UNITED STATES INTERNATIONAL TRADE COMMISSION

In the Matter of:	)	
	)	Investigation No. 337-TA-10
CERTAIN ULTRA-MICROTOME FREEZING ATTACHMENTS	)	

COMMISSION MEMORANDUM OPINION IN SUPPORT OF THE COMMISSION ACTION

USITC Publication 771
Washington, D. C.
April 1976

UNITED STATES INTERNATIONAL TRADE COMMISSION

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UNITED STATES INTERNATIONAL TRADE COMMISSION
Washington, D.C.

[337-TA-10]

CERTAIN ULTRA-MICROTOME FREEZING ATTACHMENTS

NOTICE AND ORDER

Concerning Commission Action Terminating Investigation

Upon receipt of a complaint, as supplemented, filed by American Optical Corporation of Southbridge, Mass. (hereinafter "AO"), the United States Tariff Commission (now the United States International Trade Commission; hereinafter "Commission") initiated a preliminary inquiry on August 14, 1974 (notice published on Aug. 19, 1974 (39 F.R. 29975)), into whether, within the meaning of section 337, Tariff Act of 1930, as amended prior to the passage of the Trade Act of 1974, there existed unfair methods of competition or unfair acts in the importation or domestic sale of ultra-microtome freezing attachments covered by U.S. Letters Patent 3,495,490. LKB Produkter AB, Ltd., of Stockholm, Bromma, Sweden, and LKB Instruments, Inc., of Rockville, Md., were named as either importing or offering for sale the subject product in the United States.

By notice published in the Federal Register on June 4, 1975 (40 F.R. 24076), the Commission provided that further proceedings in this matter would be conducted as an investigation under section 337 of the Tariff Act of 1930, as amended by the Trade Act of 1974 (88 Stat. 2053), and would be assigned docket No. 337-TA-10.

Pursuant to a notice published in the Federal Register on December 19, 1975 (40 F.R. 58899), a public hearing was held by the Commission on January 9, 1976, for the purpose of allowing complainant AO to show cause

why the investigation should not be terminated. The Commission has received no comments concerning this investigation other than from the parties appearing therein.

Under consideration of all submissions of interested parties and the hearing for complainant to show cause why the investigation should not be terminated,

THE COMMISSION HEREBY ORDERS the termination of Investigation 337-TA-10, Certain Ultra-Microtome Freezing Attachments, based upon a finding that no violation of section 337 exists. The Commission determines that there is no good and sufficient reason to continue the above-captioned investigation because there is no definable producing industry in existence nor is there an industry, within the purview of the statute, prevented from being established. This determination renders moot all pending motions in this proceeding.

Copies of the Commission memorandum opinion in support of the Commission action are available to the public during official working hours at the Office of the Secretary, United States International Trade Commission, 701 E Street NW., Washington, D.C. 20436.

By order of the Commission.

Kenneth R. Mason
Secretary

Issued: April 2, 1976

C O N T E N T S

Commission Memorandum Opinion in Support
of the Commission Action

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UNITED STATES INTERNATIONAL TRADE COMMISSION
WASHINGTON, D.C.

April 2, 1976

In the matter of:	)	
	)	Investigation No. 337-TA-10
CERTAIN ULTRA-MICROTOME FREEZING ATTACHMENTS	)	

COMMISSION MEMORANDUM OPINION IN SUPPORT OF THE COMMISSION ACTION

I.

Procedural Background

Upon receipt of a complaint, as supplemented, filed by American Optical Corporation of Southbridge, Mass. (hereinafter "AO"), the United States Tariff Commission (now the United States International Trade Commission; hereinafter "Commission") initiated a preliminary inquiry on August 14, 1974 (notice published on Aug. 19, 1974 (39 F.R. 29975)), into whether, within the meaning of section 337, Tariff Act of 1930, as amended prior to the passage of the Trade Act of 1974, there existed unfair methods of competition or unfair acts in the importation or domestic sale of ultra-microtome freezing attachments covered by U.S. Letters Patent 3,495,490 (hereinafter "'490 patent"). LKB Produkter AB, Ltd., of Stockholm, Bromma, Sweden, and LKB Instruments, Inc., of Rockville, Md., were named as either importing or offering for sale the subject product in the United States.

By notice published in the Federal Register on June 4, 1975 (40 F.R. 24076), the Commission provided that further proceedings in this matter would be conducted as an investigation under section 337 of the Tariff Act of 1930, as amended by the Trade Act of 1974 (88 Stat. 2053), 1/ and would be assigned docket No. 337-TA-10. Pursuant to a notice published in the Federal Register on December 19, 1975 (40 F.R. 58899), a public hearing was held by the Commission on January 9, 1976, for the purpose of allowing complainant AO to show cause why the investigation should not be terminated. The Commission has received no comments concerning this investigation other than those from the parties appearing therein.

Ultra-microtomes are laboratory research instruments used for slicing human and animal tissues and other substances into thin strips in order to examine the internal structure of these tissues and materials. The freezing attachment enables sectioning to be accomplished with a specimen frozen below its glass transformation temperature in a atmosphere from which water vapor is excluded by displacement by a gaseous coolant.

1/SEC. 337. UNFAIR PRACTICES IN IMPORT TRADE.

(a) Unfair Methods of Competition Declared 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 of 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, are declared unlawful, and when found by the Commission to exist shall be dealt with, in addition to any other provisions of law, as provided in this section.

Determination

On the basis of the record, the Commission orders the temination of investigation No. 337-TA-10, Certain Ultra-Microtome Freezing Attachments, having found that no violation of section 337 exists. We determine that there is no good and sufficient reason to continue the above-captioned investigation because there is no definable producing industry in existence, nor is there an industry, within the purview of the statute, prevented from being established.

II. Findings Of Fact 1/

1. AO, the complainant, is the exclusive licensee under the '490 patent, which patent is owned by C. Reichert Optische Werke AG (hereinafter "Reichert"), a foreign subsidiary of AO. AO owns 97 percent of all outstanding Reichert stock. The '490 patent covers a freezing attachment for an ultra-microtome. (Complaint, pp. 1-3; Spencer, transcript, p. 2; Wilson, affidavit of Jan. 20, 1976, p. 2.)

2. There is no domestic manufacture of freezing attachments for ultra-microtomes under the patent in question. (Complaint, p. 10; Zeitler, transcript, p. 8.)

3. AO imports and sells in the United States freezing attachments for ultra-microtomes allegedly covered by the '490 patent. These freezing attachments were manufactured in Austria by Reichert. (Complaint, p. 12, Zeitler, transcript, p. 10.)

4. AO's decision to begin domestic manufacture under the '490 patent depends upon, inter alia, market demand approaching two hundred (200) units, an in-depth investigation being made to determine the feasibility of domestic production when the U.S. market approaches two hundred (200) units, and affirmative action being taken as the result of such in-depth investigation. (Wilson, affidavit of Dec. 18, 1974, pp. 4-5.)

1/ Commissioners Moore and Parker do not believe it necessary to make evidentiary findings. Furthermore, they contend, some of the evidentiary findings set forth are not directly related to the issues in this investigation and are not necessary to the decision.

5. AO has authorized a survey to determine the size of the U.S. market for ultra-microtome freezing attachments during the next 5 years. (Wilson, affidavit of Jan. 20, 1976, p. 2.)

6. Freezing attachments for microtomes and ultra-microtomes are quite different in structure and require different technology. (Complaint, pp. 3, 4; response, pp. 3, 4.)

7. AO has never made any estimates of production costs, rate of production, or market share relative to the domestic manufacture of freezing attachments for ultra-microtomes. (Wilson, affidavit of Dec. 18, 1974.)

8. Were the Commission to issue an exclusion order or a cease-and-desist order, under section 337, AO would not necessarily begin domestic manufacture under the '490 patent. (Spencer, transcript, p. 38.)

9. AO would not make any affirmative attempt to establish a domestic industry for the manufacture of freezing attachments for ultra-microtomes until after the Commission had issued a remedy under section 337. (Zeitler, transcript, p. 12, Spencer, transcript pp. 37-38.)

10. At present, AO is committed to investing more than $50,000 in a development program for freezing attachments for both microtomes and ultra-microtomes. (Wilson, affidavit of Jan. 20, 1976, p. 2.)

11. The U.S. list price for the product imported by complainant is approximately three times that of respondent's product. (Zeitler, transcript, pp. 10-11, Spencer, transcript, pp. 2, 7.)

12. Were AO to manufacture domestically, the freezing attachment it would make would not be identical with the one it is importing from Reichert. (Spencer, transcript, pp. 47-48.)

13. AO's present facilities in the United States for the manufacture of microtomes can readily be converted to the manufacture of freezing attachments for ultra-microtomes. (Spencer, transcript pp. 41-42.)

14. AO will not take any positive or overt steps to establish a domestic industry until it views the U.S. market as "amenable" to its product. (Spencer, Letter to the Commission, received Feb. 5, 1976.)

III. The Issues Presented

A. Is there a domestic industry within the meaning of section 337?

B. Is a domestic industry prevented from being established within the meaning of section 337?

IV. Analysis of the Legal Issues Presented

A. There is no domestic industry

Past Commission decisions, from Bakelite through Electronic Pianos, have defined "industry" in section 337 investigations, based upon claims of patent infringement, as the domestic manufacture or production of the patented product by the patentee or his licensee. 1/ Legislative histories of section 316 of the Tariff Act of 1922 and of section 337 of the Tariff Act of 1930 also indicate that the intent of the statute was the protection of domestic manufacturers of goods. 2/

The wording of the statute itself adds to the conclusion that the statute protects only parties producing under the patent. To find a section 337 violation, the statute requires that the industry be "efficiently and economically operated." "If the statute were addressed to the patent rights per se of a patentee, there would be no need for the test of efficiency and economy of operation." 3/

AO, the complainant, is the exclusive licensee under the '490 patent, which patent is owned by Reichert, a foreign subsidiary of AO. AO owns 97 percent of all outstanding Reichert stock. The '490 patent covers a freezing attachment for an ultra-microtome [Finding 1]. There is no domestic manufacture of freezing attachments for

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1/ Frischer & Co. v. Bakelite Corp., 39 F.2d 245 (C.C.P.A. (1930)); Electronic Pianos . . . , ITC Publication 721 (March 1975).

2/ 62 Cong. Rec. 5879; 71 Cong. Rec. 4638, 4648.

3/ Chairman Ben Dorfman in Self-Closing Containers, TC Publication 55, 1962, p. 26.

ultra-microtomes under the patent in question [Finding 2]. Therefore, there is no domestic industry within the meaning of the statute.

Defining "industry" as the mere ownership or licensing of patent rights would be contrary to Commission precedent, legislative history, and the logical construction of the statute's wording.

B. There is no domestic industry prevented from being established

It is possible, however, for a party to escape the industry requirements discussed above. A nonproducing patentee or licensee about to begin production operations, an "embryo industry," can be entitled to a Commission remedy under this statute if such party can prove it is prevented from being established. The criteria which must be fulfilled to show that one is an "embryo industry" prevented from being established are different from those used to show that one is an industry destroyed or substantially injured.

Unlike the circumstances surrounding the word "industry," relatively little interpretation of the statutory words "to prevent the establishment of" has been provided by past Commission cases or legislative history. 1/ Lacking the guidance of precedent or legislative history, it is a common judicial practice to look to the "plain meaning" of the words one seeks to understand. 2/

1/ There were allegations of unfair acts preventing the establishment of a domestic industry in Preset Variable Resistance Controls, investigation No. 337-L-63, and Paper Stitchers, investigation No. 337-L-43. Both cases were dismissed without a Commission opinion interpreting the prevention clause.

2/ A. SUTHERLAND, STATUTORY CONSTRUCTION, Section 46.01 at 48 (4th ed. 1973).

In light of the dictionary definitions of "prevent" and "establishment," 1/ it appears that the prevention clause of section 337 protects two categories of parties: (1) parties which have just begun manufacturing operations and for which section 337 violations would have the effect or tendency of frustrating efforts to stabilize such operations; 2/ and, (2) parties which are about to commence production and for which section 337 violations would have the effect or tendency of frustrating efforts to found a business. For convenience, the class of industries described in the latter category can be referred to as embryo industries, industries about to be born.

Obviously, an embryo industry will not be producing or manufacturing a product. Thus, different criteria are needed to identify such industries when they are the subject of allegations that a section 337 violation prevents their establishment.

Parties seeking Commission remedies under the prevention clause of section 337 must show a readiness to commence production. What constitutes such a showing must be decided on a case-by-case basis. For an alleged 337 action in which patent infringement forms

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1/ "prevent--to forestall; to frustrate; to keep from happening, existing, succeeding; to hinder the progress, appearance, or fulfillment of . . . ."

"establishment--the act of establishing . . . ."

"establish--to make stable or firm; to fix immovably or firmly; to originate and secure the permanent existence of; to found; to institute . . . ."--Webster's New International Dictionary, 2d ed., 1957.

2/ Such parties could also satisfy the "industry" definition discussed in part A.

the basis of the complaint, ownership of, or license to produce under, the patent is not in itself a sufficient showing of such readiness for a remedy to issue. No patentee or licensee can be compelled by this Commission to produce a product. If the Commission issued a remedy while complainant was importing the patented product, but before complainant showed a readiness to commence production, the Commission's action might remove all incentive to establish a domestic industry. In such a case, complainant could merely continue importing the patented product.

AO does not show the Commission a readiness to commence production. The evidence shows no indication that management has decided to produce or has made any overt acts toward commencing production. On the contrary, it appears that AO's commencement of production operations, if it occurs at all, will occur at some unknown time in the future. The Commission was informed at the recent show-cause hearing 1/ that it is highly improbable that AO will make an affirmative attempt to establish a domestic industry for the manufacture of freezing attachments for ultra-microtomes until after the Commission has issued a remedy under section 337 [Finding 9]. More recently, the Commission was informed by letter that AO will not take any positive or overt steps to establish a domestic industry

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1/ Pursuant to a notice of hearing issued Dec. 16, 1976, a public hearing was held Jan. 9, 1976, for the purpose of allowing complainant AO to show cause why the investigation should not be terminated.

until it views the U.S. market as "amenable" to its product [Finding 14].

Even if the Commission was to issue an exclusion order, or a cease and desist order, under section 337, there is no evidence that AO would necessarily begin domestic manufacture under the '490 patent [Finding 8]. In fact, AO admits that its decision to begin domestic manufacture under the '490 patent depends upon, inter alia, market demand approaching two hundred (200) units, an in-depth investigation being made to determine the feasibility of domestic production when the U.S. market approaches two hundred (200) units, and affirmative action being taken as the result of such in-depth investigation [Finding 4]. The Commission has no evidence that any one of the above has come to pass.

AO has performed no overt act which can be interpreted as an unmistakable indication of a readiness to commence production AO has authorized a survey to determine the size of the U.S. market for ultra-microtome freezing attachments during the next 5 years [Finding 5]. Complainant is committed to investing more than $50,000 in a development program for freezing attachments for both microtomes and ultra-microtomes [Finding 10]. In addition, AO's present facilities in the United States for the manufacture of microtomes can be readily converted to the manufacture of freezing attachments for ultra-microtomes [Finding 13]. However, there is no evidence when this market survey was authorized or when it is scheduled to begin.

The results of the market survey could convince AO not to take any further action regarding the domestic manufacture of ultra-microtome freezing attachments. Concerning the $50,000 development program, there is no evidence detailing the specific amount to be spent solely for the development of freezing attachments of ultra-microtomes. Freezing attachments for microtomes and ultra-microtomes are quite different in structure and require different technology [Finding 6]. Nor is there evidence as to when the above-mentioned development program will begin; it could begin in 1 month or 3 years. Although AO's domestic facilities can be easily converted to the manufacture of ultra-microtome freezing attachments, there is no evidence that such facilities will be so used. Their present use may be comparatively more valuable to complainant than the manufacture of ultra-microtome freezing attachments would be. In addition, AO has never made any estimates of production costs, rate of production, or market share relative to the domestic manufacture of freezing attachments for ultra-microtomes [Finding 7].

AO imports and sells in the United States freezing attachments for ultra-microtomes allegedly covered by the '490 patent. These freezing attachments were manufactured in Austria by Reichert [Finding 3]. The U.S. list price for the product imported by complainant is approximately three times that of respondent's product [Finding 11]. Were AO to manufacture domestically, the freezing attachment it made domestically would not be identical with the one

it is importing from Reichert [Finding 12]. There is no evidence indicating how the importation by AO of freezing attachments from Reichert would constitute an affirmative act by AO to establish a domestic industry for the manufacture of freezing attachments for ultra-microtomes.

What AO has done concerning freezing attachments for ultra-microtomes--the importation of the patented article, the authorization of a market survey, and the commitment of some money to a development program for the patented article at some future date--does not constitute the necessary action to show a readiness to commence production. The very lack of a firm management decision to produce contradicts, on its face, any assumption that there exists a readiness to commence production.

V. Conclusions of Law

1. Mere ownership and licensing of patent rights does not constitute an industry within the meaning of section 337.

2. To constitute an industry within the meaning of section 337, there must be domestic manufacture of the patented product by a patentee or by its licensee.

3. Mere ownership and licensing of patent rights does not provide a basis for relief on the ground that an industry is prevented from being established within the meaning of section 337.

4. Prevention of the establishment of an industry under section 337, when that industry has not already begun production operations, requires showing a readiness to commence production.

5. The importation of the patented article, the authorization of a market survey, and the commitment of $50,000 to a development program for the patented product does not constitute the necessary overt action which shows a readiness to commence production.

6. The lack of evidence indicating a firm management decision to produce contradicts any assumption that there exists a readiness to commence production.

Library Cataloging Data

U.S. International Trade Commission
Commission memorandum opinion in support of the Commission action in the matter of certain ultra-microtome freezing attachments. Investigation no. 337-TA-10 Washington, 1976.

15 p. 27 cm. (USITC Pub. 771)

1. Laboratories--Apparatus and supplies. 2. Tissues--Preservation. 3. Microtome. I. Title.