

PAGE 16  
A LEGAL GUIDE  
ABOUT EXPORTING  
PRODUCTS TO THE USA



PAGE 42  
DOCUMENTS  
REQUIRING A SIGNATURE



PAGE 38  
HOW WILL  
BREXIT IMPACT YOU?

PAGE 49  
MPS TO  
HAVE A BIGGER EFFECT



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PAGE 24

What Has Your

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Tricia Judge—ITC Director,  
attorney and former Recharger Magazine Editor  
—gives the industry a voice



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# RECYCLING TIMES

No. 78 | 2016

07 | EDITORIAL



09 | NEWS IN BRIEF

- Merger Overwhelmingly Approved
- Another Chinese Company Goes Public

10 | WORLD NEWS

13 | LEGAL UPDATES

15 | REALIZING RUSSIA



Russian Aftermarket Opportunity Guarantees Success

15 | TRENDS



The Chinese Enigma: A look Inside

42 | IN MY VIEW

Why are trade associations important to you?

24 | FRONT COVER STORY



What Has Your Association Really Done For You?

Tricia Judge

Photo: Bryan Hainer



The Russian information agency “Business-Inform” has started preparing its 36th catalogue “Supplies for Printing Machines.” It’ll differ dramatically from previous editions as the OEM world-leaders like Brother, Canon, Epson, HP, Kyocera, Konica Minolta, Samsung, Toshiba, Xerox have all launched new lines of printers and MFPs. Here you’ll find information about compatible supplies as well—Delacamp, Integral, Static Control, Hi-Black, Proffline, Uniton etc.

FEATURES

16 A Survivor’s Guide to Section 337 Investigations and ITC General Exclusion Orders

So if Customs detains your shipment of remans on the basis they violate an ITC exclusion order, you must be able to prove both “first sale” and “permissible repair.”

38 How Will Print Supplies Be Impacted After Brexit?

Brexit will bring both good and bad news. However, it seems at present that the good news will take a while to come to fruition, whilst the bad is already here.

42 New Infotrends Research Addresses Future of Printing

Across countries, the most widely printed type of document appears to be “documents requiring a signature.”

47 | TECHZONE



Remanufacturing the HP Color LaserJet Pro M452, MFP 477 Black and Color Toner Cartridges

51 | KEEPING UP



Protected Local Markets Are Vanishing

53 | MY WORD



As I See It This Month: Toner and Inkjet Developments

56 | THE LISTS

Berto Cartoon

49 | 5 QUESTIONS

MPS to Have a Bigger Effect  
*Alejandro J. Pedro, General Manager at Bioservice S. Coop.,*



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# A SURVIVOR'S GUIDE TO SECTION 337 INVESTIGATIONS AND ITC GENERAL EXCLUSION ORDERS

Part III: What you need to know in order to continue to legally import printer cartridges into the USA after the ITC issues a general exclusion order

*Merritt R. Blakeslee, The Blakeslee Law Firm*

In recent months U.S. Customs and Border Protection (CBP) has increased its pace of enforcement of the ITC's exclusion orders. CBP is making an unprecedented number of requests to the ITC for authority to seize and forfeit shipments of cartridges that violate an ITC exclusion order. In this third part of this "Survivor's Guide to Section 337 Investigations and ITC General Exclusion Orders," I discuss the steps remanufacturers, exporters, and importers can take to ensure they can continue to participate legally in the U.S. market following the issuance of an ITC remedial order or orders.

### Consequences of Importing Violating Cartridges

There are three potential consequences of importing cartridges that infringe the patents covered by an ITC order:

1. CBP can *exclude* those cartridges from entry into the United States;
2. in certain circumstances, CBP can *seize* and *forfeit* those cartridges;
3. the ITC itself can impose significant monetary penalties for the importation or sale of cartridges in violation of an ITC cease-and-desist or consent order.

### Definition of Aftermarket Cartridges

From a legal perspective, the ink and toner cartridge Aftermarket is composed of three types of cartridges:

- a *compatible* or *clone* is a newly manufactured cartridge that copies an OEM cartridge. It does not reuse any parts from a recycled OEM cartridge;
- a *reman* is a refurbished cartridge with a used OEM core, reusing some of the components, recharging the toner, and typically replacing the OPC;
- a *design-around* is a product that performs the same function as a patented product but does so without infringing the patents protecting the patented article. For example, a number of manufacturers have developed *design-arounds* to the patent claims covering Canon's dongle gear that are the subject of the ITC's general exclusion order in USITC Inv. No. 337-TA-918.

A different legal analysis applies to each type of Aftermarket cartridge that is accused of patent infringement:

- *Clones/compatibles*: there is no easy or obvious legal defense against an allegation that a *clone* infringes the OEM's patent(s). Unless the asserted patent can be shown to be invalid, most *clones* are illegal.
- *Remans*: can be legally imported if they comply with the requirements of the so-called patent exhaustion doctrine. Under current U.S. law, a patent holder—for example, the OEM—loses the right to control what happens to his patented article—for example, one of its toner cartridges—after selling it. In selling a unit of the patented article, the patent holder is deemed to have been fully compensated for his patent rights in that unit, which are said to have been "exhausted" by the sale . . . **but only so long as that sale occurs in the United States** (I will call this the "first sale" requirement). A purchaser of that article—for example, the Aftermarket remanufacturer—can legally refurbish and resell that cartridge in the United States . . . **but only as long as the refurbishment does not go too far in the direction of building an entirely new cartridge.** In legal terminology, the purchaser is permitted to "repair" the patented article but not to completely "reconstruct" it (I will call this the "permissible repair" requirement).

So if CBP detains your shipment of remans on the basis they violate an ITC exclusion order, you must be able to prove both "first sale" and "permissible repair."

Proving permissible repair is the easier task, since most refurbishment does

Washington DC, Patent attorney Merritt Blakeslee has written a 3 part series for those wanting to know more about exporting products to the USA. This is an extract version of Part III of the series. For the full version of this part or the copy of the series, please go to [bit.ly/merritt2016](http://bit.ly/merritt2016).

not rise to the level of “reconstruction” of the cartridge. Proving “first sale” is more complicated. However, it is not necessary to provide a sales receipt for each empty, as Lexmark would like you to do. Instead, Customs will accept evidence that the empty was collected in the United States as circumstantial evidence that it was first sold in the United States. So to prove “first sale,” the importer must be able to show that the manufacturer of the detained cartridges:

- \* Used virgin cores collected in the U.S.
- \* Segregated the U.S.-origin cores during the remanufacturing process
- \* Exported to the U.S. only *remans* made with U.S.-origin cores
- \* And, crucially important, the importer must be able to provide documentation from the manufacturer of all of the above.

In short, if Customs detains your shipment of *remans*, you must be able to furnish documentation demonstrating that the specific cartridges in your shipment were manufactured from virgin OEM cores collected in the United States.

- Design-arounds: the manufacturer or importer whose *design-around* is accused of violating an ITC remedial order must be able to show that, as a matter of law, its *design-around* does not infringe the specific subset of patent claims covered by the order.

### Taking Steps Beforehand

#### 1. Letter ruling from CBP:

If you want an assurance that CBP will not detain your cartridges, you may apply to CBP for a formal letter ruling stating that your cartridges can be legally imported. The rules governing letter rulings are set out in the Code of Federal Regulations at 19 C.F.R. Part 177, Subpart A. There is no standard form to fill out. You write a letter stating your facts, making your legal



Merritt Blakeslee is a popular speaker at RT Media events.

arguments as to why your cartridges do not violate U.S. law, and providing documentation and physical samples. If CBP agrees, it issues a letter ruling stating that cartridges identical to those described in your request can be legally imported into the United States. If your cartridges are subsequently detained by Customs, the letter ruling will permit your cartridges to be released promptly.

#### 2. Advisory opinion from ITC:

Following the issuance of an ITC exclusion order, you may also request that the ITC issue an advisory opinion that your cartridges are not subject to the order. Before issuing its opinion, the ITC will carry out such investigation as it deems necessary. Such an investigation is a more expensive and time-consuming procedure than seeking a letter ruling from CBP. The advantage of a favorable ITC advisory ruling is that it binds CBP, while a favorable CBP letter ruling does not bind the ITC.

### Dealing with Authorities After Your Shipment Has Been Detained

If CBP determines that a shipment of Aftermarket cartridges violates an ITC exclusion order, it can deny the shipment entry into the United States and it can seize and forfeit—that is, confiscate—subsequent shipments by the same importer.

When a CBP port official suspects a shipment of merchandise of violating an ITC exclusion order, CBP flags the shipment for inspection, moves it to an inspection facility, notifies the broker, and inspects the shipment. If the CBP import specialist who inspects the shipment decides that (some or all of) the merchandise in the shipment violates an ITC exclusion order, s/he issues a “denial of entry” notice. This notice gives the name and number of a contact at CBP and informs the importer that it has 30 days from the date of the notice to re-export the goods, after which they will be forfeited and disposed of.

Finally, the notice states that CBP has informed the ITC of this exclusion. When this happens, the ITC promptly issues a seizure & forfeiture order permitting CBP to immediately (i.e., without giving the importer the opportunity to re-export the goods) seize and confiscate any future shipments of articles covered by the exclusion order that the importer tries to bring into the United States.

So what are your options when you receive a denial of entry notice? If you have a good story to tell—that is, if you have good facts, good documentation of those facts, and a good legal argument based on those facts, you should contact Customs informally to see if you can persuade them to release your merchandise without the necessity of filing a formal protest. This can save time and money, because a formal protest often takes several months to be resolved, and, in the meantime, your shipment remains in custody.

If it is a shipment of remans that has been detained, you must make an effective patent exhaustion argument. If the detained shipment is design-around cartridges, you must make an effective non-infringement argument. And this is true whether you challenge the exclusion informally or formally.

Responsibility for administering ITC exclusion orders is divided between two departments of CBP: Field Operations and Headquarters. Field Operations is staffed by the officials at the ports of entry who screen incoming merchandise and the import specialists who advise them. The Field Operations office with specific responsibility for ink and toner cartridges is located in Long Beach and is called the Center of Excellence and Expertise

for Electronics. The port officer whose name you will be given if CBP decides to exclude a shipment of your cartridges reports to the CEE-Electronics. At Customs headquarters in Washington, D.C., an office called the Intellectual Property Rights Branch is staffed by lawyers with specific responsibility for the legal issues related to ITC exclusion orders, including exclusion orders covering cartridges. This situation of divided responsibility can work to your advantage.

The Field Operations import specialist whose name is given in the Denial of Entry notice has initial responsibility for determining the fate of your detained shipment, and you should begin by contacting him/her to find out exactly what s/he believes the legal issue to be. If you have a legal argument to make, however, it is best to go up the chain of command to the senior import specialist with specific responsibility for ink & toner cartridges,

or to his/her supervisor, Mr. Alan Aprea, the Branch Chief of the CEE-Electronics.

If the CEE-Electronics refuses to release the goods on grounds that that you believe are legally flawed, you should contact the IPR Branch and make your case to one of the lawyers there, which may produce a different result from that of the CEE-Electronics. All this can be done informally, by telephone and email. In other words, in contesting a detention informally, you can have two bites at the apple. The goal is to get your goods released without filing a formal protest, which could take weeks or months to be decided.

If you are unsuccessful in making your case informally to the CEE-Electronics and

**THE ITC HAS THE AUTHORITY, IF IT FINDS THAT THE DEFENDANT HAS CONTINUED TO VIOLATE THE EXCLUSION ORDER, TO IMPOSE VERY SUBSTANTIAL FINES—UP TO \$100,000 PER ACT PER DAY.**



Blakeslee will share his insights at *RemaxWorld Summit* on October 12, 2016.



to the IPR Branch, then your remaining options are:

1. to re-export the goods (assuming the 30-day time limit for doing so has not expired), or
2. filing a formal protest. The rules for filing a protest are given in the Code of Federal Regulations at 19 C.F.R. Part 174. You must file your protest within 180 days of the date of denial of entry that is given on the denial of entry notice. When you file a protest with Customs, you drop it into a black box that eventually spits out a decision. It is not an interactive process. You only get one shot, so you must file everything necessary to support your protest on day one. You must set out your facts and your legal argument, and you must provide—and explain—the documents that support your facts. CBP will rule on your protest and, if the ruling is unfavorable, you have the option of appealing the ruling to the U.S. Court of International Trade.

#### **Enforcement Proceedings Before the ITC**

An importer whose cartridges are accused of violating an ITC exclusion order could also become the subject of a so-called enforcement action at the ITC. After the ITC issues an exclusion order, the

OEM who brought the original complaint that triggered the 337 investigation can file a new complaint with the ITC asking it to take action against specific entities who are continuing to violate the exclusion order. The enforcement action triggered by the OEM's complaint is a new litigation in which the ITC examines the evidence of violation and, at the end of the litigation, has the authority to issue additional remedial orders, in particular a cease-and-desist order. An enforcement action is a full-blown litigation requiring either a well-lawyered defense or settlement.

If the defendant was previously the subject of an ITC cease-and-desist or consent order in the same ITC action, the ITC has the authority, if it finds that the defendant has continued to violate the exclusion order, to impose very substantial fines—up to \$100,000 per act per day.

#### **Conclusion**

Certain OEMs in our industry have set out to protect their share of the consumables market by aggressively using their patent portfolios to exclude third-party replacement cartridges from the market. They have done so by using Section 337 investigations at the ITC to obtain exclusion orders barring competing Aftermarket cartridges from importation into the United States. This is the arena

you are competing in, and your ability to do so successfully requires you to have a sophisticated understanding of the legal issues at play, to ensure that the cartridges that you import into the United States are legal, and to understand the techniques for demonstrating their legality if they are detained by CBP or accused of infringement by the ITC. ■

Merritt Blakeslee has practiced in the fields of international law and international trade regulation since 1991. His practice focuses on international trade and specifically on disputes lying at the intersection between international trade and intellectual property law. His principal practice areas include Section 337 investigations at the International Trade Commission; Customs counseling, enforcement, and litigation; anticounterfeiting and trademark protection; antidumping and countervailing duty investigations; and export controls.  
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