Looking Beyond Inventory Numbers to Secure a Cease and Desist Order

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The Commission may grant a cease and desist order ("CDO") when it finds a violation of Section 337. *See* 19 U.S.C. 1337(f)(1). Historically the Commission would grant a CDO upon a showing that a respondent had a "commercially significant inventory" in the United States of infringing products that could undercut the remedy provided by an exclusion order. However, in recent years the Commissioners have debated the legal requirement for a CDO, especially because the language of section 337(f)(1) leaves the issuance of a CDO to the Commission's discretion and does not require that a certain test or standard be met, as long as there are no public interest concerns.[1]

In view of the increase in e-commerce and the rising challenges of keeping infringing products out of the United States marketplace, the Commission is increasingly considering evidence beyond inventory numbers when issuing CDOs. For example, the Commission will consider the unique factual context to issue a CDO even when there is only one unit in inventory.[2] The Commission may also consider "significant domestic operations" as a stand-in to show that inventory in the United States is quickly replenished even if absolute inventory numbers are low or unavailable.[3] Therefore, it is important for complainants to gather pertinent facts during pre-complaint investigation (for defaulting respondents) or during the investigation's discovery period (for contesting respondents) to support a CDO case.

For Complainants Seeking a CDO Against Defaulting Respondents

The Commission has articulated a more lenient standard with regards to CDO when it comes to defaulting respondents because it is difficult, if not impossible, for complainants to obtain inventory information when the respondent refuses to participate in the investigation. The Commission will examine the record, including the facts alleged in the complaint that are deemed to be true, in addition to any other facts the complainant is able to obtain, and will draw inferences in favor of complainant to provide the necessary relief as to defaulting respondents.[4]

In the case of domestic defaulting respondents, the Commission has consistently inferred the presence of commercially significant domestic inventories.[5] For example in *Mobile Device*, the Commission determined that because three domestic defaulting Respondents maintained addresses in the United States, it was proper for the Commission to infer that the domestic Respondents had commercially significant inventory and significant domestic operations.[6] Similarly in *Earpiece Devices*, the Commission articulated that it is "the Commission's practice of inferring significant inventories or domestic operations as to named respondents in the United States who fail to participate in an investigation," and because of this practice, the Commission issued CDOs against the domestic defaulting respondents.[7]

1 *See Certain Dental Implants*, Inv. No. 337-TA-934, Comm'n Op. at 49-51 (May 11, 2016) (Commission not issuing a CDO because the Commissioners were divided 3-3 on whether a CDO was appropriate).

2 *See Certain Automated Put Walls and Automated Storage and Retrieval Systems, Associated Vehicles, Associated Control Software, and Component Parts Thereof*, Inv. No. 337-TA-1293, Comm'n Op. at 33-34 (August 17, 2023) (finding the domestic inventory of one system is significant where the area of technology deals with specifically expensive, customized sorting systems for which prebuilt inventory is uncommon, such as in the field of automated material-handling systems). In this instance, the Commission also noted that one infringing unit in inventory represented 33% of the total imported units, and 50% of all units sold to date. Id.

3 *See Certain Arrowheads with Deploying Blades and Components Thereof and Packaging Therefor*, Inv. No. 337-TA-977, Comm'n Op. at 16-17 (April 28, 2017) (stating that a CDO would be a proper remedy if Complainant could show Respondent had "significant domestic operations" within the United States).

4 *See Certain Arrowheads with Deploying Blades and Components Thereof and Packaging Therefor*, Inv. No. 337-TA-977, Comm'n Op. at 17-18 (Apr. 28, 2017).

5 *See, e.g., Certain Toner Supply Containers and Components Thereof (I) ("Toner Supply")*, Inv. No. 337-TA-1259 Comm'n Op. at 20-21 (Aug. 19, 2022); *Certain Earpiece Devices and Components Thereof ("Earpiece Devices")*, Inv. No. 337-TA-1121, Comm'n Op. at 41-42 (Nov. 8, 2019); *Certain Hand Dryers and Housing for Hand Dryers*, Inv. No. 337-TA-1015, Comm'n Op. at 24 (Oct. 30, 2017); *Certain Mobile Device Holders and Components Thereof* ("Mobile Device Holders"), Inv. No. 337-TA-1028, Comm'n Op. at 27 (Mar. 22, 2018); *Certain Agricultural Tractors, Lawn Tractors, Riding Lawnmowers, and Components Thereof*, Inv. No. 337-TA-486, Comm'n Op. at 18 (Aug. 14, 2003); *Certain Rare-Earth Magnets and Magnetic Materials and Articles Containing Same*, Inv. No. 337-TA-413, USITC Pub. No. 3307, Comm'n Op. at 17-18 (May 2000).

6 *See Certain Mobile Device Holders and Components Thereof ("Mobile Device")*, Inv. No. 337-TA-1028, Comm'n Op. at 27 (Mar. 22, 2018).

7 *Earpiece Devices*, Comm'n Op. at 41.

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In contrast, the Commission will not automatically presume the presence of domestic inventories for foreign defaulting respondents. Instead, the Commission will assess whether the complaint alleges facts that support the inference that the defaulting foreign respondent maintains significant inventories in the U.S. For example, in *Liquid Crystal eWriters*, the Commission issued CDOs based on "allegations in the complaint that foreign defaulting respondents maintain commercially significant U.S. inventories and/or are engaging in significant commercial business operations in the United States."[8]

The Commission has recognized that "because the foreign respondents have defaulted, it is difficult for complainants to obtain detailed discovery to establish record evidence regarding the foreign respondents' U.S. business operations and agents, including the magnitude, ownership, and distribution channels for U.S. inventories of infringing products, and all reasonable inferences should be granted in favor of the complainant."[9] Because of this recognized difficulty, the Commission has been willing to infer significant domestic operations when complainant has shown that a foreign defaulting respondent conducted domestic distribution operations. In *Arrowheads*, the record showed that one shipment of infringing imported articles was shipped domestically from Las Vegas, Nevada and bore a U.S. business address of the foreign defaulting Respondent.[10] From this information about a domestic distribution address, the Commission inferred that the foreign defaulting Respondent conducted significant domestic operations. *See id*.

Similarly, in *Pillows* and *Seat Cushions*, evidence showing infringing products were likely shipped from China to distribution centers in California allowed the Commission to infer that Respondent had significant domestic operations and significant domestic inventory.[11] Here, the record consisted of orders and deliveries of an infringing product from the website Alibaba and UPS shipping labels from the package containing the infringing product with a return address in California.[12] Chairman Johanson and Commissioner Kearns found that "this evidence, particularly the U.S. return address, demonstrates sufficient domestic commercial activity to warrant the imposition of a cease and desist order."[13]

But, the Commission is unwilling to go as far as to "presume the presence of domestic inventories or other business operations in the United States" that would warrant a CDO.[14] The record must show more than foreign defaulting respondents simply having some contacts within the United States. *See, e.g.*, *Arrowheads*, Comm'n Op. at 21-22. For example in *Arrowheads*, the record showed certain foreign defaulting respondents had English language websites and those respondents conducted communications via email with a purchaser in the United States.

8 *Certain Liquid Crystal eWriters and Components Thereof ("Liquid eCrystal Writers")*, Inv. No. 337-TA-1035, Comm'n Op. at 6 (Sept. 26, 2017). *See also Certain Pillows and Seat Cushions ("Pillows and Seat Cushions")*, Inv. No. 337-TA-1328, Comm'n Op. at 9-10 (Nov. 13, 2023).

9 *Electric Skin Care Devices*, Inv. No. 337-TA-959, Comm'n Op. at 30 (Feb. 13, 2017); see Pillows and Seat Cushions, Comm'n Op. at 9-10.

10 *See Certain Arrowheads with Deploying Blades and Components Thereof ("Arrowheads")*, Inv. No. 337-TA-977, Comm'n Op. at 21 (Apr. 28, 2017).

11 *See Pillows and Seat Cushions*, Comm'n Op. at 12.

12 *Id*.

13 *Id.* Of note, Commissioners Schmidtlein and Karpel consider Section 337(g)(1) to be the appropriate authority regarding the issuance of CDOs as to both domestic and foreign defaulting Respondents. *See, e.g., Toner Supply Containers*, Inv. No. 337-TA-1259, Comm'n Op. at 22 (Aug. 18, 2022). In other words, they support the issuance of CDOs as long as the criteria under subsection 337(g)(1)(A)-(E) are met (i.e., (1) a respondent must be named in the complaint and the respondent is either served or refused service of the complaint and notice of investigation; (2) the respondent fails to show good cause why it should not be held in default for failing to respond to the complaint and notice of investigation, and (3) complainant must request that the CDO be limited to the defaulting respondent in its initial submission on remedy, bonding, and the public interest). *Id*.

14 *Earpiece Devices*, Comm'n Op. at 42 (*citing Mobile Device*, Comm'n Op. at 24).

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See id. at 21. The record was supplemented with shipping labels that indicated these specific foreign defaulting respondents directly shipped infringing products to U.S. customers of infringing products from China. *See id.* The Commission found this evidence insufficient by itself to establish either significant domestic activities or operations in the United States to warrant a cease and desist order. *See id.* at 22. Rather, the Commission determined that this evidence only indicated that the foreign defaulting respondents had contacts within the United States. *See id.*

Therefore, while the Commission will presume that domestic defaulting respondents maintain commercially significant inventories in the United States, the complainant must provide some more information if it hopes to secure a CDO as to a foreign defaulting respondent. Evidence of U.S. distribution centers or even shipping labels evidencing a U.S. distribution site are helpful to establish significant domestic operations, but having mere contacts (i.e. customers) within the United States will not suffice to obtain a CDO as to a foreign defaulting respondent.

For Complainants Seeking a CDO Against Contesting Respondents

In contrast, the Commission imposes a more rigorous standard on complainants seeking a CDO against a contesting respondent. A complainant must show that the CDO "is necessary to address the violation found in the investigation so as to not undercut the relief provided by the exclusion order."[15] In order to satisfy this burden, the complainant may prove the existence of "significant domestic operations" by showing that the respondent "plays a role in the United States in the sale or distribution of the Accused Products."[16]

In *Tobacco Heating*, the Commission issued a CDO against an active respondent based on the record showing that respondent had significant domestic operations that could undercut the remedy provided by an exclusion order alone.[17] Specifically, the respondent was found to have significant domestic operations because: (1) it was the exclusive licensee for the importation, distribution, and sale of infringing product in the United States; (2) it was involved in preparing and submitting regulatory paperwork to FDA; and (3) it was a Virginia-based company that is an affiliate of a larger USA-based corporation, which had commercially significant inventory of the infringing product.[18] Further, the Commission determined that respondent, as a domestic corporation and exclusive licensee for distribution and sale of the accused products, "would have an opportunity to undercut an exclusion order, especially in light of the commercially significant inventory already in the United States and . . . [the parent company's] expansion of infringing product sales . . . during the investigation."[19] Note, however, that in the same investigation, the Commission declined to issue a CDO against another active Swiss respondent because complainant failed to show that respondent had either a significant domestic inventory or significant domestic operations.[20] Although the Swiss respondent had corporate connections to the other domestic respondents, admitted importation, had involvement in the design and manufacture of the accused products, and had consulted on FDA submissions, the Commission found "no evidence as to whether [it] plays a role in the United States in the

15 *Certain Tobacco Heating Articles and Components Thereof ("Tobacco Heating")*, Inv. No. 337-TA-1199, Comm'n Op. at 49-50 (Oct. 19, 2021) *(citing Certain Integrated Repeaters, Switches, Transceivers, & Prods. Containing Same*, Inv. No. 337-TA-435, USITC Pub. No. 3547 (Oct. 2002), Comm'n Op. at 27 (Aug. 16, 2002); see also H.R. REP. No. 100-40, at 160 (1987)).

16 *Tobacco Heating*, Comm'n Op. at 54 (Oct. 19, 2021). Of note, Commissioner Schmidtlein does not believe that inventory or domestic operations needs to be "commercially significant" in order to issue the CDO; rather, she takes the position that the presence of some infringing domestic inventory or domestic operations, regardless of its commercial significance, provides a basis to issue a CDO. *Id*. at 49.

17 *See Tobacco Heating*, Comm'n Op. at 54 (Oct. 19, 2021).

18 *See id*. at 52.

19 *Id*.

20 *Id*.

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sale or distribution of the Accused Products."[21] This underscores the difficulty of demonstrating significant domestic inventory or operations for foreign contesting respondents without evidence of their sales or distribution work in the U.S.

By contrast, in November of 2023, ALJ Bhattacharyya recommended issuance of a CDO as to a respondent on the basis of significant domestic operations, even though the respondent had no domestic inventory.[22] In *Outdoor and Semi-Outdoor*, the ALJ found that respondent, a U.S. company, had domestic operations designing, selling, and delivering the accused products to U.S. customers.

Some takeaways with these investigations are: (i) the importance of building a record of the respondent's involvement in the sales and distribution of the accused products, even if there is little or no U.S. inventory, (ii) the value of gathering circumstantial evidence of significant domestic operations (e.g., exclusive licensee or an affiliate of other respondents with commercially significant inventory), and (iii) the higher bar for CDOs as to foreign respondents.

Conclusion

Parties should pay attention to the type of evidence detailed above that the Commission finds persuasive when evaluating whether a CDO is warranted. The Commission now considers much more than inventory numbers in its CDO analysis. Moreover, the Commissioners' debate on the legal requirement for CDOs has been ongoing for several years and would be worth watching for further developments.

21 *Id.*

22 *See Certain Outdoor and Semi-Outdoor Electronic Displays, Products Containing Same and Components Thereof ("Outdoor and Semi-Outdoor")*, Inv. No. 337-TA-1331, 2023 WL 8664244, Initial Determination (Nov. 27, 2023).