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International Trade and Litigation Practice Groups

August 19, 2013

President Disapproves ITC Exclusion Order In -794 Investigation On Public Interest Grounds

On August 3, 2013, the President acting through the U.S. Trade Representative (USTR) disapproved the decision of the U.S. International Trade Commission (ITC or “Commission”) to issue an exclusion order in *Certain Electronic Devices, Including Wireless Communication Devices, Portable Music And Data Processing Devices, And Tablet Computers*, Investigation No. 337-TA-794 (“the -794 investigation”). This is the first such Presidential disapproval of an ITC exclusion order since 1987 and heralds a new era for examining the public interest impact of ITC exclusion orders. It could lead to significant changes in Section 337 practice.

Background

On June 4, 2013, the Commission issued its Notice of Final Determination in the -794 Investigation finding that Apple had violated Section 337 with respect to one of Samsung’s patents (the ‘348 patent). The Commission issued both a limited exclusion order and cease and desist order barring Apple from importing its iPhone 4, iPhone 3GS, iPad 3G, iPad 3 and iPad 2 models for sale in the U.S. before June 3, 2015. The Commission postponed its ruling in March and again in May so that it could consider comments from the companies and public on the potential public interest harm of a ban arising from standard essential patents subject to a FRAND commitment. A FRAND commitment is a commitment by a patent holder to a Standard Setting Organization (SSO) to license its standard essential patents on fair, reasonable, and non-discriminatory terms in exchange for the SSO’s agreement to adopt the patented technology into the standard. The Commission determined that “the public interest factors enumerated in section 337(d)(1) and (f)(1) of the Tariff Act did not preclude issuance of the limited exclusion order and cease and desist order” and that “Samsung’s FRAND declarations do not preclude that remedy.” The Commission also found that Apple failed to prove an affirmative defense based on Samsung’s FRAND declarations. Commissioner Pinkert dissented on public interest grounds from the determination to issue an exclusion order and cease and desist order.

On August 3, 2013, the USTR, acting by delegation of authority from the President, notified the Commission of the President’s decision to disapprove the Commission’s June 4, 2013 decision. Under 19 U.S.C. § 1337(j), the President is required to engage in a policy evaluation of the Commission’s

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determinations to issue exclusion and cease and desist orders within a 60-day review period. The President may disapprove a determination on policy grounds, approve a determination, or take no action and allow the determination to come into force upon expiration of the 60-day review period. If the President disapproves such determination then “effective on the date of such notice, such determination. . . shall have no force or effect.”

In its August 3 letter, USTR reviewed the policy considerations at issue in the “enforcement of . . . patent rights when the patents are incorporated into technical standards without which such standards cannot be implemented as designed and when the patent holder has made a voluntary commitment to offer to license . . . [standard essential patents] on FRAND terms.” In particular, the President’s decision cited the January 8, 2013 joint Department of Justice/U.S. Patent and Trademark Office Policy Statement. According to USTR, that policy statement expressed substantial concerns, “which I strongly share, about the potential harms that can result from owners of standards-essential patents (SEPs) . . . engaging in ‘patent hold-up’ . . .” According to USTR, “[l]icensing SEPs on FRAND terms is an important element of the Administration’s policy of promoting innovation and economic progress and reflects the positive linkages between patent rights and standards setting.” USTR then disapproved the remedial orders in the -794 investigation “based on [his] review of the various policy considerations . . . as they relate to the effect on competitive conditions in the U.S. economy and the effect on U.S. consumers.”

Implications For Future Cases

The President’s disapproval has implications for the Commission’s public interest test and the Presidential review process in future cases. First, it delineates the terms and conditions under which the Commission can issue exclusion orders on FRAND-encumbered standard essential patents in future cases. In particular, the decision endorses the January 8, 2013 joint Department of Justice/U.S. Patent and Trademark Office Policy Statement, which explains that exclusion orders should be available in only certain circumstances.

[I]f a putative licensee refuses to pay what has been determined to be a FRAND royalty, or refuses to engage in a negotiation to determine FRAND terms... Such a refusal could take the form of a constructive refusal to negotiate, such as by insisting on terms clearly outside the bounds of what could reasonably be considered to be FRAND terms in an attempt to evade the putative licensee’s obligation to fairly compensate the patent holder. An exclusion order also could be appropriate if a putative licensee is not subject to the jurisdiction of a court that could award damages.

Second, the President’s disapproval in -794 investigation marks a renewed interest by policymakers generally in the public interest impact of ITC exclusion orders generally, including in future cases not involving FRAND-encumbered standard essential patents. Presidential disapprovals are rare; this is the first one since 1987. The five prior Presidential disapprovals were all in the 1970s and 1980s and were made for very different reasons than those present in the -794 investigation.¹ Given the recent level of public debate on all aspects of patent law, including the increased use of section 337 to address unfair trade practices predicated on patent infringement, it is reasonable to expect that the President will exercise his authority more frequently in the future to disapprove ITC exclusion and cease and desist orders. One issue which might come up in the public interest context is whether non-practicing entities or patent trolls should be able to use Section 337. Other issues may involve the domestic industry test or the increased use of Section 337 by non-U.S. entities. At a minimum, the President’s decision will encourage the Commission to examine the public interest factors more rigorously in the future.

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Third, the President's disapproval in the -794 investigation also makes clear that the "policy" bases for the President's authority are synonymous with, or at least encompass, the statutory public interest factors the Commission is required to consider. Section 337(j) permits the President to disapprove ITC exclusion orders and cease and desist orders for "policy reasons." "Policy reasons" are not defined by the statute, although the Senate Finance Committee Report to the Trade Act of 1974 tied Presidential review to the public interest factors that the Commission is required to examine:

[T]he President would often be able to best see the impact which the relief ordered by the Commission may have upon the public health and welfare, competitive conditions in the United States economy, the production of like or directly competitive articles in the United States and United States consumers. Therefore it was deemed appropriate by the Committee to permit the President to intervene before such determination and relief become final, when he determines that policy reasons require it.

The President's decision in the -794 investigation makes clear that the "policy" reasons at play in section 337(j) are the same, or at least include, the statutory public interest factors the Commission is required to consider.

Finally, the President's decision makes clear that the Commission has an independent responsibility to examine the public interest factors regardless of whether they are raised or proven as part of a party's affirmative defenses. According to the President, the Commission is required

(1) to examine thoroughly and carefully on its own initiative the public interest issues presented both at the outset of its proceeding and when determining whether a particular remedy is in the public interest and (2) seek proactively to have the parties develop a comprehensive factual record related to these issues in the proceedings before the Administrative Law Judge and during the formal remedy phase of the investigation before the Commission.

Although these admonitions were made in the context of the issues presented by the -794 investigation, specifically the propriety of issuing an exclusion order on FRAND-encumbered standard essential patents, they are likely to be applicable to other public interest issues as well.

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¹ See Presidential Disapproval of *Certain Welded Stainless Steel Pipe And Tubes*, Inv. No. 337-TA-209, 43 Fed. Reg. 177898 (April 22, 1978) (disapproving a cease and desist order predicated on imports "below the average variable costs of production [that] tended to reduce the domestic market share of other foreign competitors" by citing the detrimental effect the remedy would have on the

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national interest and U.S. international economic relations, and the need to avoid duplication in the administration of U.S. unfair trade practice laws, since a parallel antidumping investigation was ongoing); Presidential Disapproval of *Certain Multiply Headboxes And Papermaking Machine Forming Sections For The Continuous Production Of Paper*, Inv. No. 337-TA-82, 46 Fed. Reg. 32361 (June 22, 1981) (disapproving a general exclusion order on the ground that the order would disrupt the domestic market for multi-ply headboxes, but permitted an exclusion order directed to respondents' products); Presidential Disapproval of *Certain Mold-In Sandwich Panel Inserts And Methods For Their Installation*, Inv. No. 337-TA-99, 47 Fed. Reg. 29919 (July 9, 1982) (disapproving three cease and desist orders on the ground that the orders might violate U.S. international obligations in so far as they result in less favorable treatment in requirements affecting purchase and use for imported products than the treatment being accorded domestic products); Presidential Disapproval of *Certain Alkaline Batteries*, Inv. No. 337-TA-165, 50 Fed. Reg. 1655 (Jan. 11, 1985) (disapproving a general exclusion order prohibiting the importation of certain alkaline batteries that were found to infringe a U.S. registered trademark and to misappropriate the trade dress of the batteries on which the trademark was used on the grounds that the Commission's interpretation of section 42 of the Lanham Act, 15 U.S.C. § 1124, was at odds with a longstanding regulatory interpretation by the Department of the Treasury, which interpretation the Administration had advanced successfully in a number of court cases); and Presidential Disapproval of *Certain Dynamic Random Access Memory Semiconductors*, Inv. No. 337-TA-242, 52 Fed. Reg. 46011 (Dec. 3, 1987) (disapproving limited exclusion orders covering certain DRAM chips manufactured by Samsung, as well as modules, circuit boards, and various end use electronics products (by any manufacturer) that contain the Samsung-manufactured DRAM chips on the grounds that "the effect of the order on U.S. firms and trade will extend far beyond Samsung and importers of Samsung's infringing products.").