

In the Matter of

CERTAIN MODULAR STRUCTURAL SYSTEMS

Investigation No. 337-TA-164



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UNITED STATES INTERNATIONAL TRADE COMMISSION

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DOCUMENTS

CERTAIN MODULAR STRUCTURAL SYSTEMS)

Investigation No. 337-TA-164

COMMISSION MEMORANDUM OPINION

This investigation, conducted under section 337 of the Tariff Act of 1930, ^{1/} concerns a structural connector which is the subject of three patents and which is alleged to have a configuration which acts as an indication of origin. On March 29, 1984, the administrative law judge (ALJ) issued an initial determination (ID) that there is a violation of section 337.

On June 4, 1984, the Commission determined to (1) review the ID on its own motion ^{2/} and (2) terminate the investigation as moot. Additionally, the Commission determined that, in any event, there is no violation of section 337 because there is no "industry . . . in the United States" within the meaning of section 337 as to the subject patented connector nor is such an industry being prevented from being established.

Procedural History

On August 8, 1983, FOGA Systems Division of R.C. Dudek & Company, Inc. (FSD) filed a complaint with the Commission under section 337. Addenda to the

^{1/} 19 U.S.C. § 1337.

^{2/} Commission rule 210.55, 19 C.F.R. § 210.55.

complaint were filed on August 24 and September 1, 1983. On the basis of that complaint, the Commission instituted this investigation on September 7, 1983. ^{3/} The notice of investigation defined its scope as the determination of whether there is a violation of section 337 in the importation of the subject articles into the United States, or in their sale, by reason of alleged: (1) infringement of claims 1-3 of U.S. Letters Patent 4,334,797 (the '797 patent); (2) infringement of claims 1-2 of U.S. Letters Patent 3,672,710 (the '710 patent); (3) infringement of the claim of U.S. Letters Patent Des. 263,676 (the design patent); and (4) false representation, the effect or tendency of which is to destroy or substantially injure an industry, efficiently and economically operated, in the United States. The patents cover certain structural connectors for joining together building elements, such as aluminum extrusions, to make frames for partition panels, display panels, and the like. On March 5, 1984, the Commission amended the notice of investigation to add prevention of the establishment of an industry in the United States to the scope of the investigation. ^{4/}

The following firms were named respondents in the notice of investigation:

- (1) Otto Fastening Systems, Ltd., Edmonton, Canada (Otto).
- (2) Otto-matic, Santa Monica, Calif. (Otto-matic).
- (3) Mars Materials, Inc., Atlanta, Ga. (Mars).
- (4) Sugar Creek Studios, Inc., Atlanta, Ga. (Sugar Creek).
- (5) Phil Gabel, Fox River Grove, Ill. (Gabel).

^{3/} 48 F.R. 41531 (September 15, 1983).

^{4/} 49 F.R. 9628 (March 14, 1984).

(6) Diamond Distributor, Inc., Huntington Beach, Calif. (Diamond).

(7) Outwater Plastics, Inc., Passaic, N.J. (Outwater).

On March 29, 1984, the ALJ issued an ID "granting summary determination in favor of complainant, and terminating the investigation in part." 5/ The ID was based on a motion for "summary determination or alternatively for an order specifying facts without substantial controversy (19 C.F.R., Chap. II § 210.50)," filed by complainant FSD on February 27, 1984. 6/ FSD supplemented its motion on March 14 and March 19, 1984. The Commission investigative attorney supported the motion in part and opposed it in part. None of the named respondents have filed answers or participated in the case in any way, and thus none of them filed an opposition to the motion. 7/ No petitions for review of the ID were filed, and no Government agency comments were received. The record, however, suggested that the investigation had become moot as a result of an injunction and seizure order (discussed infra) issued by the Federal Court of Canada on January 10, 1984, against Otto, the sole exporter of the allegedly infringing articles to the United States.

On April 30, 1984, the Commission extended the time for determining whether to review the ID until June 4, 1984. 8/ The Commission also ordered

5/ Order No. 7.

6/ Motion 164-4.

7/ According to the ID, respondents Mars and Sugar Creek filed a letter on February 17, 1984, stating that they could not afford to participate in the investigation but were taking steps to "discontinue the distribution and/or use of the particular items that complainant contends violate their patents or other rights." ID 3, citing Ex. B to Motion 164-4.

8/ 49 F.R. 19746 (May 9, 1984).

complainant FSD to show cause why the investigation should not be terminated as moot as a result of the Canadian court judgment. The Commission ordered that complainant's showing be made by written submission to be filed with the Office of the Secretary by May 14, 1984, and that the Commission investigative attorney was to file a response by May 21, 1984. Because of their failure to answer or otherwise participate in this investigation, the Commission ordered that no response by any respondent would be accepted, except for good cause shown.

On May 14, 1984, FSD filed a memorandum to show cause why the investigation should not be terminated as moot. On May 21, 1984, the Commission investigative attorney filed a response, arguing that the investigation is moot. No responses were filed by any of the respondents.

Mootness

The gravamen of the complaint is unfair practices in the importation of a structural connector, known as the Otto # 101 connector. Otto, the only foreign respondent, is located in Canada and is the sole named exporter. The remaining respondents are U.S. firms or individuals who purchase from Otto. However, it appears that no further importation from Otto of its # 101 connector will take place. On January 10, 1984, an injunction and seizure order were issued against Otto by the Federal Court of Canada in an action for patent and copyright infringement brought by Foga System A.B. (Foga), a Swedish company, in which Otto defaulted. 9/ The Canadian suit was based on

9/ Foga System A.B.v. Otto Fastening Systems Ltd., No. T-2159-83 (Federal Court of Canada, January 10, 1984).

Foga's Canadian patents and copyrights which correspond to the U.S. patents involved here. FSD alleges that it is the exclusive licensee under those U.S. patents. A copy of the Canadian court's judgment was included as Exhibit D of FSD's motion for summary determination. Among other things, Otto is enjoined from making, using, selling or offering for sale in Canada its # 101 connector and all existing # 101 connectors were ordered to be delivered up to Foga or destroyed. A Writ of Delivery was issued by the court on February 21, 1984, and was executed by the sheriff and agents of Foga on February 29, 1984. ^{10/}

Exclusion orders and cease and desist orders, the only relief the Commission can give, are analogous to injunctions. An injunction will not be granted if the acts complained of have ceased, providing that there is no reason to believe they will recur. ^{11/} That is the case here. The judgment of the Federal Court of Canada precludes export sales of the #101 connector by Otto. There is no indication on the record that Otto will not comply with the judgment and the execution of the Writ of Delivery positively indicates that the court's judgment is being enforced.

In its memorandum to show cause why this investigation should not be terminated as moot, FSD argues that

- (1) "OTTO is not the only known foreign manufacturer of the infringing connectors";

^{10/} A copy of the Writ of Delivery is included as Exhibit D of the affidavit of Kevin P. Feehan which was attached to FSD's first supplement to its motion for summary determination. Mr. Feehan, a Canadian barrister and solicitor, was retained by Foga's Canadian trial counsel to obtain and execute the Writ of Delivery. His affidavit describes how the execution of this writ was accomplished.

^{11/} See, United States v. W.T. Grant Co., 345 U.S. 629, 633 (1953).

- (2) "other manufacturers can easily enter the United States market for the patented connectors and associated modular structural systems";
- (3) "OTTO has been undaunted by the Canadian default judgment";
- (4) "OTTO can continue to utilize the Japanese manufacturer to ship directly to the United States"; and
- (5) "FSD is continuing to suffer harm from inferior infringing products." ^{12/}

FSD's first argument is based on a statement in the Feehan affidavit that several canisters which were seized during the execution of the Writ of Delivery were "marked with identifying marks showing that the contents were manufactured in Japan." ^{13/} Even assuming that the contents of the canisters were manufactured in Japan, however, they comprised only the three metal components of the four-component connector, i.e., "the Allen screws, the bolts and the square connector pieces." ^{14/} The fourth component, which is made of plastic and which was seized in boxes, is clearly made in Canada by a subcontractor of Otto. ^{15/} FSD thus overstates the facts when it says that "Otto was obtaining the connectors by importing them from a Japanese manufacturer" and that an "unnamed Japanese concern was manufacturing the infringing connectors on behalf of Otto at the time of the seizure." ^{16/} At most, the record shows that Otto was obtaining some quantities of the metal

^{12/} FSD Memorandum (filed May 14, 1984), p. 8.

^{13/} Feehan affidavit, para. 12.

^{14/} Feehan affidavit, para. 10.

^{15/} See, affidavit of Steve Luchak attached to FSD's first supplement to its motion for summary determination, especially paras. 30-31. Mr. Luchak is a private investigator with a firm retained by Foga's Canadian trial counsel.

^{16/} FSD Memorandum (filed May 14, 1984), pp. 3-4.

component parts from Japan at a particular point in time. ^{17/} We note that the record shows that Otto manufactured those components itself as well and perhaps had other offshore sources also, indicating that Otto simply obtained these metal component parts wherever it could. ^{18/}

As to FSD's second argument, i.e., that manufacturers other than Otto can easily enter the United States market for the patented connectors, FSD cites the "relative simplicity of the [four] unique connector components" and the "relatively modest capital investment . . . necessary for a manufacturer to begin to produce the patented connector", referring to the sum FSD spent to produce engineering drawings and solicit subcontractors to initiate its proposed domestic manufacture of the patented connector. ^{19/} At most, this shows only a possibility of infringing connectors being imported into the United States in the future by firms (now unknown) other than Otto, either independently, or as FSD also suggests, at the instance of Otto. But the mere possibility of future importation falls short of providing a reason to believe that such importations will actually take place and thus does not avoid mootness.

^{17/} It is unclear whether different Japanese companies had supplied the seized metal components or for how long they had been suppliers
 See, affidavit of Victor E. Carlson attached to FSD's first supplement to its motion for summary determination, para. 3. Mr. Carlson is Vice-President and General Manager of complainant.

^{18/} See, Luchak affidavit, paras. 5, 25, and deposition of Victor E. Carlson, Exhibit C attached to response of Commission investigative attorney to FSD's motion for summary determination, pp. 45-46.

^{19/} FSD Memorandum (filed May 14, 1984), pp. 4-6. We note that this sum is that spent

FSD's other arguments on mootness are also without merit. There is no indication that Otto has been "undaunted" by the Canadian judgment. The fact that components for the Otto #101 connector were found on the premises of Otto during execution of the Writ of Delivery in February, 1984, is not inconsistent with the January, 1984, judgment since as of the date of the judgment, Otto was essentially ordered to retain its inventory pending issuance and execution of the Writ of Delivery. The post-judgment advertisements by Otto referred to by FSD do not refer to the Otto #101 connector, which was only one product among many in Otto's product line. That the domestic respondents attend trade shows and allegedly solicit FSD's customers says nothing about Otto's activities. As to FSD's argument that it continues to suffer harm to its business reputation resulting from consumer dissatisfaction with inferior infringing connectors imported and sold by the respondents, this appears to refer to pre-judgment importations and thus has nothing to do with the question of the possibility of post-judgment importations.

Industry

Having determined that this investigation should be terminated as moot, it is not necessary for us to reach the substantive issues which underpin the ID. Nevertheless, because of the importance of the issues relating to "industry", we reach these issues and determine that even if this investigation were not moot, there is no violation of section 337 because, contrary to the finding in the ID, there is no "industry . . . in the

United States " within the meaning of section 337, nor is such an industry being prevented from being established. ^{20/}

The patented article is a structural connector sold by FSD as its # 600 connector. The FSD #600 connector is used primarily to connect aluminum extrusions (referred to as profiles, of which FSD sells 35 types) to make

^{20/} This determination, reversing the ID, is appropriate even though the ID is founded on a motion for summary determination. Motions for summary determination are analogous to motions for summary judgment and have the same object: to avoid a useless trial. They are governed by Commission rule 210.50 (19 C.F.R. § 210.50) which provides, inter alia, that:

The determination sought by the moving party shall be rendered if the pleadings and any depositions, admissions on file, and affidavits show that there is no genuine issue as to any material fact and that the moving party is entitled to a summary determination as a matter of law. [Emphasis supplied.]

The rule itself indicates that mere lack of opposition does not mean that the motion will be granted. Indeed, under the Commission's prima facie case rule, default judgments cannot be entered since that rule requires complainants to present evidence to make out a prima facie case of violation. Thus rule 210.50 and the prima facie case rule permit grant of summary determination to the movant only if it is entitled to it as a matter of law on the basis of the material facts about which there is no controversy. Furthermore, as in the Federal courts, summary determination in favor of the non-moving party (i.e., the respondent) is appropriate if the application of the law to the material facts about which there is no controversy entitles the respondent to such judgment. See, Moore's Federal Practice, ¶ 56.12. (Effectively, when a court has before it a non-jury case where all the material facts have been established by agreement of the parties or otherwise, the judgment it renders is technically not a disposition by summary judgment but a trial of the case. Wright, Federal Practice and Procedure § 2720.)

Such is the situation here. There is no genuine issue of material fact, but the applicable law requires a determination of no violation of section 337, because there is no "industry . . . in the United States" within the meaning of section 337 nor is such an industry prevented from being established.

We do not reach the other substantive issues in the ID and do not approve or disapprove them.

frames for partitions, display panels and the like. ^{21/} It is much like a connector in an Erector Set. ^{22/} The possible combinations are numerous and the number of connectors for each possible combination varies widely. ^{23/}

There are four component parts to the FSD # 600 connector, each of which is quite simple: (1) a nylon case; (2) a combination carriage and nut, made of steel, which is inserted in the nylon case; (3) a steel locking bolt which is inserted in the case and carriage assembly and (4) a steel grub screw, which is inserted in the nut to engage the lock bolt. ^{24/} The four parts are assembled as part of the actual connection process. ^{25/} Assembly requires only a small Allen key and takes only a few seconds. ^{26/}

FSD purchases the # 600 connector from Foga in Sweden and imports it in its four component parts. ^{27/} After arrival, limited samples are given a simple inspection. ^{28/}

FSD sells the # 600 connectors and aluminum extrusions, as well as many

^{21/} See Complaint, Exhibit R.

^{22/} An analogy drawn by Mr. Victor E. Carlson, Vice President and General Manager of complainant. Carlson Deposition, pp. 10, 19.

^{23/} See Complaint, Exhibit R; Carlson Deposition, p. 98.

^{24/} See Complaint, Exhibit R.

^{25/} Id.

^{26/} See Complaint, Exhibit R; Carlson Affidavit, p. 7.

^{27/} Complaint, para. 46; Carlson Deposition, pp. 16, 24, 42-43, 45. It appears that when an order is shipped from Sweden, the components arrive separately packaged. Deposition of Robert Garsen, Exhibit D attached to response of Commission investigative attorney to FSD's motion for summary determination, p. 43. Mr. Garsen is General Manager of complainant.

^{28/} Carlson Deposition, p. 25.

other related products, to dealers. ^{29/} 30/ The connectors are generally sold unassembled, i.e., in their four component parts. 31/

Established dealers order various lengths of various extrusions, a number of connectors and do their own design work and fabrication (cutting the extrusions to length according to the design, punching holes in the extrusions for receipt of the grub screw, and assembly with the connector). ^{32/} New dealers with special design problems may look to FSD for assistance, but after an initial period FSD charges an engineering fee. ^{33/} Dealers who order extrusions sometimes request the extrusions to be cut and punched and the connector to be installed in the extrusions by FSD. ^{34/} A general mark-up equal to a percentage of the total value of materials is charged for this service (beyond any engineering design fee that might be involved). ^{35/} However, FSD prefers that dealers do their own cutting and punching of extrusions and assembly and installation of connectors, ^{36/} and nearly all

^{29/} Carlson Deposition, pp. 16-21, 23; Garsen Deposition, pp. 5-10. There are apparently some sales directly to end users, but dealer sales are by far the largest market. Carlson Deposition, p. 102; Garsen Deposition, pp. 77-78.

^{30/} FSD does not make the extrusions it sells, but arranges for their manufacture by various domestic subcontractors. Carlson Deposition, pp. 21, 30; Complaint, para. 51. Mr. Garsen indicated that some extrusions, as well as several other products, are imported from Sweden. Garsen Deposition, pp. 46-61.

^{31/} Carlson Deposition, pp. 16-21.

^{32/} Carlson Deposition, pp. 21, 24, 26-27, 31. These dealers, referred to as stocking or inventory dealers, must, to obtain a dealer pricing structure, carry a \$10,000 minimum initial prescribed inventory package. Garsen Deposition, pp. 9, 62, 66-67, 106-107.

^{33/} Carlson Deposition, pp. 27-28.

^{34/} Id., pp. 31, 34.

^{35/} Id., p. 34.

^{36/} Id., p. 31 and see, Id., pp. 33-34.

dealers do so. ^{37/} FSD encourages dealers to do their own cutting and punching because "we want to be in the tonnage business and supply our dealers with materials." ^{38/}

The Commission has a longstanding practice of defining the industry in an intellectual-property-based section 337 case in terms of the article or articles resulting from the exploitation of the involved intellectual property right, a principle which was recently upheld by our reviewing court. ^{39/} In certain circumstances, the realities of the marketplace require a modification of that principle. For example, it may happen that the article resulting from the exploitation of the involved intellectual property is not itself an actual article of commerce, but is physically incorporated in an article of commerce. ^{40/}

Applying that principle, it is clear that the "industry" in this investigation should be defined in terms of FSD's # 600 connector, which is protected by the claims of the patents and, by definition, possesses the product configuration alleged to act as an indication of origin. ^{41/} No modification of the principle is required because it is clear that the FSD # 600 connector is a separate article of commerce. It is listed as a separate

^{37/} Garsen Deposition, p. 106.

^{38/} Garsen Deposition, p. 20.

^{39/} Certain Miniature, Battery-Operated, All Terrain, Wheeled Vehicles, Inv. No. 337-TA-122, USITC Pub. No. 1300 (October 1982) ("Toy Vehicles"), aff'd., Schaper Manufacturing Co. v. USITC, 717 F.2d 1368 (CAFC 1983).

^{40/} See, Certain Personal Computers and Components Thereof, Inv. No. 337-TA-140, USITC Pub. No. 1504 (March 1984).

^{41/} The product configuration is apparently that of the assembled connector.

article in the FSD FOGA catalog. ^{42/} ^{43/} It is listed separately on FSD invoices. ^{44/}

Having defined the industry in terms of the patented connector, it remains only to determine the nature and significance of FSD's activities in the United States with respect to the patented connector to determine whether there is an industry "in the United States" within the meaning of section 337. ^{45/} As mentioned, FSD imports the # 600 connector from Sweden in its four simple components, subjects it at best to a minimal inspection, and generally sells it to dealers in its four component parts. Such activities are insufficient to support a finding that there is an industry "in the United States" within the meaning of section 337 as to the patented FSD #600 connector. ^{46/}

FSD and the Commission investigative attorney argued before the ALJ that the industry should be defined in terms much more broadly than the patented article, i.e., that it should be defined in terms of the various combinations of the patented connector and the 35 types of aluminum extrusions sold by FSD which can be connected together with it. FSD argued that the extrusions and connectors, when assembled, form a "system" (the "modular structure"), stating that the connectors are essential to the modular structure, even though forming only a small percent of its price. FSD also asserted that the value

^{42/} Complaint, Exhibit R.

^{43/} Addendum to Complaint, Confidential Exhibit A.

^{44/} Affidavit of Robert Garsen, Exhibit E, attached to FSD's first supplement to its motion for summary determination.

^{45/} Toy Vehicles, Schaper, supra.

^{46/} Id.

added to the connectors includes the value of the extrusions themselves and also that significant value is added to the patented connector per se by the following: "purchasing effort", "freight", "customs duties and costs", "inspection and quality control", "installation and assembly", and "profit." 47/ "Installation and assembly" was defined as "the actual insertion and assembly of a connector into an extrusion." 48/

The Commission investigative attorney made similar arguments.

The ALJ found an industry to exist, stating that the connectors are a critical component of a system which is otherwise substantially manufactured domestically. She also found that the domestic value added to the connector is equal to its imported cost. 49/

The ALJ's finding is clearly erroneous for the reasons explained previously: the industry must be defined in terms of the patented connector, a separate article of commerce for which the nature and significance of FSD's activities in the United States are insufficient to support a finding that there is an industry "in the United States" with respect thereto. As to the value-added argument in this investigation, "purchasing effort", "freight," "customs duties and costs," and "profit" are not includable in this analysis. 50/ As noted above, "inspection and quality control" are minimal,

47/ FSD motion for summary determination, pp. 16-17.

48/ FSD motion for summary determination, p. 17. It was defined as not including the cutting and preparation of extrusions to receive the connector. Id.

49/ ID, pp. 10-11.

50/ See, Toy Vehicles, Schaper, supra.

and "installation and assembly" are only sometimes done by FSD. ^{51/} The value added is minimal at best. ^{52/}

Prevention of Establishment

The ALJ did not make a finding as to whether an industry was being prevented from being established in the United States, stating that such a finding was unnecessary in view of her finding that there already is an "industry . . . in the United States." In its motion for summary determination, FSD argued that its anticipated U.S. manufacture of the four components " is set to begin in the very near future" and that orders for parts "will be placed at the end of March, 1983 [sic], with deliveries about six weeks thereafter." Nevertheless, FSD argued that respondents are frustrating FSD's attempt to stabilize nascent manufacturing operations by "destroying consumer confidence in the product and depriving [FSD] of its exclusive right to derive legitimate profits from its licensed patents and to recover its associated start up expenses."

The Commission investigative attorney argued that to the extent the question of prevention may be addressed, FSD had failed to show a nexus between respondents' activities and FSD's efforts to produce the patented connector in the United States.

^{51/} We note that the figures given for these appear to be, at best, only estimates by an interested party and are questionable on numerous grounds.


^{52/} See Toy Vehicles, Schaper, supra. We note that since the question of "industry" requires facts peculiar to FSD, the prima facie case rule precludes reliance on requests for admissions and discovery sanctions to establish those facts.

We determine that FSD has not shown that an industry in the United States is being prevented from being established by respondents' activities. Since January 10, 1984, the possibility of future importations of the Otto # 101 connector from Canada appears to have been eliminated by the Canadian court order. In addition, FSD itself states that its plans for domestic production "will take place irrespective of the outcome of this action," i.e., even if imports of the Otto # 101 connector were to continue. ^{53/} The record shows that indeed these plans have been and continue to be carried forward without any significant hindrance by imports.

^{53/} FSD motion for summary determination, p. 18.

CERTIFICATE OF SERVICE

I, Kenneth R. Mason, hereby certify that the attached Commission Memorandum Opinion was served upon Lynn I. Levine, Esq., and upon the following parties via first class mail, and air mail where necessary, on August 3, 1984.


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....(Cont'd.)

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