Response of the United States Delegation to the Canadian Statement

1. At the meeting of the Council on 1 October 1982, the Canadian delegation stated that the report of the Panel in the spring assemblies dispute (L/5333) should not be adopted. The Canadian statement at that meeting has now been circulated to the contracting parties (C/W/396). As stated at the meeting of the Council on 1 October, the United States believes that the report of the Panel in the spring assemblies case is correct in its essential legal conclusions and should be adopted. Each contracting party must consider the report on its own merits, rather than on characterizations of it by the parties. The U.S. delegation, however, does wish to respond to the comments of the Canadian delegation which were circulated in C/W/396.

2. Canada argues first that the Panel "erred fundamentally in interpreting its terms of reference and as a result has not addressed the real issue put to it". We disagree. The terms of reference specified that the Panel examine "the exclusion of imports of certain automotive spring assemblies ... under section 337... and including the issue of the use of section 337 by the United States in cases of alleged patent infringement...". The Panel concluded that the exclusion order issued by the ITC against imports of spring assemblies fell within the provisions of Article XX(d) and, therefore, was consistent with the GATT (paragraph 61 of the report). The Panel further expressly addressed the issue of the use of section 337 in cases of alleged patent infringement (paragraphs 62 to 66 of the report), concluding that its finding in the spring assemblies case would, in principle, apply to many other similar cases, but leaving open the question of GATT consistency in other circumstances.

3. In support of their view, the Canadian delegation argues, in C/W/396, that the Panel focused on the exclusion order, per se, without examining the procedures of section 337 for determining whether or not there has been an infringement of a valid U.S. patent. In our view, this Canadian argument does not represent accurately the Panel report.
4. As is evident in the report's summary of the main arguments presented to the Panel, Canada indeed did contend that the separate procedures for determining whether there was patent infringement under U.S. law contravened Article III and that the use of section 337 in the case of spring assemblies and in general did not fall within the general exception to other obligations contained in Article XX(d). We agree that the Panel did not make findings on the Article III issue. The Panel expressly refrained from doing so on the correct grounds that it is not necessary to make findings concerning Article III when the measure at issue is excepted from the obligations of the GATT by Article XX(d) (paragraphs 50, 53 and 61 of the Panel report). The preamble to Article XX states that, subject to the specified conditions, "nothing in this Agreement shall be construed to prevent" the delineated measures. Article XX is thus a general exception, including an exception to Article III.

5. The Panel report provides a clear and reasoned finding with respect to Canada's contention that section 337, as used in patent infringement cases, does not fall within the Article XX(d) exception. Furthermore, we believe it is evident in the Panel report that the Panel was not simply addressing the question whether an exclusion order against patent infringing imports, however arrived at, falls within the Article XX(d) exception. In paragraph 54, the report states that the "measure" at issue is "the exclusion order issued by the United States International Trade Commission (ITC) under the provisions and procedures of section 337" (emphasis supplied). In paragraph 56, the Panel states that "before an exclusion order could be issued under section 337, both the validity of a patent and its infringement had to be clearly established". The Panel considered, in paragraphs 58 through 60, whether proceedings in a U.S. court would provide a satisfactory alternative remedy. Because of legal limits on the remedial and jurisdictional powers of U.S. courts discussed in paragraph 59, the Panel found that a civil court action in the particular case of spring assemblies would not have been satisfactory or effective. In paragraph 60, the Panel states its view that the "exclusion order procedure" was the only effective way to enforce patent rights against imports in this case, and that the exclusion order issued by the ITC under section 337 was "necessary" in terms of Article XX(d).

6. In addressing the issue of the use of section 337 in patent infringement cases generally (paragraphs 62 to 66 of the report), the Panel report takes a cautious approach, consistent with sound GATT tradition (paragraphs 62 to 66 of the report). The Panel had before it the full record of only one specific case in which section 337 was applied. The Panel report states in paragraph 64 that its finding with respect to the spring assemblies case would apply in principle to many cases of alleged "patent" infringement. In paragraphs 65 and 66, however, the Panel notes its view that there could be other cases where a judicial procedure could provide an equally satisfactory and effective remedy for patent infringement
and the use of an exclusion order under section 337 might not be "necessary" in terms of Article XX(d). The report mentions a number of factors the Panel considered relevant in this regard, including the nature of the particular product at issue, its use, and the degree of difficulty in service of process and enforcement of judgements in a court proceeding.

7. We believe, therefore, that the Panel properly addressed the issues in accordance with its terms of reference. Canada's main argument before the Panel was that the use of section 337 did not conform with GATT because of procedural differences between a section 337 proceeding to enforce patent rights with respect to imports and a court proceeding to enforce the same rights with respect to domestic producers. In the case of Spring Assemblies, the Panel found that remedies available in a proceeding in a U.S. District Court would not have provided a satisfactory and effective means of protecting patent rights from infringement by imports, and that the exclusion order procedure of section 337 was therefore "necessary" in the sense of Article XX(d). In finding under Article XX that the U.S. action also was not a "disguised restriction on international trade", the Panel noted that an exclusion order was issued only after patent infringement had been clearly established. We believe that the main argument of Canada thus is answered by the Panel report. Differences of procedures for enforcement of national laws may be necessary where the procedure applied to domestic products would not provide an effective remedy or means of enforcement with respect to imports.

8. Canada also contends in C/W/396 that the Panel's findings with respect to existing U.S. law would seem "to suggest that if a contracting party elects not to equip itself with effective enforcement procedures with respect to imports for its laws of general application, then it is free to deny national treatment, even to the extent of having a discriminatory adjudicative process". The United States believes that the open and fair proceedings followed in a section 337 case constitute treatment "no less favorable" than that accorded a defendant in a U.S. District Court. In our view this Canadian contention, which was argued repeatedly before the Panel, misinterprets GATT Article III:4, misrepresents the Panel report and certainly exaggerates the precedent in this report. First, the Panel report sets no precedent for the interpretation of the national treatment obligations of Article III. As stated in paragraph 50 of the Panel report, Article XX(d) was the sole basis for the Panel's findings. Second, the Panel did not create a new loophole in the GATT, but, rather, applied one of the express exceptions provided in the GATT itself. By definition, an exception to obligations allows actions that might not otherwise conform to GATT rules. The Panel has not given a broad interpretation to Article XX in this case, nor does the report open the door to new measures outside the delineated exceptions of Article XX. Third, the United States law in this case entails limitations in the U.S. legal system with respect to the jurisdictional and enforcement powers of U.S. courts. These limitations are
Constitutional in nature. They apply to all actions in U.S. courts, not just to actions for patent infringement, and they long pre-date the GATT. It also might be noted that the current section 337 is an amended version of a U.S. law enacted in 1922.

9. Canada also suggests in paragraph 5 of C/W/396 that the Panel report could create an unfortunate precedent with regard to general exclusion orders – orders excluding importation of any product that infringes the patent, regardless of the source. This Canadian argument overstates the findings of the Panel. The Panel did find that the general exclusion order was proper in terms of Article XX(d) in the Spring Assemblies case, and, implicitly, that it would be proper in cases involving similar circumstances. However, nowhere in the report does the Panel state that a general exclusion order would be necessary or in conformity with the GATT in all circumstances. U.S. policy with respect to section 337 is to provide relief to the extent necessary to enforce the patent rights in question, including use of general exclusion orders in circumstances such as are described in paragraph 12 of the Panel report.

10. In paragraph 8 of the C/W/396, Canada concludes that "it is neither necessary nor desirable for the Council" to adopt the Panel report or "take a substantive decision on this item". Canada cites three reasons for this view. First, Canada contends that the report did not address the main issue, and therefore does not provide an adequate basis for the CONTRACTING PARTIES to make a ruling. For the reasons summarized above, the United States believes that the Panel has provided an answer to the main Canadian argument, that the report comes to correct conclusions, and, accordingly, that the report should be adopted. We consider adoption of the report to be a sufficient ruling in terms of Article XXIII:2.

11. Second, Canada says there is now no urgency to the case, "since the Canadian firm has taken the only course open to it to be able to continue to supply its customers by transferring production of spring assemblies to the United States". We find this statement extraordinarily disingenuous in its omissions. As noted in paragraph 10 of the report, the Canadian firm had rejected the patent holder's offer to license that firm to sell the patented product in the United States. The Canadian firm did move its production to the United States after the exclusion order was issued, but the Canadian document fails to mention that the firm was considering such a move prior to the issuance of the exclusion order and was sued promptly for patent infringement in a U.S. District Court after it began manufacture in the United States. Pending the outcome of that case, the firm was under a court order to deposit money into a special escrow account, to be used to satisfy any judgement for damages. The District Court, on 15 October, enjoined the firm from further manufacture or sale in the United States of spring assemblies that infringe the product patent or from the use of the process
that would infringe the method patent. As noted in the panel report, the
decision of the ITC was appealed to the United States Court of Customs and
Patent Appeals, which now reviews all appeals from patent-based decisions of
U.S. District Courts or administrative agencies. The Court upheld the ITC's
decision that the patents were valid and infringed. Had the Court
disapproved the ITC's decision, the exclusion order would have been
rescinded.

12. The third rationale offered by Canada for not adopting the Panel report
is that "since there has been no finding on the main issue, it would be open
to Canada or any other contracting party to initiate a new dispute
settlement proceeding if required". For reasons already summarized, we
disagree with Canada's contention that the report did not address the main
issue. Furthermore, we are puzzled by the implication that adoption of this
report would foreclose the rights of any contracting party to initiate
future dispute settlement cases. Certainly, the report, if adopted, would
become a precedent for future, materially similar cases. Adoption of the
report would not foreclose the right of any contracting party to invoke
dispute settlement procedures. The United States recognizes that this Panel
report does not accord blanket GATT approval to every action that might be
taken under section 337. We believe that section 337 is implemented in
accordance with U.S. GATT obligations in all cases. The ability of the
President of the United States to disapprove ITC determinations in 337 cases
assures this. We also recognize that the Panel findings are based on
relatively narrow grounds that leave open the GATT question in materially
different circumstances.

13. The United States does not believe that the Canadian delegation has
presented any sound justification for the highly unusual step of not
adopting the Panel report. The United States does not contend that Panel
reports must be adopted in all cases. However, the decision to put aside a
Panel report should not be taken lightly. So far as we are aware, the
Council has decided not to adopt a Panel report in only one case. In that
case, a very large number of delegations objected to adoption of a report
that they considered contained interpretations of GATT with which they could
not agree. There has been no allegation in this case that a panel has
misinterpreted the provisions of the GATT. The dispute settlement process
could be damaged seriously if it were to become common GATT practice to put
aside panel reports were no violation of GATT obligations is found. It is
difficult, as is, for parties whose practices are challenged to accept
rulings that their practices do not conform with GATT. Parties may become
even more reluctant to have their practices examined in dispute settlement
proceedings if only findings against the challenged practices will be
adopted.

14. We do not ask that this report be adopted merely because this is the
traditional GATT practice. Rather, we believe that Canada has not presented
valid reasons for deviating from traditional GATT practice. The United
States would be pleased to discuss this matter further with any interested
delegation.