

11 June 1982

CONCILIATION

UNITED STATES - IMPORTS OF CERTAIN AUTOMOTIVE SPRING ASSEMBLIES

*Report of the Panel adopted on 26 May 1983
(L/5333 - 30S/107)*

I. Introduction

1. In a communication dated 25 September 1981 (L/5195) the delegation of Canada informed the contracting parties that on 10 August 1981 the United States International Trade Commission (ITC), because of a finding of patent infringement, had issued an order directing that imports of certain automotive spring assemblies from all foreign sources be excluded from entry and sale in the United States sixty days thereafter, unless the ITC order was disapproved by the President, and be subject in the interim to a bonding requirement of 72 per cent of c.i.f. value. The exclusion order followed a determination by the ITC that imports from and sales by a Canadian firm constituted a violation of Section 337 of the United States Tariff Act of 1930. In the same communication the contracting parties were also informed that the Government of Canada, in accordance with Article XXIII:1 of the GATT, had made written representations to the Government of the United States and that consultations had been held with a view to resolving the matter.
2. The Canadian representative raised the matter at the meeting of the Council on 6 October 1981 (C/M/151). He explained that three formal written representations had been made to the United States authorities and that bilateral consultations under Article XXIII:1 had been held. While agreeing to further consultations with the United States, the representative of Canada stated that his authorities would request the establishment of a panel by the Council should the exclusion order not be disapproved by the President of the United States. In a communication dated 23 October 1981 (L/5195/Add.1) Canada informed the contracting parties that the President had decided not to disapprove the exclusion order.
3. At the meeting of the Council on 3 November 1981 (C/M/152), the Canadian representative requested the establishment of a Panel pursuant to Article XXIII:2 of the GATT. The Council agreed that, if further consultations between Canada and the United States did not quickly lead to a mutually satisfactory solution, a panel would be established (C/M/152).
4. As no such solution had been reached the Council, at its meeting on 8 December 1981, set up a panel with the following terms of reference (C/M/154):

"To examine, in the light of the relevant GATT provisions, the exclusion of imports of certain automotive spring assemblies by the United States under Section 337 of the United States Tariff Act of 1930 and including the issue of the use of Section 337 by the United States in cases of alleged patent infringement, and to make such findings as will assist the CONTRACTING PARTIES in making recommendations or rulings."

At its meeting on 22 February 1982 the Council was informed of the following composition of the Panel (C/M/155):

Chairman: Mr. H. Reed (Retired Special Assistant to the Director-General)

Members: Mr. H. Siraj (Malaysia)
Mr. D. McPhail (United Kingdom, Hong Kong Affairs)

5. The Panel met on 5 February; on 3-5, 11, 29, 30 March; on 1, 19-22 April; on 6, 7 and 10 May; and on 7-8 June 1982. In the course of its work the Panel held consultations with Canada and the United States. Written submissions and relevant information provided by both parties, their replies to the questions put by the Panel, as well as relevant GATT documentation served as a basis for the examination of the matter.

II. Factual Aspects

The Panel based its deliberations on the following background:

(a) Procedural background

6. On 10 August 1981 the ITC issued an order excluding from importation into the United States automotive spring assemblies which had been found to infringe the claims of United States Letters Patent No. 3,782,708 and which would infringe claims of United States Letters Patent No. 3,866,287 were the process used to produce them practised in the United States. The exclusion order was to remain in force for the remaining terms of the patents, except where such importation was licensed by the patent owner. The ITC also ordered that the articles to be excluded from entry into the United States should be entitled to entry under bond in the amount of 72 per cent of the c.i.f. value of the imported articles until such time as the President of the United States notified the ITC that he approved or disapproved this action, but, in any event, not later than 60 days after receipt. The order became final on 10 October 1981, after being reviewed by the President and not disapproved for policy reasons.

7. The exclusion order of the ITC was made under Section 337 of the United States Tariff Act of 1930 which declares unlawful "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, 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". The legislation also requires the ITC to investigate alleged violations and provides procedures for its application, including a provision that the ITC should make its determination not later than one year, or in complicated cases 18 months, after the date of publication of notice of such investigation. It also contains a provision that where the ITC determines that there is a violation, the determination shall have no effect if the President, for policy reasons, disapproves such determination within the 60-day review period.

(b) Factual background

8. In 1971, General Motors Corporation (GM) had arranged with Quality Spring Products, a Division of Kuhlman Corporation (Kuhlman) to produce pre-assembled spring components for automatic transmissions. Kuhlman applied for United States letters patents which were issued in 1974 for the product and in 1975 for the process. From 1971 to 1977 GM, which did not consider either the product or process patents to be valid, sourced these spring assemblies from Kuhlman and two other United States suppliers - Associated Spring and Peterson Spring - as did the Ford Motor Company (Ford). In 1977 GM, in pursuance of its supplier diversification policy and its interest in encouraging competitive Canadian parts suppliers under the terms of the Canada/United States Automotive Products Trade Agreement, placed orders with P.J. Wallbank Manufacturing Co. Limited (Wallbank), a small family-owned Canadian spring manufacturing company.

9. Wallbank was aware of Kuhlman's patent claims but did not consider them valid in light of the advice of private legal counsel and the fact that Kuhlman had taken no legal action to enforce its patent claims against Associated or Peterson. However, Kuhlman had informed GM and Ford that Kuhlman

did not object to purchases by those companies of up to one-third of their spring assembly requirements from sources other than Kuhlman. Associated and Peterson were supplying a third of the requirements of GM and Ford when Wallbank entered the market. Wallbank began supplying spring assemblies to GM Canada and exporting to GM and Ford in the United States in 1977, with exports rising to Can.\$961,190 in 1980.

10. Wallbank declined Kuhlman's offer of a licensing and market-sharing agreement, and in August 1979 Kuhlman brought an action in the United States District Court in Michigan and subsequently in the Federal Court in Canada on grounds of alleged patent infringement. The action was brought in the Canadian court after the refusal of Wallbank to permit inspection of its manufacturing facilities in accordance with an order issued by the Federal Court in Michigan. After pursuing these actions for several months, but before either action had reached the final stage before the court, Kuhlman in June 1980 filed a petition before the ITC under Section 337 of the United States Tariff Act of 1930 against Wallbank; GM and Ford were also joined as respondents. The ITC voted in July 1980 to institute an investigation. At an early stage of the proceedings Wallbank requested the ITC to suspend the investigation in light of Kuhlman's action in the courts against Wallbank and the threatened patent infringement litigation against Associated and Peterson. The ITC refused this request.

11. The ITC found that both the product and process patents were valid and infringed, and that the other requirements of Section 337 were met. It also found that the United States industry was efficiently and economically operated and that the complainant was not engaged in price-gouging. On 14 July 1981 the ITC determined that there was a violation of Section 337 in the importation and sale of certain spring assemblies on grounds that they infringed a United States patent and were the product of a process which, if practised in the United States, would infringe a United States patent, the effect or tendency of which was to substantially injure an industry, efficiently and economically operated in the United States.

12. The ITC also found that the appropriate remedy in this case was a general exclusion order, i.e. an order excluding all infringing spring assemblies on the grounds that spring assemblies were relatively simple items, the cost of producing them was low and new manufacturers could begin production of infringing spring assemblies very quickly. The ITC also stated that an exclusion order would be effective in preventing entry of infringing spring assemblies from whatever source into the United States and was, therefore, the most effective remedy.

13. The court actions brought by Kuhlman in the United States and Canada have not been pursued during the ITC investigation. The case was formally suspended in the United States district court when GM filed an appeal in respect of the ITC decision in the United States Court of Customs and Patent Appeals (CCPA) and will remain suspended as regards the issues of patent validity and infringement. Should the CCPA hold the patents invalid, the United States district court would dismiss the infringement suit as moot. If that were the case the exclusion order of the ITC would also have to be revoked.

III. Main arguments

(a) General:

Arguments provided by Canada:

14. The representative of Canada stated that in the view of his authorities Section 337 of the United States Tariff Act of 1930 was a highly protective instrument; its use in cases of patent infringement and the restrictive orders applied to imports were inconsistent with the principles of the General Agreement. The treatment given by United States law to imported products was clearly less-favourable than that accorded to products of national origin in cases of alleged patent infringement.

Canada's objective was not just to seek redress in the particular case of automotive spring assemblies. Rather, it was concerned with the general use of Section 337 in patent-based cases. Putting the focus on a patent-related case was not to imply that Section 337 might not be incompatible with the GATT rules also in other cases. Canada's complaint concerned mainly the differential treatment for imported as opposed to domestic products which resulted from the application of Section 337. Section 337 had not been challenged before by Canada because there had been only a few cases where Canadian firms had been affected. Additional cases of this kind had, however, come up more recently and it appeared that Section 337 had been used increasingly to remedy injury in patent-related cases. Complaints in the GATT in connection with Section 337 had to his knowledge been made in the framework of the non-tariff barriers exercise and considered in the context of the MTN; he understood that the matter had been settled bilaterally and had not been further pursued.

15. In Canada's view there was no provision in the General Agreement authorizing differential treatment on the grounds of "unfair methods of competition and unfair acts" which were declared unlawful in Section 337. The GATT did expressly allow such treatment in Articles VI and XX, but there was no provision under which Section 337 could be justified. The term "unfair methods of competition and unfair acts" was used in a rather general way and applied to all kinds of cases, including patent law cases.

16. Section 337 was a "whole system of law" for the protection of United States industry from injurious import competition. It applied only to foreign products or persons engaged in the import trade; in respect of patent law cases there was no equivalent for domestic products. As regards patent infringement by domestic producers, the remedy open to a patent holder was to sue in the United States federal courts. This recourse was also available in respect of foreign producers, in addition to bringing a complaint under Section 337, and could be pursued before, during or after a Section 337 investigation. Foreign producers and others engaged in the import trade were thus not only subject to an inherently discriminatory process under Section 337 but were exposed to double jeopardy. The scope in these circumstances for harassment of those engaged in the import trade was obvious. Such duplication of procedure had existed in the United States also in the area of antidumping and countervailing but had been changed in 1978 in accordance with the relevant MTN codes. As a consequence the ITC no longer had parallel jurisdiction under Section 337 in countervailing and antidumping cases.

17. The Canadian representative stated furthermore that where the alleged violation under Section 337 involved process (as distinct from product) patents, there was an additional element of discrimination against foreign producers resulting from an ancillary provision referred to as Section 337a which provided that "the importation for use, sale or exchange of a product made, produced, processed, or mined under or by means of a process covered by the claims of any unexpired valid United States letters patent, shall have the same status for the purposes of Section 1337 of this title as the importation of any product or article covered by the claims of any unexpired valid United States letters patent." This provision went beyond United States patent law, under which it was clear that there could be no infringement of a process patent in the sale of a product which was not itself patented. Section 337a granted to holders of process patents a remedy in addition to that provided by the patent laws, but this remedy was available only in the context of the import trade and only in the guise of a remedy for unfair competition.

18. The Canadian representative also said that the requirement in Section 337 was that in addition to the existence of an unfair act there must be a determination of substantial injury to a United States industry which was efficiently and economically operated was not very meaningful in patent-based investigations and certainly did not justify the denial of national treatment. In fact, the existence of these requirements underscored the inappropriateness of using Section 337 in patent infringement cases, given the difficulty of reconciling them with the principle of patent law that the owner of a valid patent (and/or any licensees) was entitled to 100 per cent of the market. As regards injury, the ITC had been

applying a standard which was de minimis. As regards the other requirement, there appeared to be no case where the ITC had found that a United States industry was not efficiently and economically operated and certainly none where such a finding had been the basis for a negative determination.

19. On the other hand, in the Canadian view, there were clear disadvantages for a respondent in a Section 337 investigation as compared to a court action, including:

procedure - the ITC had different rules of evidence and burdens of proof which usually worked to the detriment of the respondent; this applied in particular to the rules on hearsay evidence which were applied less strictly in ITC proceedings than in court proceedings. Furthermore, the ITC had a much wider scope to draw inference in cases where sufficient evidence had not been provided by the foreign defendant;

qualifications - ITC members were not judges nor required to be lawyers; ITC staff participated in the proceedings as a party in its own right, thus interposing United States government representation which was not the case in United States courts;

time-limits - ITC investigations must be completed in twelve months (18 months in complicated cases) which might deprive a respondent from fully pursuing all the available defences, while court proceedings could and normally did take several years; the twelve month period was not always sufficient and the ITC could continue the investigation and take a decision during that time even if the legally available defences had not been exhausted;

counter-claims - a respondent in an ITC case could not make a counter-claim as he could in a federal court, e.g. in respect of revocation of the patent or a declaratory judgement that the patent was invalid;

expense - the expense of an ITC action was high and had to be borne over a period of a year whereas a federal court action and the attendant expense might be spread over several years; moreover, those engaged in the import trade might be faced with expenses for both ITC and court actions; expenses were never reimbursed to a foreign defendant even if the ITC made a finding in his favour.

20. Disadvantages for a respondent tended to be advantages for a complainant, making it more likely that a foreign rather than a domestic infringer would be singled out for patent infringement action. A complainant would also find resort to Section 337 attractive inasmuch as a finding by the ITC of patent invalidity would not result in a revocation of the patent. Generally, the existence of a double standard in United States law for those involved in the import trade was seriously prejudicial to their interests and inhibited United States buyers from using foreign products.

21. The representative of Canada argued that one of the effects of the ITC order in the present case was that during its validity 100 per cent of the domestic United States market for the springs in question had to be supplied by domestic producers all of whom, apart from Kuhlman, were in the same position as Wallbank as regards infringement of the product if not the process patent. This meant that Wallbank could adjust by setting up production in the United States, and sell there with impunity until and unless a United States court found that these patents were valid and infringed. The protectionist purpose and effect of Section 337 was thereby amply demonstrated. In that context the Canadian representative informed the Panel that as a consequence of the ITC exclusion order Wallbank had recently set up production facilities in the United States for these products and was now exporting to Canada as well as serving the United States market from that plant. This development exacerbated the adverse effects of the Section 337 action in terms of the increased production and employment gained by the United States at the expense of Canada.

Arguments provided by the United States:

22. The representative of the United States stated that his authorities considered that the measures challenged were fully consistent with obligations of the United States under the General Agreement. So far no case relating to Section 337 had been brought to the GATT though the basic law had been in existence prior to the GATT. The one case referred to by Canada had come up in connection with the general NTB notification exercise in the MTN and had nothing to do with patent infringement. The use of Section 337 in cases of alleged patent infringement and the exclusion order against certain automobile spring assemblies fell within the exception from GATT obligations in Article XX(d). The procedures at issue were necessary to secure compliance with United States law for the protection of patents and to enforce other unfair trade practice laws of general applicability. The legal standards for determining patent infringement were the same in the United States law, whether the alleged infringement was caused by domestic or imported products. These measures neither discriminated between countries where the same conditions prevailed nor did they constitute a disguised restriction on international trade. Section 337 was not there to protect United States industry; its use in patent infringement cases in fact only an enforcement mechanism to protect the rights of United States patent holders.

23. Under Section 337 unfair methods of competition and unfair acts in the importation of articles, or in the sale of imported articles, were unlawful if they had the effect or tendency to destroy or injure substantially a domestic industry. The legislative history of this section, the practice under the law, as well as judicial decisions of the reviewing Court of Customs and Patent Appeals, made it clear that infringement of a United States patent by an imported article was an unlawful act or method of competition, and the same test applied to imported and domestic products. It was also an unfair act or method of competition for the purposes of Section 337 if a party manufactured a product using a process that would infringe a United States process patent if practised in the United States and exported the resulting product into the United States or sold it there.

24. As for product patents, the substantive law regarding infringement was the same for imported and domestic goods. The basic substantive patent law was contained in Section 271 of Title 35 of the United States Code (USC) which was applied under Section 1338 of Title 28 of the USC in proceedings before the district courts and under Section 337 of the Tariff Act (i.e. Section 1337 of Title 19 of the USC) before the ITC. It was important to note that the same legal and equitable defences were available in either proceeding. The only difference was that it was not necessary before the courts to demonstrate injury to a United States industry in order to establish a violation of the law which was necessary before the ITC. In addition, decisions by the ITC were subject to review by the President who had the authority, within 60 days, to disapprove (for policy reasons) an affirmative ITC determination. In such a case any remedy ordered by the ITC would become null and void. The review by the President included a thorough consideration by the United States Trade Representative of all relevant obligations of the United States under the GATT and any other treaties and arrangements.

25. ITC decisions could also be appealed before the CCPA. In the present case the defendant Wallbank had not appealed against the ITC decision. GM had appealed against the ITC determination on the basis of the validity of the patents. If that appeal were successful, the exclusion order would no longer apply. The ITC would also be bound by a prior federal court decision finding that a particular patent was invalid or unenforceable and would not initiate an investigation in such a case. It would terminate an action if such a decision was taken at the time an investigation had already begun. Generally the ITC would suspend an investigation when the proceedings in a United States court had reached the trial stage. In the Wallbank case the ITC had continued its investigation because the court procedures had only reached a very preliminary stage. The ITC was also bound by decisions of the reviewing CCPA and by the United States Supreme Court.

26. Investigations in patent-based cases before the ITC could only be initiated upon the filing of a complete complaint alleging that an article that infringed a United States patent or that was the product of a process that, if practised in the United States, would infringe a patent owned or assigned to the complainant, was being imported or sold by the named respondents. Notice of initiation of an investigation was published in the United States Federal Register and every effort was made to notify specifically the alleged infringer. Any subsequent actions in the case were also published in the Federal Register. Every effort was made to ensure that the respondent had a full opportunity to participate in the proceedings which were conducted in accordance with the United States Administrative Procedures Act. The respondent had the right to representation by legal counsel of his choice and could present any legal or equitable defence that would be available to a defendant in a patent infringement case in a United States court. The investigative proceedings were before an administrative law judge. The ITC made its determination on a remedy on the record that there was an infringement of a patent within the meaning of United States patent law. No remedy would be provided if the ITC found that its effect would be against the public interest. The ITC staff did not represent any party in the dispute; their task was mainly to advise the members of the ITC in respect of the injury question and the public interest factors.

27. There were two major problems under United States law and the United States legal system in securing compliance with United States law for the protection of patents through court proceedings against foreign parties. The first problem concerned the service of process. Without adequate service of process, a case could not proceed in court. Under United States law, a domestic or foreign party located in the United States could be sued by the patent owner for patent infringement in any United States district court where the party could be served validly with notice of the court process. The rules concerning adequate service of process on foreign parties outside the United States were more complex. A foreign corporation outside the United States could avoid service of process by mail simply by refusing to accept delivery. Use of other legally acceptable means of service by the courts was both expensive and time-consuming, making it particularly difficult for smaller corporations or individual patent owners to enforce their rights against foreign infringers of those rights. Without adequate service of process a case could not proceed in court. Under Section 337, on the other hand, every effort was made to notify the alleged infringer of a case, but the Section 337 case could proceed without the service of process requirement of the courts.

28. The second major problem of enforcement against foreign defendants through a court proceeding concerned the enforcement of judgements against foreign parties outside the United States. Basically there were two remedies against patent infringement before United States courts, an injunction to prevent further patent infringement or an award of damages or both. Injunctions were enforceable only where the party concerned was within a court's jurisdiction. Damages could be enforced where the foreign party had sufficient assets in the United States. If an injunction or a judgement awarding damages had to be enforced through application for enforcement in the courts of the country where the foreign party was located the cost involved might be prohibitive for the patent owner, or enforcement might not be possible at all. All these difficulties could lead to a situation that foreign parties would be effectively immune from suits based upon patent infringement brought in United States courts. In such cases Section 337 provided a remedy for a patent owner if the additional elements required for the finding of a violation (i.e. unfair act, injury) could be shown. While a patent holder could not obtain money damages for his injury under Section 337, an exclusion order by the ITC could be enforced by the United States Customs Service or by an order directed to an importer to cease and desist by the ITC.

29. In the present case Kuhlman, the patent owner, had available two provisions of law for enforcing its patent rights which it considered infringed by the products imported from Canada. A judicial proceeding would have required proof only of patent validity and infringement to obtain a favourable judgement, but would have entailed all the difficulties concerning service of process and enforcement

of judgements. An adjudicative proceeding before the ITC would have required proof of additional elements, but would have resulted in an effective remedy. Kuhlman had decided to choose the latter procedure.

30. In this context the United States representative stated, in reply to a question asked by the Panel, that a United States district court could issue an injunction against GM and other users of Wallbank's spring assemblies only if they had been a party to the original action and only if they were found to be using the Wallbank product without authorization. The problem was that potential users could not be enjoined in the injunction because they could not be made parties. Injunctions directed for instance against GM and Ford, had they been parties in a court proceeding, would not prevent others from using the products. In response to Canada's argument that Wallbank would be able to move to the United States and produce and sell with impunity unless and until a court found the patents valid and infringed, the United States representative stated that in such a court proceeding Wallbank could be liable for up to triple the damages caused to Kuhlman from the moment the infringement began as well as an injunction against future infringement.

31. Section 337a, which was not part of Section 337, provided that goods, produced in a foreign country by a process that, if practised in the United States, would infringe the claims of a United States process patent would be treated in the same manner under Section 337 as products that were covered by the claim of a product patent. The provision was designed to prevent circumvention of United States patent laws which would occur if a party practised without right the patented process outside the United States and imported and sold the resulting product. In the United States view there was no practical difference between forbidding the use of an infringing process domestically and forbidding the importation of a product made abroad by the same infringing process.

32. The United States representative gave the following additional information: since the amendments to the United States Trade Act went into effect in 1975, investigations had been initiated by the ITC under Section 337 in 114 cases. 14 cases were still pending. Of the 100 cases that had been completed 16 did not relate to patents. 36 cases were terminated either because the complaint was withdrawn or because a settlement was reached between the parties. 24 cases were terminated because the ITC had found no violation; in 9 of these cases the ITC had found no injury; in 2 of these cases no remedy was issued because of the public interest factor. In 26 cases the ITC had found that there was a violation of Section 337, and in one of these cases the ITC determination was disapproved by the President thereby voiding any remedy. In 11 cases the losing party did not appear before the ITC to contest the case, but even in such cases the complaining party had to prove that its patent was infringed and that there was substantial injury or threat of substantial injury to an efficiently and economically operated United States industry. The ITC investigative attorney was able to present evidence to the contrary if it could be obtained.

(b) GATT compatibility of the action by the United States:

Arguments provided by Canada:

33. The Canadian representative stated that in his view there were four main GATT issues before the Panel: Was the use of Section 337 in patent-based cases consistent with Article III? Was the implementation of an exclusion order consistent with Article XI:1? Was an order for a bonding requirement on specific imports consistent with either Article III or Article II:1(b)? Did the use of these measures fall under the exception of Article XX(d)?

In this context he provided the following arguments:

Article III

34. Section 337 and any ensuing exclusion order was incompatible with Article III:1 and 4. The basis for this contention was that United States patent law dealt with private interests of parties in United States courts as far as patent rights were covered while the purpose of Section 337 was to protect United States industries. The use of Section 337 (and where applicable of Section 337a) in cases of alleged patent infringement granted to holders of United States patents a remedy in addition to that provided by the United States patent laws, which was available only in the context of import trade. This constituted a denial of national treatment under Article III:1 and of 4 of the General Agreement. Foreign producers were treated less favourably because, instead of being subject only to the procedures under United States patent law, they had to face separate proceedings in separate bodies. This was not the case for domestic producers unless they engaged in import trade. In the Canadian view this dual system was of a discriminatory nature.

35. The exclusion order, pursuant to Section 337, preventing certain foreign spring assemblies from competing in the United States market with like domestic products (including those of other producers who might also be infringing the same patent) constituted a protection of domestic production according to Article III:1. The institution of a bonding requirement, pursuant to Section 337, was applied to imports but did not apply to like domestic products and was thus inconsistent with the requirements of Article III:1 and 2. Even if the bonding requirement did not contravene Article III because it was a border measure as contended by the United States delegation, it would still contravene Article II:1(b), the last sentence of which had to be read in conjunction with paragraph 2 of the same Article.

Article XI

36. The exclusion order, pursuant to Section 337, preventing the importation of certain automotive spring assemblies, was inconsistent with the obligations of the United States under Article XI:1 not to institute or maintain prohibitions or restrictions other than duties, taxes or other charges on the importation of any product of the territory of any other contracting party.

Article XX

37. The exception under Article XX(d) did not justify trade restrictive measures taken pursuant to Section 337 on two grounds: (1) differential treatment of foreign products involving a separate adjudicating process was not "necessary" to secure compliance with United States patent laws, and (2) the law with which compliance was sought (Section 337) was "inconsistent with the provisions of this agreement" i.e. Article III of the GATT. If the United States delegation was to assert that such differential treatment was necessary to deal with imports to secure compliance with patent laws the measures taken would constitute "a disguised restriction on international trade" in terms of the preamble to Article XX.

38. Article XX(d) did not mention unfair methods of competition or unfair acts as such. The drafters of that Article seemed to have had in mind national laws which were not inconsistent with the GATT. Canada did not contend that United States patent law (apart from Section 337a) was inconsistent with the GATT, but that Section 337 of the United States Tariff Act of 1930 was inconsistent. The United States contention that Section 337 and a resulting exclusion order were measures necessary "to secure compliance with laws or regulations which are not inconsistent" with the GATT was not defensible. In the Canadian view the separate adjudicative process under Section 337 went far beyond what was necessary to secure compliance with United States patent law. Canada acknowledged that problems could arise with the enforcement of court decisions in respect of parties beyond the jurisdiction. In fact an injunction granted by a United States court was not directly enforceable in Canada.

39. As far as the case before the Panel was concerned an injunction or restraining order would have to be obtained under the Canadian patent in a Canadian court. But other countries had the same problems and did not have anything as far-reaching as Section 337. The difficulties arose from an inherent limitation on national jurisdiction in matters which extended beyond the borders of a country. This limitation existed regardless of whether the powers to take legal action were given to a United States court or to the ITC. The problem could not be solved by utilizing a separate body. There existed always the possibility for the United States to change its court procedures to arrive at better enforcement of court decisions. Section 337 did not merely provide procedures to take account of legitimate difficulties where an infringer was outside the jurisdiction. Section 337 was a complete system of law in itself; in a way, it was more complete than United States patent law as it provided a substantive offense (unfair trade practices), for a special institution (i.e. the ITC) to administer it, for special procedures, for remedies, and for enforcement powers such as fines. All this, in the Canadian view, was designed to further the public interest of protecting United States industry against injurious import competition, whereas the patent law dealt with the rights of private interests.

Article XXIII

40. It had been established by the CONTRACTING PARTIES that in cases where there was a clear infringement of the provisions of the General Agreement the action would, prima facie, constitute a case of nullification or impairment (GATT, 11th Supplement (1963) BISD pp. 100, para. 15). It was the position of the Canadian authorities that the use by the United States of Section 337 in patent cases and any resulting trade restrictive measures constituted prima facie nullification of benefits accruing to Canada under the General Agreement, including concessions bound under Article II.

Arguments provided by the United States:

Article XX(d)

41. Article XX(d) provided a general exception from the obligations of the GATT for the adoption or enforcement of measures which were necessary to secure compliance with laws and regulations relating to the protection of patent rights and other property rights, and for the prevention of deceptive practices. Section 337 did not create any substantive patent law, but rather provided a means of enforcement. The use of Section 337 of the Tariff Act of 1930 in patent infringement cases was thus a measure that was necessary to secure compliance with United States patent laws of general applicability. No action was possible under Section 337 unless there were infringement within the meaning of United States patent law. The necessity of Section 337 resulted from the difficulty, inherent in United States and international law, in obtaining jurisdiction over foreign parties in enforcing judgments against them through United States court action. It would have far-reaching implications for many contracting parties if a decision were taken stating that separate procedures which existed for the enforcement against imports of substantive laws of general application (e.g. customs, patents, trade marks, copyright laws, monopolies, prevention of deceptive practices) did not fall under the exception of Article XX(d).

Article III:1

42. Section 337 was not applied to imported or domestic products in a manner so as to afford protection to domestic production. Section 337 in itself was not a law, regulation or requirement affecting the internal sale, offering for sale, purchase, transportation, distribution or use of products. It was a measure to secure compliance with the laws, regulations and requirements which did affect the marketing of products. The law under consideration in the present case was the substantive law of the United States dealing with patents, i.e. Section 271 of Title 35 of the United States Code, and the purpose of the patent laws was not to afford protection to domestic production but to protect certain property rights represented by a patent. For the law to be applicable there had to be a valid patent, the claims of which

covered the product in question. The claims of the patent determined the extent of the property right protected by the patent. Competing products which did not fall within the patent claims or were licensed by the patent owner could not be found to be infringing.

Article III:4

43. Under the provisions of Section 337, imported products received treatment which was not less favourable than that accorded to like products of national origin in respect of all laws, regulations and requirements affecting their sale, offering for sale, purchase, transportation, distribution or use. The law in question was Section 271 of Title 35 of the United States Code. That law required that a party, domestic or foreign, had to have the authority of the patent owner, domestic or foreign, before making, using or selling in the United States the product covered by the claims of a United States patent. Treatment under this law was identical for all parties regardless of origin. Enforcement of the patent law was possible either before the United States district courts under Section 1338 of Title 28 of the United States Code or here the product was imported and substantial injury or threat thereof to an efficient and economic industry could be demonstrated, before the ITC under Section 337.

44. There existed some procedural differences between a United States district court trial and an ITC investigation but the substantive law concerning validity and infringement of patents and the defences was the same. It was up to the patent owner and not the United States government to decide which proceedings should be used and against whom an action should be brought. All legal and equitable defences were provided in both procedures and the findings in both procedures were subject to court appeal. In the particular case before the Panel the defendants had sufficient time to prepare their defences and Canada had provided no indication of any available defense of which Wallbank was deprived.

45. In the United States view, Canada had not substantiated its claim that the use of Section 337 in patent infringement cases resulted in treatment less favourable to imported products. Article III:4 did not provide that treatment had to be identical for like domestic and foreign products but only that treatment of foreign products in the specified areas had to be not less favourable than treatment of like domestic products. Procedures followed under Section 337 were not less favourable than those followed by United States district courts. There were some differences like a time limit in Section 337 procedures which did not exist in court proceedings. However, this time limit could also work to the advantage of a foreign party if no infringement was established, by resolving the issue faster than before a United States district court and thereby reducing the costs involved. There was no difference in the burden of proof. No indication had been provided as to how other differences alleged by Canada resulted in less favourable treatment to the imported product.

46. The United States contended also as a matter of GATT interpretation, that Article III:2 would not apply to temporary bonding requirements imposed as a condition of importation.

Article XI

47. In the United States view it was not the intent of Article XI to prohibit restriction on products found to infringe a patent or to violate other national laws of general applicability. Other countries prohibited the imports of such products as well.

Article XXIII

48. The United States asserted that all actions taken by it under Section 337 with respect to complaints based upon alleged patent infringement, including the exclusion from the United States of imports of automotive spring assemblies found to infringe a valid United States patent, were in compliance with the obligations of the United States under the GATT. The United States therefore did not agree that there was prima facie nullification or impairment.

IV. Conclusions

49. In accordance with its terms of reference, the Panel examined the exclusion of imports of certain automotive spring assemblies by the United States under Section 337 of the United States Tariff Act of 1930. The provisions of the GATT considered to be relevant were Articles II:1(b), III:1, 2 and 4, XI:1 and XX(d).

50. The Panel noted the arguments put forward by Canada and the United States as set out in Section III above and took these arguments fully into account. A further communication, with particular reference to the question of national treatment, was subsequently received from the Canadian authorities and this, together with arguments put forward orally in this context, was also taken fully into account. The Panel came to the conclusion that its first step should be to consider whether or not the exception provision of Article XX(d) applied in this case. The Panel considered that if Article XX(d) applied, then an examination of the question of the consistency of the exclusion order with the other GATT provisions cited above would not be required.

51. The Panel noted that, as far as it had been able to ascertain, this was the first time a specific case of patent infringement involving Article XX(d) had been brought before the CONTRACTING PARTIES.

52. The Preamble to Article XX and paragraph (d) of that Article, provide that "Subject to the requirement that such measures are not applied in a manner which would constitute a means of arbitrary or unjustifiable discrimination between countries where the same conditions prevail, or a disguised restriction on international trade, nothing in this Agreement shall be construed to prevent the adoption or enforcement by any contracting party of measures ... (d) necessary to secure compliance with laws or regulations which are not inconsistent with the provisions of this Agreement, including those relating to ... the protection of patents, trade marks and copyrights, and the prevention of deceptive practices".

53. The Panel noted that the GATT recognized, by the very existence of Article XX(d), the need to provide that certain measures taken by a contracting party to secure compliance with its national laws or regulations which otherwise would not be in conformity with the GATT obligations of that contracting party would, through the application of this provision under the conditions stipulated therein, be in conformity with the GATT provided that the national laws or regulations concerned were not inconsistent with the General Agreement. In this connection the Panel noted in particular that the protection of patents was one of the few areas of national laws and regulations expressly mentioned in Article XX(d).

54. Looking first at the Preamble, the Panel interpreted the word "measure" to mean the exclusion order issued by the United States International Trade Commission (ITC) under the provisions and procedures of Section 337 since, in the view of the Panel, it was the exclusion order which operated as the measure preventing the importation of the infringing product.

55. The Panel noted that the exclusion order was directed against imports of certain automotive spring assemblies produced in violation of a valid United States patent from all foreign sources, and not just from Canada. It found, therefore, that the exclusion order was "not applied in a manner which would constitute a means of arbitrary or unjustifiable discrimination against countries where the same conditions prevail".

56. The Panel then considered whether or not the exclusion order was "applied in a manner which would constitute ... a disguised restriction on international trade". The Panel noted that the Preamble of Article XX made it clear that it was the application of the measure and not the measure itself that needed to be examined. Notice of the exclusion order was published in the Federal Register and the order was enforced by the United States Customs at the border. The Panel also noted that the ITC proceedings in this particular case were directed against the importation of automotive spring assemblies

produced in violation of a valid United States patent and that, before an exclusion order could be issued under Section 337, both the validity of a patent and its infringement by a foreign manufacturer had to be clearly established. Furthermore, the exclusion order would not prohibit the importation of automotive spring assemblies produced by any producer outside the United States who had a licence from Kuhlman Corporation (Kuhlman) to produce these goods. Consequently, the Panel found that the exclusion order had not been applied in a manner which constituted a disguised restriction on international trade.

57. Turning to paragraph (d) of Article XX, the Panel concluded that the laws and regulations which were not inconsistent with the General Agreement and with which compliance was to be secured were the patent laws of the United States, since the case in question was based on the allegation of an infringement of patent rights under United States patent law.

58. The Panel considered whether the ITC action, in making the exclusion order, was "necessary" in the sense of paragraph (d) of Article XX to secure compliance with United States patent law. In this connection the Panel examined whether a satisfactory and effective alternative existed under civil court procedures which would have provided the patent holder Kuhlman with a sufficiently effective remedy against the violation of its patent by foreign producers including the Canadian producer Wallbank Manufacturing Co. Ltd (Wallbank).

59. The Panel noted that if Kuhlman had pursued the action it had commenced before the United States district court, it could have joined General Motors, Ford and possibly other known users of the automotive spring assemblies in the action and, once the patent had been found to be valid by the court, prevented these parties, but not unknown users, from utilizing the automotive spring assemblies produced by Wallbank by means of an injunction or a cease and desist order. The Panel decided, however, that such a remedy would not have been sufficient to protect Kuhlman's patent rights because, in practice, it would have been effective only in relation to the automotive spring assemblies produced by Wallbank and supplied to parties joined in the court action. The same remedy would not have been effective against other possible foreign infringers of the United States patent and potential users of the infringing product in the United States. Furthermore, in view of the relatively simple manufacturing process used to produce automotive spring assemblies, these could without major difficulties be produced by other foreign producers infringing Kuhlman's patent and subsequently imported for use in the United States.

60. Against the background of the above considerations, it was the view of the Panel that United States civil court action would not have provided a satisfactory and effective means of protecting Kuhlman's patent rights against importation of the infringing product. The Panel took the view that the only way in which, under existing United States law, Kuhlman's right to the exclusive use of its patent in the United States domestic market could be effectively protected against the importation of the infringing product would be to resort to the exclusion order procedure. For the above reasons, therefore, the Panel found that the exclusion order issued by the ITC under Section 337 of the United States Tariff Act of 1930 was "necessary" in the sense of Article XX(d) to prevent the importation and sale of automotive spring assemblies infringing the patent, thus protecting the patent holder's rights and securing compliance with United States patent law.

61. In the light of the views and findings set out in the above paragraphs, the Panel came to the conclusion that, in the specific case before it, the exclusion order issued by the ITC against the importation of automotive spring assemblies fell within the provisions of Article XX(d) and was, therefore, consistent with the GATT. Since Article XX(d) had been found to apply, the Panel considered that an examination of the United States action in the light of the other GATT provisions referred to in paragraph 49 above was not required.

62. Under its terms of reference the Panel was also required to include in its examination "the issue of the use of Section 337 by the United States in cases of alleged patent infringement".

63. The Panel focused its attention on the possible conclusions it might be able to draw from its examination of the specific automotive spring assemblies case in the context of the use of Section 337 in cases of patent infringement generally.

64. The Panel took the view that its conclusion in the automotive spring assemblies case, namely that Article XX(d) applied, would in principle apply to many cases of alleged patent infringement and that the only effective remedy in such cases under existing United States law would be an exclusion order under Section 337 of the Tariff Act.

65. The Panel noted, however, that the substance of patent infringement cases could vary considerably, for example as regards the characteristics of the product which was the subject of the infringement and the simplicity or complexity involved in its manufacture. There might also be variations in the degree of difficulty which might be encountered in joining in a court action all possible users of the product which had been manufactured in violation of the patent, in the serving of process and enforcement of court judgments depending, among other things, on the legal and judicial court system in the country of the manufacturer infringing the patent.

66. The Panel did not, therefore, exclude the strong possibility that there might be cases, for example, involving high-cost products of an advanced technical nature and with a very limited number of potential users in the United States, where a procedure before a United States court might provide the patent holder with an equally satisfactory and effective remedy against infringement of his patent rights. In such cases the use of an exclusion order under Section 337 might not be necessary in terms of Article XX(d) to secure compliance with laws and regulations (i.e. United States patent law) which were not inconsistent with the General Agreement. If therefore Article XX(d) were found not to be applicable, such use would be subject to the other relevant provisions of the General Agreement.

67. The Panel considered it appropriate and in accordance with its terms of reference to supplement the views expressed in paragraphs 63-66 above by means of some additional observations.

68. In the first place, the Panel pointed out that its finding in paragraph 60 above that the exclusion order issued by the ITC was "necessary" within the meaning of Article XX(d) had been made on the basis of existing United States law. It carried no implication that the use of Section 337 was an entirely satisfactory means of dealing with patent based cases.

69. The Panel noted the frequent use that had been made of Section 337 in patent based cases. Since 1975 these had made up 84 of the 100 cases completed by the ITC. The use of the Section had been a major factor in securing compliance with United States patent law in cases of infringement of a patent by a foreign product.

70. However, in the course of its examination of the automotive spring assemblies case, it became evident to the Panel that certain elements contained in Section 337, having a direct bearing on the use of the Section, appeared to be out of place in legislation used for the protection of private patent rights, where all that was strictly required was proof of the validity of the patent and a finding that the patent had been infringed.

71. One such element related to the words "unfair methods of competition and unfair acts" which were declared unlawful in terms of subsection (a) of Section 337. The Panel observed that these words might be capable of being widely interpreted and might be misconstrued as to their precise scope, purpose and application.

72. Another such element was the reference in subsection (a) of Section 337 to substantial injury to a United States industry which was efficiently and economically operated. The Panel recognized that this injury criterion could work to the advantage of a respondent in an ITC investigation, in that it represented an additional requirement to be satisfied by the complainant. However, in the Panel's view, it could reasonably be said that in considering what were the essential elements in legislation dealing with patent based cases an injury criterion could only be considered irrelevant.

73. The Panel also noted the system of dual procedures for dealing with cases involving a foreign patent infringer. In such cases, the United States patent holder, at his discretion, could take action through the ITC, through the civil court or, if he so wished, use both procedures. In respect of a domestic infringer the patent holder could take action against infringement of his patent only through the civil court. The Panel observed that there might be merit in consideration being given to simplifying and improving the legal procedures for patent infringement cases.