Getting the Remedy You Want from the ITC

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Winning is never enough. True success in litigation requires obtaining a remedy that benefits—or avoiding the award of a remedy that harms—the client's business. In the International Trade Commission (ITC), the principal remedy is an order that excludes infringing articles from importation into the United States. All exclusion orders, however, are not the same. Although some only have negligible impact, others solidify or catapult a complainant's position in the marketplace and thus severely weaken a respondent's position.

Managing the effects of litigating at the ITC today requires understanding the Federal Circuit's recent decision in *Kyocera Wireless Corp. v. International Trade Commission*.[1] *Kyocera* has had an immediate and significant effect on the ITC's remedy determinations, changing the accepted wisdom regarding exclusion orders, but the decision's full ramifications are not readily apparent from its holding. Since *Kyocera*, the commission has begun a broader reexamination of its analytical framework for awarding remedies. It is important to understand the ramifications of *Kyocera* and craft litigation strategies for responding to this changed—and still very unpredictable—landscape.

Available Remedies in the ITC

The ITC's authority to issue injunctive relief emanates from 19 U.S.C. § 1337, which authorizes the commission to issue exclusion orders, which are injunctions against unfair importation into the United States, and cease-and-desist orders against domestic entities engaged in unfair methods or acts.[2] The commission can issue two types of exclusion orders—a limited exclusion order (LEO) or a general exclusion order (GEO). A LEO is enforceable against those parties named in the investigation, and a GEO is enforceable against anyone. Section 1337 provides that a LEO is the default remedy, and the far-reaching relief afforded by a GEO is granted only upon satisfying a higher burden of proof. The requirements for obtaining a GEO are directed toward conditions in the marketplace that complainants must establish: "(A) [it] is necessary to prevent circumvention of an exclusion order limited to products of named persons; or (B) there is a pattern of violation of [the section] and it is difficult to identify the source of infringing products."[3]

Commission Action Pre-*Kyocera*

The commission has interpreted § 1337 to afford it broad discretion in fashioning a remedy and, in the past, has been guided by a few seminal commission opinions in making remedy determinations. In one such opinion, *Certain Airless Paint Spray Pumps and Components Thereof* (*Spray Pumps*), the commission established a framework for assessing whether to grant a GEO, stating that a complainant must establish (1) "a widespread pattern of unauthorized use of its patented invention" and (2) "certain business conditions from which one might reasonably infer that foreign manufacturers other than the respondents to the investigation may attempt to enter the U.S. market with infringing articles."[4] The commission also specifically identified "a Commission determination of unauthorized importation into the United States of infringing articles by numerous foreign manufacturers" as "evidence which might be presented to prove a widespread pattern of unauthorized use of the patented invention."[5] In addition, the commission provided a nonexclusive list of types of "evidence which might be presented to prove the 'business conditions'" justifying the grant of a GEO:

(1) an established demand for the patented product in the U.S. market and conditions of the world market;
(2) the availability of marketing and distribution networks in the United States for potential foreign manufacturers;
(3) the cost to foreign entrepreneurs of building a facility capable of producing the patented article; and
(4) the cost to foreign manufacturers of retooling their facility to produce the patented articles.[6]

In practice, the *Spray Pumps* test proved difficult to satisfy, so complainants sought to maximize the relief obtainable through a LEO. In particular, complainants sought to exclude "downstream products," which are products that incorporate the infringing articles. Excluding downstream products is particularly important when there is only minimal importation of the infringing article, such as a semiconductor chip, but mass importation of articles incorporating it, such as cell phones.

The commission addressed this issue in *Certain Erasable Programmable Read Only Memories, Components Thereof, Products Containing Such Memories, and Processes for Making Such Memories* (*EPROM*), deciding that downstream products could be excluded under a LEO and setting forth several factors to govern whether such relief should be granted:

(1) the value of the infringing articles compared to the value of the downstream products in which they are incorporated;
(2) the identity of the manufacturer of the downstream products, *i.e.*, whether it can be determined that the downstream products are manufactured by the respondent or by a third party;
(3) the incremental value to the complainant of the exclusion of downstream products;
(4) the incremental detriment to respondents of exclusion of such products;
(5) the burdens imposed on third parties resulting from exclusion of downstream products;
(6) the availability of alternative downstream products that do not contain the infringing articles;
(7) the likelihood that the downstream products actually contain the infringing articles and are thereby subject to exclusion;
(8) the opportunity for evasion of an exclusion order that does not

include downstream products; and
(9) the enforceability of an order by Customs.[7]

These factors were nonexclusive and represented an attempt to balance the complainant's interest in obtaining exclusion of downstream products against the potential of such an exclusion order to harm third parties and disrupt legitimate trade in products that were not found to directly violate § 1337.

In *EPROM*, the manufacturing respondent (or one of its subsidiaries also named in the investigation) manufactured both the infringing articles and the downstream products incorporating them. But commission precedent since *EPROM* extended its application to situations where the downstream products were manufactured by third parties not named as respondents in the investigation. Accordingly, the commission awarded some LEOs excluding downstream products made by third parties who were not named as respondents on the basis that these products incorporated infringing articles made by named respondents.

Kyocera v. International Trade Commission

The scope of LEOs—in particular, whether the commission had the authority to issue LEOs that cover downstream products of non-respondents—was a central issue in *Kyocera*. The appeal stemmed from one of the more high-profile ITC investigations—*Certain Baseband Process Chips & Chipsets, Transmitter & Receiver (Radio) Chips, Power Control Chips, & Prods. Containing Same, Including Cellular Telephone Handsets* (*Baseband Process Chips*).[8] In that investigation, Broadcom accused Qualcomm's semiconductor chips of infringement. The ITC administrative law judge determined Qualcomm's chips infringed a Broadcom patent, and the commission affirmed that decision.

However, Qualcomm imported very few chips into the United States and for that reason, Broadcom sought a LEO that would have excluded downstream products containing those chips, including cell phones. Qualcomm and a number of intervenors (various cell phone manufacturers and service providers) argued that the LEO should not extend to downstream entities. The intervenors raised an argument that § 1337 did not permit a LEO to cover downstream products made by third parties who had not been found to violate § 1337. Both the administrative law judge and the commission rejected this argument, and the commission issued a LEO covering downstream products.

On appeal, the Federal Circuit agreed with Qualcomm and the intervenors and vacated the exclusion order. The court reviewed § 1337 and determined the commission had overstepped its statutory authority to create a remedy that broadens the scope of relief beyond what is explicitly provided by the statute. The relevant part of § 1337 provides: "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 [a GEO is warranted]."[9] The court interpreted this language as only granting the commission authority to exclude products of a *named* party (or respondent), unless the complainant has met the higher statutory burden required to obtain a GEO.[10]

The court's decision does not mean that a complainant cannot obtain relief against downstream products in the ITC. As the court noted, Broadcom could have obtained such relief if it had named the downstream entities in its complaint or sought a GEO. But *Kyocera* has made obtaining relief against downstream products more difficult. Prior to *Kyocera*, complainants could only name the manufacturers of infringing products as respondents and rely on *EPROM* to seek a LEO covering downstream products of non-respondents. Now a complainant must name as respondents downstream entities (who may also be the complainant's customers) or meet the higher burden required to obtain a GEO.

Commission Action Post-*Kyocera*

In *Kyocera*, the Federal Circuit emphasized the supremacy of the statutory text in § 1337. It appears that the commission has taken that message and run with it to the point where the analysis for all of its remedy determinations (LEOs and GEOs) begins and ends with the statutory language.

In *Certain Hydraulic Excavators and Components Thereof* (*Hydraulic Excavators*), the commission followed the administrative law judge's recommendation, which was based in part on *Spray Pumps*, and issued a GEO. Though the commission did not rigidly apply the *Spray Pumps* test, it suggested that its previous GEO jurisprudence was still relevant: "Consideration of some factual issues or evidence examined in *Spray Pumps* may continue to be useful for determining whether the requirements of Section 337(d)(2) have been met."[11] However, the commission shifted its focus to the statutory language, finding that the complainant satisfied the statutory requirements by showing a "pattern of violation" ("identify[ing] thousands of gray market excavators . . . in the [United States] . . . and hundreds if not thousands of customers") and "difficult[y] . . . identify[ing] the source of infringing products" ("numerous foreign sources of the gray market excavators[,] unauthorized dealers[,] and brokers offering for sale for importation and/or importing [infringing goods]").[12]

In retrospect, this shift was a harbinger of the commission's now apparent divorce from its pre-*Kyocera* GEO jurisprudence, which for decades centered around *Spray Pumps*, and renewed focus on the statute. In its recent opinion in *Certain Ground Fault Circuit Interrupters*,[13] the commission found infringement of four patents by seven different products, violations by four foreign manufacturers and ten domestic distributors and resellers, a history of name changes by the foreign manufacturing respondents, and the use of shell companies by respondents to import into the United States.[14] Despite these factual findings—all of which traditionally weighed in favor of granting a GEO—and its statements in *Hydraulic Excavators*, the commission refused to follow the administrative law judge's recommendation to issue a GEO[15] and instead granted a LEO.

This rigid application of § 1337's text in assessing remedy issues post-*Kyocera*, however, goes well beyond the holding of *Kyocera* and has also become apparent in other ways. For instance, in *Certain GPS Devices and Products Containing Same* (*GPS Devices*),[16] the commission explicitly stated its belief that neither § 1337 nor *Kyocera* prohibits the exclusion of infringing products *imported* by non-respondents. As three commissioners alluded to in a paper filed along with the opinion in *GPS Devices*, to read the statute any other way—for instance, so that changing importers could circumvent a LEO—would render existing LEOs superfluous. It would also put a remarkably heavy burden on complainants to learn early of the identity of each named respondent's importers and move to amend the complaint and notice of investigation to add them as respondents.

These decisions highlight the commission's broader reexamination of its framework for analyzing remedy issues in view of the Federal Circuit's focus on the statutory language of § 1337 in *Kyocera*. It is unclear whether the commission's renewed focus on the statutory language is a temporary reaction and whether this statutory focus will affect other areas of the commission's decision making besides remedy issues.

An ITC Investigation Post-*Kyocera*

Kyocera has highlighted the importance of the complainant's choice of respondents in structuring an investigation in the ITC. To determine who to name as a respondent, a complainant should consider its position in the marketplace and how the remedies available in the ITC could help solidify or strengthen its position in the marketplace. Both the identities of and the number of named respondents factor heavily in the commission's impressions of a complainant's representations about the state of the market. Hence, for those complainants who previously would have sought a LEO covering downstream products of non-respondents, they must choose between naming all known manufacturers of downstream products (often customers and potential customers) or seek a GEO.

One strategy complainants may use to reduce the inherent tension in suing its customers is to enter into a consent order with them shortly after the investigation is instituted. The consent order would allow complainants to quickly terminate the investigation as for its customers if the customers agree to be subject to any exclusion order the commission issues. Thus, the complainant may increase chances of obtaining effective relief while sparing its customers the expense of litigating. Not only could this smooth relations between the complainant and its customers, but also reduce the complexity of the investigation.

Complainants who forgo suing downstream entities because they are actual or potential customers and instead decide to pursue a GEO may nevertheless face an uphill battle. The commission has long believed that complainants should name all infringers, and the commission may refuse to grant a GEO on the basis that the complainant should have named the downstream entities and thus would have been able to obtain effective relief under a LEO. Even more, arguing for a GEO subjects complainants to a now ill-defined statutory test that even before *Kyocera* was difficult to meet.

Conclusion

Since *Kyocera*, the commission has renewed its focus on the language of § 1337 and has begun a broader reexamination of its analytical framework for all remedies determinations. This understandably has caused ITC practitioners to reassess their litigation strategies on everything from choosing parties to name as respondents, choosing the remedy to seek, and presenting evidence to establish the necessity of that remedy. ●

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Endnotes

1. Kyocera Wireless Corp. v. Int'l Trade Comm'n, 545 F.3d 1310 (Fed. Cir. 2008).
2. 19 U.S.C. § 1337(d) & (f) (2006).
3. § 1337(d).
4. Inv. No. 337-TA-90, USITC Pub. No. 1199, 216 U.S.P.Q. 465, 473 (Nov. 1981).
5. *Id.*
6. *Id.*
7. Inv. No. 337-TA-276, USITC Pub. No. 2196, 1989 ITC LEXIS 122, at *252–53 (May 1989).
8. Inv. No. 337-TA-543, 2007 ITC LEXIS 663 (June 7, 2007).
9. 19 U.S.C. § 1337(d)(2) (emphasis added).
10. Kyocera Wireless Corp. v. Int'l Trade Comm'n, 545 F.3d 1310, 1356 (Fed. Cir. 2008).
11. Inv. No. 337-TA-582, Comm'n Op., slip op., 17 (Fed. 3, 2009).
12. *Id.* at 18–19.
13. Inv. No. 337-TA-615, Notice of Comm'n Final Determination of Violation of Section 337; Termination of Investigation; Issuance of Limited Exclusion Order and Cease-and-Desist Orders (March 9, 2009). The authors of this article represented the complainant Pass & Seymour, Inc., in this investigation.
14. *Id.*
15. Inv. No. 337-TA-615, Recommended Determination on Remedy and Bonding (Dec. 12, 2008).
16. Inv. No. 337-TA-602, slip op. (Jan. 27, 2009).

