed. *Id.* at 600-01.

[40] *Id.* at 598.

[41] *Id.* This argument is based on the language in *United States v. Utah Constr. Co.*, 384 U.S. 394, 422 (1966).

[42] *Convertible Rowing*, 721 F. Supp. at 599.

decision by this court."[43]

A second problem created by denying preclusion is the effect on individuals who have relied on the Federal Circuit decision. It is possible that a person might invest money in bringing a product to market in reliance on the Federal Circuit decision concerning ITC section 337 patent validity only to be undercut by a later decision concerning the same patent in federal district court.[44]

The court also believed that prior precedent might compel granting preclusive effect to ITC patent determinations. The court's belief resulted from an examination of the language of the Supreme Court's decision in *Blonder-Tongue Laboratories v. University of Illinois Foundation*.[45] There, the Supreme Court stated that

> once an issue has been fully adjudicated and a [d]istrict [c]ourt has determined that a patent is valid, unless a party against whom estoppel is sought can demonstrate that he did not previously have a full and fair opportunity to adjudicate the issue, the question of patent validity cannot be relitigated in any subsequent proceeding.[46]

The district court found that plaintiff had received a full and fair chance to be heard before the ITC and that the decision by the ITC was competent.[47] This weighed in favor of giving preclusive effect. In fact, the court believed that an argument could be made for preclusion based solely on *Utah Construction*, the landmark case which allowed res judicata effect to be given to administrative decisions.[48]

In order to apply res judicata to enforce repose, the Supreme Court in *Utah Construction* stated that the following requirements must be satisfied: (1) the administrative agency must be acting in a judicial capacity; (2) the factual disputes must be clearly relevant to the issues properly before the agency; (3) both parties must have a full and fair opportunity to argue their version of the facts; and (4) there must be an opportunity to seek court review of any adverse findings.[49] The court in *Convertible Rowing* determined that the *Utah Construction* test was met because the ITC was acting in a judicial capacity and the parties had a full and fair opportunity to litigate before the ITC.[50]

Despite these considerations, the district court held that the ITC decision did not bar subsequent consideration of patent issues by a federal district court.[51] The paramount reason cited by the court for

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[43] *Id.* Appeals from district courts on patent matters are heard by the Federal Circuit. 28 U.S.C. § 1292(c)(2) (1982).

[44] *Convertible Rowing*, 721 F.Supp. at 599.

[45] 402 U.S. 313 (1971).

[46] *Id.* at 350.

[47] *Convertible Rowing*, 721 F. Supp. at 600.

[48] *See supra* note 16 and accompanying text.

[49] *Utah Constr.*, 384 U.S. at 422.

[50] *Convertible Rowing*, 721 F. Supp. at 600-01

[51] *Id.*

this conclusion was that original and exclusive jurisdiction in patent matters has been vested by Congress in the federal district courts.[52] Conversely, original jurisdiction over unfair import practices has been granted to the ITC.[53] Thus, "Congress, in promulgating the jurisdictional parameters for the ITC and the federal [d]istrict [c]ourts, created two separate jurisdictions to consider two distinct questions."[54] Both the ITC and the district courts can consider patent issues. However, "[t]he question the ITC examines under section 337 and the question the [d]istrict [c]ourt examines under [its jurisdictional statute] are . . . quite different in both form and substance."[55] The ITC considers patent validity only to determine if an unfair trade practice has occurred under section 337.[56] On the other hand, the district courts are charged with determining patent validity, enforceability, and infringement.[57] Therefore, a decision made before the ITC should not be given preclusive effect in the federal court. The ITC can make a determination for its purposes but these determinations "are properly not accorded *res judicata* effect because the ITC has no jurisdiction to determine patent validity except to the limited extent necessary to decide a case otherwise properly before it."[58]

The decision of the *Convertible Rowing* court is further supported by the legislative history of the 1974 amendments to section 337. Congress stated that it is necessary for the ITC to "review the validity and enforceability of patents, for the purposes of section 337, in accordance with contemporary legal standards."[59] However, "the [ITC] is not, of course, empowered . . . to set aside a patent as being invalid or to render it unenforceable, and the extent of the [ITC's] authority . . . is to take into consideration such defenses and to make findings thereon for the purposes of determining whether section 337 is being violated."[60] The ITC's decisions concerning patent validity "neither purport to be, nor can they be, regarded as binding interpretations of the U.S. patent laws in particular factual contexts."[61] These statements make it clear that Congress intended to limit the preclusive effect of ITC patent decisions.

The last area addressed by the district court in *Convertible Rowing*

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[52] *Id.* The applicable jurisdictional statute for the district courts is 28 U.S.C. § 1338 (1982).

[53] *Convertible Rowing*, 721 F. Supp. at 601. The applicable statutes are 19 U.S.C. §§ 1332(b) and 1337 (1982).

[54] *Convertible Rowing*, 721 F. Supp. at 601.

[55] *Id.*

[56] *Id.*

[57] *Id.*

[58] Union Mfg. Co. v. Han Baek Trading Co., 763 F.2d 42, 45 (2d Cir. 1985).

[59] S. REP No. 1298, 93d Cong., 2d Sess. 196, *reprinted in* 1974 U.S. CODE CONG. & ADMIN. NEWS 7186, 7329.

[60] *Id.*

[61] *Id.*

was the effect of the Federal Circuit's decision upholding the ITC determination. The district court stated that it is usually bound by decisions of the Federal Circuit because any appeal from the district court on patent matters is heard by the Federal Circuit.[62] According to the district court, this problem is eliminated by the Federal Circuit's decision in *Lannom Manufacturing Co., v. ITC*.[63] In that case, the court stated that "its appellate treatment of ITC determinations as to patent validity does not estop other tribunals from considering anew the question of patent validity."[64] Presumably this is due to the fact that the Federal Circuit's review of patent issues on appeal from the ITC and from the federal district court are fundamentally different in nature.[65]

The *Convertible Rowing* court held that, given "[t]he statements by Congress and the courts as to the effect of ITC determinations under section 337 . . . and the stark contrast in both form and substance between questions on appeal before the Federal Circuit from the ITC and the [d]istrict [c]ourt," an ITC determination of patent validity, affirmed by the Federal Circuit, does not prevent a federal district court from considering the validity of the identical patent under the jurisdiction granted to it by Congress.[66]

### *B. Preclusive Effect Given Nonpatent Issues*

The more difficult question is whether an ITC determination made in an area other than patent law should be given preclusive effect in a federal district court. Unlike patents, there is no clear mandate in either section 337 or its legislative history to guide the courts on this question. Two circuit courts recently answered this question in the affirmative and granted preclusive effect to an ITC nonpatent determination.

The first of these cases is *Union Manufacturing Co. v. Han Baek Trading Co.*[67] It involved a company, Union Manufacturing (Union), that had manufactured stainless steel vacuum bottles for approximately twenty years.[68] Most of the bottles were sold bearing Union's registered trademark, "UNO-VAC."[69] The defendant, Han Baek, imported a bottle into the United States that was similar to the Union product.[70]

In response to the bottle's importation, Union filed a complaint

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[62] *Convertible Rowing*, 721 F. Supp. at 602. The applicable statute is 28 U.S.C. § 1292(c)(2) (1982).

[63] 799 F.2d. 1572 (Fed. Cir. 1986).

[64] *Id.* at 1577-78 n.12.

[65] *See supra* notes 50-58 and accompanying text.

[66] *Convertible Rowing*, 721 F. Supp. at 603-04.

[67] 763 F.2d 42 (2d Cir. 1985).

[68] *Id.* at 43.

[69] *Id.*

[70] *Id.*

with the ITC alleging a violation of section 337.[71] The ITC initiated an investigation to determine if an unfair trade practice existed due to the "alleged (1) infringement of [Union's] common-law trademark, (2) passing off, or (3) false designation of origin."[72] After determining that Union had established a common-law trademark, the administrative law judge held that consumers were likely to confuse Han Baek's bottle with the Union bottle.[73] The ITC reversed the ALJ's decision concluding that Union did not possess a common-law trademark.[74] Union then chose to initiate a proceeding in federal district court rather than appeal the ITC decision to the Federal Circuit.[75] The defendant responded by raising the affirmative defense of res judicata based on the ITC's administrative determination.[76]

The *Union Manufacturing* court first concluded that the fact that the ITC was an administrative agency did not prevent the application of res judicata principles. The court stated that when the issues argued before the ITC and the procedures available there "are in all important respects the same as those in the [d]istrict [c]ourt, res judicata should bar the relitigation of the claim in federal court."[77] The court reasoned that once Union chose to proceed before the ITC, there was no apparent reason why Union should not be required to take "the exclusive avenue of appeal afforded by law—review of ITC decisions by the Court of Appeals for the Federal Circuit."[78] Otherwise, the court felt that the legitimacy of ITC proceedings could be undermined by parties "filing in a district court what amounts to a collateral attack on the ITC determination."[79]

The result in *Union Manufacturing* is distinguishable from ITC patent litigation because the ITC "has full authority to decide trademark claims concerning imported goods, and the jurisdiction of the federal district courts over unfair trade practice and trademark cases is not exclusive."[80] Based on these considerations, the Second Circuit stated that it would give res judicata effect to decisions reached by the ITC concerning unfair trade practice and trademark claims.[81]

*Baltimore Luggage Co. v. Samsonite*[82] involved substantially the same circumstances as *Union Manufacturing*. Baltimore Luggage Company (Baltimore) began to market a new line of hard luggage in

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71 *Id.* at 44.
72 *Id.*
73 *Id.*
74 *Id.*
75 *Id.*
76 *Id.*
77 *Id.* at 45 (citation omitted).
78 *Id.*
79 *Id.*
80 *Id.* at 45-46. This is as opposed to patent litigation where the district court is granted original and exclusive jurisdiction. *See supra* notes 50-58 and accompanying text.
81 *Union Mfg.*, 763 F.2d at 46.
82 727 F. Supp. 202 (D. Md. 1989).

1985.[83] Samsonite felt that this new line infringed upon its common-law trademark rights in a similar line of luggage it sold,[84] but it was Baltimore that took the offensive by filing a three-count complaint in federal district court.[85] The first count of Baltimore's complaint was a declaratory judgment action asking the court to find that Samsonite did not have common-law trademark rights in the disputed articles, that Baltimore's luggage did not infringe on any valid trademark held by Samsonite, and that Baltimore was not guilty of any unfair trade practices. The second count alleged that Samsonite was guilty of attempting to monopolize the molded luggage market and other violations of antitrust law. The third count was a common-law unfair competition claim.[86] Samsonite answered with four counterclaims against Baltimore.[87] The counterclaims were for patent infringement; Lanham Act violations; common law trademark infringement and unfair competition; and violations of the state Consumer Protection Act.[88]

While this action was pending, Samsonite filed a complaint with the ITC alleging that Baltimore's importation of molded luggage violated section 337.[89] In response, Baltimore affirmatively alleged that Samsonite possessed unclean hands and had violated antitrust laws.[90] On the basis of an ITC-initiated investigation, the ALJ concluded that Samsonite did not have trademark rights in its molded luggage.[91] The ALJ also determined that "the record does not support a finding of bad faith, inequitable and/or other conduct on the part of complainant [Samsonite] to warrant a holding of trademark misuse, unclean hands and/or antitrust violations."[92]

Samsonite appealed the decision to the ITC and it declined review.[93] Samsonite then appealed that decision to the Federal Circuit. Baltimore was allowed to intervene in the Federal Circuit appeal.[94] On appeal, Baltimore neither raised any of its previous affirmative defenses nor challenged the ALJ's ruling concerning them.[95] The Federal Circuit affirmed the ITC's disposition of the matter.[96]

Following the Federal Circuit decision, Samsonite moved for

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83 *Id.* at 203.
84 *Id.*
85 *Id.*
86 *Id.* at 203-04.
87 *Id.* at 204.
88 *Id.*
89 *Id.*
90 *Id.*
91 *Id.*
92 *Id.*
93 *Id.*
94 *Id.*
95 *Id.*
96 *Id.*

summary judgment in federal district court on the antitrust and unfair competition claims raised by Baltimore.[97] Samsonite reasoned that the ITC's decision finding no antitrust violations, trademark misuse, or unclean hands should prohibit the district court's consideration of these claims under the doctrine of res judicata.[98]

The district court agreed with Samsonite. It stated that Baltimore was a party to the prior litigation, was entitled to utilize ITC discovery procedures, had a chance to cross-examine Samsonite's witnesses, and generally "had ample opportunity to litigate its affirmative defenses before the ALJ."[99] The court went on to state that "[u]nless Baltimore can demonstrate that it did not have a full and fair opportunity to adjudicate an issue before the ITC, the issues determined there cannot be relitigated in any subsequent proceeding."[100] Thus, Baltimore was barred by res judicata from having the district court examine the issues in its complaint which it raised as affirmative defenses in the ITC proceeding.

## III. Rethinking *Union Manufacturing* and *Baltimore Luggage*

The rationales set forth by the courts in *Union Manufacturing* and *Baltimore Luggage* supporting the granting of preclusive effect in federal district court to ITC decisions outside of patent law at first glance appear to be persuasive. However, the court-created dichotomy that gives preclusive effect to ITC decisions on the basis of the subject matter of the proceeding is flawed. Preclusive effect should not be granted by federal district courts to ITC determinations made on nonpatent issues for the same reasons that ITC patent law decisions are not given preclusive effect.

Perhaps the party most interested in whether or not preclusive effect is given to ITC determinations is the ITC itself. In *Baltimore Luggage*, the ITC filed an amicus curiae brief arguing that decisions of the ITC should never be given preclusive effect in federal court.[101] This is a surprising position that the courts have claimed may be undermined by a contrary decision. The ITC, in its brief, argued that section 337 "was not intended to displace, but to supplement, other provisions of law, and that Congress intended that . . . dispositions before the ITC . . . should not have a res judicata or collateral estoppel effect in cases . . . before the federal court."[102] The ITC's position is supported by the actual language of section 337, which states that "[u]nfair methods of competition and unfair acts in the importation of articles into the United States . . . are declared unlawful, and

97 *Id.*
98 *Id.*
99 *Id.* at 205.
100 *Id.*
101 *Id.*
102 *Id.*

when found by the Commission to exist shall be dealt with, *in addition to any other provisions of law*, as provided in this section."[103] Thus, ITC decisions are not to displace federal court decisions but to supplement them as a means for providing a greater means of protecting domestic industry from unfair import practices. The court in *Baltimore Luggage* dismissed this argument, stating that while Congress clearly intended section 337 to supplement existing law, it was to do so by providing a more effective remedy to those already in place.[104] Congress did not intend "*adjudications* made during a section 337 proceeding to be supplemental to adjudications in other proceedings."[105] The court concluded that giving preclusive effect to ITC determinations does not frustrate Congress's intent to provide an additional remedy.[106]

The position of the court is again undermined by the text of section 337. It provides for an investigation to terminate no later than one year after it is initiated.[107] It goes on to state that "there shall be excluded any period of time during which such investigation is suspended because of proceedings in a court or agency of the United States involving similar questions concerning the subject matter of such investigation."[108] The legislative history says that such a suspension "may be undertaken by the [ITC], as an exercise of its own discretion, or as a result of a court order to the same effect."[109] This is a clear indication that when the ITC and the federal courts have substantially similar questions before them, Congress favors those questions being adjudicated by the courts rather than the ITC. This supports the ITC view that its purpose is to supplement existing law rather than displace it.

The legislative history to section 337 contains further language supporting the ITC's position. It states in relevant part that:

> The relief provided for violations of section 337 is "in addition to" that granted in "any other provisions of law." The criteria of section 337 differ in a number of respects from other statutory provisions for relief against unfair trade practices. For example, in patent-based cases, the Commission considers, for its own purposes under section 337, the status of imports with respect to the claims of U.S. patents. The Commission's findings neither purport to be, nor can they be, regarded as binding interpretations of the U.S. patent laws in particular factual contexts. Therefore, it seems clear that any disposition of a Commission action by a [f]ederal [c]ourt should not

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103 19 U.S.C.A. § 1337(a) (West 1982) (emphasis added).

104 *Baltimore Luggage*, 727 F. Supp. at 206.

105 *Id.*

106 *Id.*

107 19 U.S.C.A. § 1337(b)(1) (West 1982). This section allows the ITC eighteen months to conduct a complex investigation.

108 *Id.*

109 S. REP No. 1298, *supra* note 59, at 7,327.

> have a res judicata or collateral estoppel effect in cases before such courts.[110]

This is the language that courts have used to justify not giving preclusive effect to ITC patent decisions. This makes sense since the legislative history uses patent law as an explicit example of the type of adjudication to which preclusive effect is not to be applied. However, the courts have refused to view this language as compelling. The court in *Baltimore Luggage* reasoned that while the last sentence of the paragraph, if read by itself, supports the ITC's position, it must be read in the context of the entire paragraph.[111] The court concluded that "in context the statement refers to patent validity matters as described in the remainder of the paragraph."[112] Thus, the court sees the last sentence as applicable only in patent matters and not in other areas.

This is a questionable reading of the legislative history. The paragraph begins by pointing out that section 337 is in addition to any other provisions of law. The statement is not limited to patents. The history further states that the criteria of section 337 differ from other statutory provisions for relief against unfair trade. Again, the statement is not limited solely to patents. An example of one of these differences is then given. The sentence starts "for example" and gives a patent law example. The sentence ends by stating that it seems clear that an ITC determination should not be given preclusive effect by a federal court. This last statement is not qualified to include only patents. Patent law appears in this paragraph only as an example of the differences between an ITC determination and a federal court determination which justify not giving preclusive effect to any ITC decision in federal court. The paragraph could have been written as easily by substituting the word trademark for patent. The focus of the paragraph is on the preclusive effect of all ITC determinations, not just those involving patents.

It seems logical that an ITC determination involving nonpatent areas should not be given preclusive effect due to differences in criteria which exist between ITC determinations and federal court determinations. As in the area of patents, the ITC examines trademark and other areas of law to determine whether section 337 has been violated. The ITC should be limited to deciding trademark, antitrust, common-law unfair trade practice, and other nonpatent claims solely for the purpose of determining whether a violation of section 337 has occurred.[113] The federal court would then be free to decide

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110 *Id.* at 7,329.

111 *Baltimore Luggage*, 727 F. Supp. at 206.

112 *Id.*

113 This result has been urged in the antitrust area. "Antitrust policy should play a role in section 337 cases only in the manner intended by Congress when the section was amended in 1974—as a check in the framing of relief that protects U.S. industry." Ward,

these issues *de novo* in order to determine if, for example, a trademark is valid or an antitrust violation has occurred. The ITC considers nonpatent matters as they relate to unfair trade, while the district court examines nonpatent matters to determine violations of law. These determinations are as fundamentally different in substance and form as a patent determination under section 337 is from a patent determination in federal court. Should a patent decision not be given preclusive effect in federal court because the determination is "quite different in both form and substance"[114] from the federal court determination, then preclusive effect should not be given to a nonpatent determination for the same reason.

The court in *Baltimore Luggage* argued that the difference in preclusive effect accorded in patent and nonpatent areas can be accounted for by the fact that the ITC is statutorily prohibited from determining patent validity because exclusive jurisdiction is granted to the federal district courts while jurisdiction for determining trademark validity and violations of other areas of law is not exclusive to the federal district courts and can be decided by the ITC.[115] This argument fails because it does not address the fact that determinations of the ITC and the federal district court are often made on the basis of differing criteria and are thus fundamentally different questions.

A final consideration that weighs against giving preclusive effect to nonpatent determinations by the ITC was raised in *Baltimore Luggage*. In that case it was pointed out that the ITC lacked authority to grant Baltimore the affirmative relief requested in its claims against Samsonite.[116] The ITC has the ability to exclude articles from being imported into the United States and may order a party to cease and desist from violating section 337.[117] The ITC has no ability to award damages in the event that it finds trademark infringement or an antitrust violation. The courts have left unanswered the questions of where a party entitled to damages would have to go to receive its damage award, and whether parties are doomed to their fate by litigating before the ITC.

## IV. A Suggestion to Litigants

The practical question is what a litigant should do if found in the

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*The Tariff Act of 1930—Section 337: An Antitrust Ugly Duckling*, 27 ANTITRUST BULL. 355, 357 (1982). "The protection of individual competitors is not necessarily compatible with the antitrust objective of preserving vigorous competition. There is no evidence that Congress intended the ITC to operate under a schizophrenic mandate to pursue both ends when dealing with imports." *Id.*

114 *In re* Convertible Rowing Exerciser Patent Litigation, 721 F. Supp. 596, 601 (D. Del. 1989).

115 *Baltimore Luggage*, 727 F. Supp. at 207.

116 *Id.* at 205.

117 19 U.S.C.A. § 1337(d) & (f)(1) (West 1982).

position of being in concurrent ITC and federal district court proceedings where there are substantially similar issues which, if decided by the ITC, will be given preclusive effect in the district court. The first line of defense would be for the litigant to ask the ITC to stay its investigation because of the existence of the federal court proceeding involving similar issues.[118] If this fails, the litigant can move for the federal court to issue a stay of the ITC investigation pending the completion of the federal court proceedings.[119] A party could thus obtain relief in the federal courts and then proceed with the ITC action. If for some reason the ITC proceeding is not stayed, then the only other option open to a party is to fully contest each matter before the ITC in its investigation and follow the appeals process to the Court of Appeals for the Federal Circuit.

## V. Conclusion

The decision of the courts to give res judicata effect to ITC decisions involving nonpatent issues while denying preclusive effect to patent issues seems an arbitrary decision at best. Many of the same reasons which justify not giving preclusive effect to patent decisions support the same result in nonpatent issues before the ITC. However, the courts have chosen to ignore these considerations and contort the language of section 337 and its legislative history to justify the dichotomy they have created.

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[118] This is done under 19 U.S.C.A. § 1337(b)(1) (West 1982). *See supra* notes 107-109 and accompanying text.

[119] S. REP. No. 1298, *supra* note 59.