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Federal Circuit Limits ITC's Authority to Issue Downstream Exclusion Orders

October 2008
by Brian Busey, John L. Kolakowski

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Overview

On October 14, 2008, the U.S. Court of Appeals for the Federal Circuit determined in *Kyocera Wireless Corporation v. International Trade Commission* that the U.S. International Trade Commission ("ITC") does not have statutory authority to issue a limited exclusion order covering downstream products (i.e., products that incorporate infringing components) of third parties not named as respondents in ITC investigations. The Federal Circuit held that in order to obtain relief against downstream products, a complainant in an ITC case must name the downstream producer or distributor when seeking a limited exclusion order, or satisfy the higher threshold for obtaining a general exclusion order. As discussed in the attached link, this decision may have a significant impact on practice before the ITC and will impose additional burdens on complainants seeking relief against downstream products.

Brief explanation of ITC remedial powers

When the ITC concludes that there has been importation of infringing goods, 19 U.S.C. § 1337(d) authorizes it to provide certain remedies. Among these are exclusion orders directing U.S. Customs to prevent infringing products from entering the United States. Exclusion orders may be of two types: limited or general. A limited exclusion order directs Customs to prevent importation of only those goods that originate from one or more specified parties who were named as respondents in the Commission investigation. A general exclusion order, in contrast, directs Customs to intercept *all* goods of the type found to be infringing, regardless of the goods' source or importer.[1] The Commission also has authority to issue an exclusion order that covers "downstream products," which are products that incorporate the infringing articles as components, such as semiconductors that are incorporated into other products. In making such a determination, the Commission applies the test originally established in *Certain Erasable Programmable Read Only Memories, Components Thereof, Products Containing Such Memories, And Processes For Making Such Memories*, Inv. No. 337-TA-276, USITC Pub. No. 2196 (Mar. 16, 1989), which was later affirmed by the Federal Circuit in *Hyundai Electronics Indus. Co. v. USITC*, 899 F.2d 1204 (1990). That test balances a number of factors, including the relative value contributed by the infringing article compared to the value of the downstream product; the incremental value to the complainant of the downstream exclusion; and the burdens imposed on third parties by a downstream exclusion order. When excluding downstream products, the ITC traditionally has believed it has the authority to exclude any products from any source, so long as they contain infringing articles.

The proceedings before appeal

The underlying ITC investigation, *Certain Baseband Processor Chips and Chipsets, Transmitter and Receiver (Radio) Chips, Power Control Chips, and Products Containing Same, Including Cellular Telephone Handsets*," Inv. No. 337-TA-543, was instituted on June 21, 2005, based on a complaint filed by Broadcom Corporation. The complaint alleged infringement by Qualcomm Inc. of several Broadcom patents covering chips (such as those used in many wireless phones) that improve device power management and network connection integrity and efficiency. Broadcom requested that the

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Commission issue a limited exclusion order that would cover both the subject chips and also downstream product wireless handsets that contain the accused chips.

In his Initial Determination issued in October 2006, ITC Administrative Law Judge Charles E. Bullock agreed with Broadcom that there was infringement. He also agreed that a limited exclusion order should issue, but did not recommend that the Commission extend the order to the downstream products of handset manufacturers who were not parties to the investigation. His decision was influenced primarily by the facts that (1) Broadcom knew at the time of filing its complaint that Qualcomm did not manufacture any wireless handsets; (2) Broadcom knew the identity of the wireless manufacturers prior to filing its complaint and could have named them as respondents; and (3) Broadcom knew that almost all the accused chips were imported in such handsets. The administrative law judge believed that Broadcom had made a tactical decision in naming only Qualcomm as a respondent, and that exclusion of downstream products was not necessary for Broadcom to have "complete and effective relief" considering the manner in which Broadcom framed its complaint.

The Commission affirmed Judge Bullock's infringement ruling in December 2006, but then took the unusual step of scheduling a public hearing to receive public testimony and comments on the remedy to be provided.[2] It heard testimony on the subject in February 2007 from the parties, numerous intervenors (including wireless network operators and equipment makers), members of Congress, the Federal Communications Commission, the Federal Emergency Management Agency, the District of Columbia, various trade associations, academics, and others.

When it issued its final determination on June 7, 2007, the Commission did not follow the ALJ's or the parties' recommended remedies, but rather tread a middle ground. The Commission recognized that an exclusion order not applying to downstream products would have provided almost no relief to Broadcom. On the other hand, the ITC concluded that the "substantial burden imposed on third parties and the lack of alternative products collectively outweigh the value to Complainant of obtaining complete exclusion of the infringing articles." As a result, the Commission decided to issue a limited exclusion order that applied to wireless handsets on sale after June 8, 2007. The Commission felt the "grandfathering" exception for earlier models was needed to ameliorate any burden on first responders, to facilitate public distribution of emergency information, to reduce any negative effects on consumers, and to lessen the order's adverse impact on competitive conditions.

The Federal Circuit overturns the remedy decision

Qualcomm and numerous handset manufacturers and wireless network providers appealed the ITC's decision and scored an early victory when the Federal Circuit granted a stay, pending appeal, of the limited exclusion order with respect to appellants Kyocera, Motorola, Samsung, LG, Sanyo, T-Mobile, and AT&T. *See Kyocera Wireless Corp. v. Int'l Trade Comm'n*, Nos. 2007-1164 *et seq.*, slip op. at 6 (Fed. Cir. Sept. 12, 2007). That early victory is now confirmed with the Federal Circuit opinion, written by Judge Randall Rader, reversing and remanding the remedy decision after concluding that the ITC lacks the statutory authority to impose limited exclusion orders on the downstream products of non-respondents. *Kyocera Wireless Corp. v. Int'l Trade Comm'n*, Nos. 2007-1493 *et seq.*, slip op. (Fed. Cir. October 14, 2008).[3]

On appeal, Qualcomm and the third party wireless companies argued that the Commission did not have the authority to issue a limited exclusion order applying to downstream products of parties who were not respondents in the investigation. Broadcom and the Commission, in contrast, contended that under its authority to issue limited exclusion orders the ITC can exclude all of a respondent's articles that infringe, even if they are incorporated into third party downstream products. *Kyocera*, slip op. at 23.

The Federal Circuit's remedy analysis focused on the text of the ITC's enabling statute, and in particular its remedy provisions at 19 U.S.C. § 1337(d):

> (1) If the Commission determines, as a result of an investigation under this section, that there is a violation of this section, it shall direct that the articles concerned, imported by any person violating the provision of this section, be excluded from entry into the United States, . . .
>
> (2) The authority of the Commission to order an exclusion from entry of articles shall be limited to persons determined by the Commission to be violating this section unless the Commission determines that—

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> (A) a general exclusion from entry of articles is necessary to prevent circumvention of an exclusion order limited to products of named persons; or
>
> (B) there is a pattern of violation of this section and it is difficult to identify the source of infringing products.

(Emphases added). The court noted the plain language of the statute creates a limited exclusion order remedy under subsection (1) and a general exclusion order remedy under subsection (2). Focusing on the underlined language above, the court concluded that, "on its face, the statutory context limits [limited exclusion orders] to named respondents that the Commission finds in violation of Section 337. The ITC cannot expand its authority from 'persons determined by the Commission to be violating' to 'articles manufactured by persons determined by the Commission to be violating.'" *Id.* at 25-26. If a limited exclusion order could apply to articles manufactured by non-respondents, the court stated that the "imported by any person …" clause of § 337(d)(1) would be rendered superfluous. *Id.* at 26.

The Federal Circuit then addressed Broadcom's and the Commission's arguments that unnamed, difficult-to-identify importers of infringing articles might escape enforcement if limited exclusion orders were restricted to named respondents, and thus Section 337 relief would be "illusory." *Id.* at 27. The Federal Circuit pointed out that § 337(d)(2) "speaks directly to the[se] very concerns," and that "the trade act has made it clear that a party must meet these heightened requirements before the ITC has authority to issue a general exclusion order against products of non-respondents." *Id.* at 27. The court then criticized Broadcom, as ALJ Bullock had in his initial determination -- essentially saying that Broadcom knew it was taking a risky path. Specifically, Broadcom knew the identities of the downstream product manufacturers, and knew they were responsible for almost all infringing importation. Yet, "Broadcom appears to have made a strategic decision to not name downstream wireless device manufacturers and to not request the ITC to enter a [general exclusion order]." *Id.* at 27-28.

The Federal Circuit then concluded: "In summary, Section 337 permits exclusion of non-respondents only via a general exclusion order, and then too, only by satisfying the heightened requirements of 1337(d)(2)(A) or (B). The statute permits [limited exclusion orders] to exclude only the violating products of named respondents. Because the Act speaks unambiguously to the precise question at issue in this case, … [t]his court must simply 'give effect to the unambiguously expressed intent of Congress.'" *Id.* at 30 (citation omitted). Since no general exclusion order had been entered, the Commission could not exclude the non-respondents' wireless products, and the Commission was ordered to fashion a new remedy on remand.

Implications for future ITC practice

The ITC has long believed that it had broad discretion to fashion limited exclusion orders that would restrict importation of any downstream products from any source, so long as those products contained or incorporated infringing articles. The Federal Circuit's *Kyocera* decision rejects this notion, and will require many future complainants at the ITC to adjust their litigation strategy if they expect to obtain effective relief through the agency. When infringing articles are imported through the downstream products of known third parties, it appears that it will be necessary for a complainant to name each and every third party as a respondent in the investigation if the complainant expects to stop all infringing importation. This addition of numerous active and participating respondents will greatly increase the size, scope, and cost of what are already complex and expensive proceedings.

Additionally, it will force many complainants to make a painful strategic choice. In many cases the downstream manufacturer or distributor may be an actual or potential customer of the complainant that the complainant would ordinarily not wish to sue. However, in the wake of the *Kyocera* decision a complainant must name known downstream producers to obtain coverage of their downstream products under a limited exclusion order. Alternatively, the complainant must obtain downstream relief by seeking a general exclusion order, but in order to do so it must meet the higher burdens required under the statute for such an order.

While the Federal Circuit seems to suggest that general exclusion orders should be sought to prevent importation of third party downstream products, the language of Section 337(d)(2) may make that difficult in certain circumstances. For instance, part of the test under § 337(d)(2)(B) ("difficult to identify the source of infringing products") suggests that such orders will only be appropriate when the third parties are *unknown*. The alternative avenue provided under § 337(d)(2)

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(A) ("to prevent circumvention of an exclusion order") also may have limited applicability. The Commission in its *Baseband Processors* opinion discussed a similar consideration (the "opportunity for evasion of an exclusion order") that is used when evaluating whether to exclude downstream products in the first place. The ITC clarified there that that language applies to the situation of a respondent surreptitiously changing its importation behavior *during the course of an investigation*, and thus it is unclear whether the "to prevent circumvention" language of § 1337(d)(2)(A) will apply broadly. It remains to be seen whether, in the wake of *Kyocera*, the ITC will relax or apply more flexibly the standards for granting general exclusion orders against downstream products of third parties.

Footnotes

[1]A general exclusion order may issue only upon a certain showing, when (a) necessary to prevent circumvention of a limited exclusion order or (b) there is a pattern of violation of the statute and it is difficult to identify the source of the infringing product. 19 U.S.C. §1337(d)(2)(A), (B).
[2]The full Commission rarely holds public hearings in Section 337 cases. The last time the full Commission previously did so was in 1993 (*Sputtered Carbon Coated Computer Disks and Products Containing Same*, Inv. 337-TA-350, 58 Fed. Reg. 41487 (1993)).
[3] The decision also affirmed the Commission's holdings on claim construction, that Qualcomm had not directly infringed one of the three patents-at-issue, and that the patent was not invalid, but vacated and remanded on the question of Qualcomm's inducement of infringement. *Id.* at 4. In a prior decision relating to the other two patents-at-issue, the appellate court had affirmed the Commission's noninfringement determination on one patent, and vacated the Commission's noninfringement decision as to the other. *See Broadcom Corp. v. Int'l Trade Comm'n*, No. 2007-1164, slip op. at 2 (Fed. Cir. September 19, 2008)

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