

# **WHITE PAPER - SECTION 337 REMEDY UPDATES**

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**Introduction:** This paper has been created for the Intellectual Property Owners Association (“IPO”) ITC Committee to provide background to IPO members regarding remedies under Section 337. It should not be construed as providing legal advice or as representing the views of IPO.

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**INTRODUCTION**

In recent years, when an intellectual property owner considers what course of action to take to enforce its intellectual property rights, the option of pursuing an investigation under Section 337 of the Tariff Act of 1930 before the U.S. International Trade Commission ("Commission") has become increasingly attractive. Section 337 practitioners will identify several reasons for taking this course of action, including the speed of Section 337 investigations as compared to U.S. district court litigation, expert judges and various jurisdictional advantages, but the primary attraction of a Section 337 investigation remains a strong and enforceable remedy. Remedies range from cease and desist orders and limited exclusions orders barring the importation of the infringing products of the named respondents to general exclusion orders that exclude all infringing products regardless of source from importation into the United States. In addition, the Commission can exclude "downstream products," i.e., products that incorporate the infringing product. Recent developments have drawn attention, both positive and negative, to the Commission's remedy authority that could entice more intellectual property owners to utilize Section 337.

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This paper provides an update on the types and scope of remedies available under Section 337 by exploring recent decisions from the Commission, the U.S. Court of Appeals for the Federal Circuit, and the U.S. Supreme Court. These decisions, either directly or indirectly, have shaped the remedial authority of the Commission.

## **COMMISSION DECISIONS AFFECTING REMEDY**

### **A CAUTIONARY TALE**

In general, the Commission has broad discretion in determining the scope of any remedy it decides to grant. A complainant, however, should be cautious in how it frames its prayer for relief because, as stated in the old adage, "Be careful what you ask for, you might get it." In other words, the Commission is unlikely to grant relief that is not requested by the complainant. In *Certain NOR and NAND Flash Memory Devices and Products Containing Same*, Inv. No. 337-TA-560, the complainant thought it had properly requested downstream relief, *i.e.*, the exclusion of products containing the accused products. Complainant had properly included the typical language in the heading of its complaint that signifies a request for downstream relief, "and products containing same." In the body of the complaint, however, the requested downstream relief was identified as "all [respondent's] products containing such devices." There was no mention of third party downstream products. This omission would cause the complainant a great deal of difficulty throughout the investigation.

During the course of the investigation, the complainant sought extensive discovery, including subpoenae to third parties, to demonstrate that downstream relief was required. Many of these third parties objected to the scope of the subpoenae and resisted discovery asserting that their products were not at issue in the investigation because of the language used by complainants in their complaint. This argument was further bolstered by the fact that the

Commission had not included the language "and products containing same" in the body of the Notice of Investigation, although it was in the title. From a due process viewpoint, it is the notice of investigation that governs the scope of the investigation. The Office of Unfair Import Investigations ("Staff") claimed that this was merely a clerical error on the part of the Commission and moved to amend the Notice of Investigation. Subsequent to the Staff's motion, the complainant moved to amend the complaint to change its prayer for relief. The Administrative Law Judge ("ALJ") rejected both motions, stating that the Staff and the complainant had failed to show good cause for the requested amendments.<sup>3</sup> In particular, the ALJ stated that "the appropriate time for [complainant] to have made it clearly known that it intends to seek a remedy that includes downstream products was at the time the complaint or amended complaint was filed, or, at the latest, when responses to Staff's motion to amend were due."<sup>4</sup>

The third parties were greatly relieved by the ALJ's decision, but this relief was short lived. The Commission, which apparently was following the activities of the parties and the ALJ, issued *sua sponte* a Notice of Correction. In the Notice of Correction, the Commission corrected the Notice of Investigation to read "flash memory devices and products containing same." The Commission also stated that it "expects that the administrative law judge will extend the target date for completion of the investigation to the extent necessary to avoid any prejudices

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<sup>3</sup> See *Certain NOR and NAND Flash Memory Devices and Products Containing Same*, Inv. No. 337-TA-560, Order No. 9 (June 1, 2006) and Order No. 14 (July 6, 2006), ("*Flash Memory Devices*") respectively.

<sup>4</sup> *Flash Memory Devices*, Inv. No. 337-TA-560, Order No. 9 at 4-5. For some unexplained reason, complainant did not file a response to the Staff's motion, instead choosing to rely on a statement in the Staff's motion that complainant did not oppose the motion.

to any of the parties."<sup>5</sup> The complainant then renewed its motion to amend the complaint and requested an extension of the target date. While noting that the Commission's Notice of Correction did not "automatically give [complainant] good cause to amend the complaint to seek relief against third-party downstream products," the ALJ granted the motion to amend stating that the Commission's explicit authorization to extend the target date alleviated his concerns about prejudice to the third parties.<sup>6</sup>

The lessons to be learned from the above described procedural maneuvering are: (1) check the notice of institution to ensure that it is correct and (2) accurately describe the relief sought in the complaint. Had these steps been taken from the outset in the *Flash Memory Devices* investigation, the complainant likely would have avoided extensive and expensive motions practice, including motions to quash the subpoenae and motions to amend the complaint. In the end, however, it was all for nothing, because the ALJ found no violation, and the complainant did not seek review. *Flash Memory Devices*, Inv. No. 337-TA-560, Initial Determination (June 1, 2007).

#### **TO SETTLE OR NOT TO SETTLE, THAT IS THE QUESTION**

One of the attractions of Section 337 is the availability of a general exclusion order. A general exclusion order is "good against the world," barring the importation of products that infringe a valid and enforceable U.S. patent, even if the manufacturer and/or importer of an excluded product was not a party in the Section 337 investigation in which the general exclusion order was issued. When seeking a general exclusion order, however, a situation might arise in which all of the named respondents want to settle. Although not necessarily a bad outcome, such

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<sup>5</sup> *Flash Memory Devices*, Inv. No. 337-TA-560, Notice of Correction at 1 (July 24, 2006).

<sup>6</sup> *Flash Memory Devices*, Inv. No. 337-TA-560, Order No. 18 (Aug. 15, 2006).

a situation would prevent a complainant from obtaining a general exclusion order. The complainant, therefore, may be forced to decide whether or not to settle.

In *Certain Plastic Molding Machines With Control Systems Having Programmable Operator Interfaces Incorporating General Purpose Computers, and Components Thereof II*, Inv. No. 337-TA-462, the Commission was presented with the question of whether it has the authority to issue a general exclusion order in an investigation in which all of the named respondents had settled. The Commission concluded that 19 U.S.C. § 1337(g)(2) does not give it the authority to issue a general exclusion order under such circumstances.<sup>7</sup> The Commission further stated that it did not have to reach the issue of whether it had the authority to make a finding of violation pursuant to the Administrative Procedure Act ("APA") and 19 U.S.C. 1337(c) after all respondents had settled, "because we determine to adhere in this case to our long-standing policy of not reaching the issue of violation when terminating investigation on the basis of settlements agreements." *Id.* at 18.

When Congress amended Section 337 as part of the Omnibus Trade and Competitiveness Act of 1988, it added subsections 337(g)(1) and (g)(2) to address the issue of relief against defaulting respondents. Subsection 337(g)(1) sets forth the requirements for obtaining a limited exclusion order against a defaulting respondent. Subsection 337(g)(2) concerns the issuance of a general exclusion order and provides that:

In addition to the authority of the Commission to issue a general exclusion from entry of articles when a respondent appears to contest an investigation concerning a violation of the provisions of this section, a general exclusion from entry of articles, regardless of the source or importer of the articles, may be issued if –

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<sup>7</sup> *Certain Plastic Molding Machines With Control Systems Having Programmable Operator Interfaces Incorporating General Purpose Computers, and Components Thereof II*, Inv. No. 337-TA-462, Comm'n Op. at 16 (Apr. 2, 2003) ("*Plastic Molding Machines*").

- (A) no person appears to contest an investigation concerning a violation of the provisions of this section,
- (B) such a violation is established by substantial, reliable, and probative evidence, and
- (C) the requirements of subsection (d)(2) of this section are met.<sup>8</sup>

In *Plastic Molding Machines*, the complainant reached settlements with all respondents in the investigation and moved to terminate the investigation as to these respondents based on the settlement agreements. While the motion to terminate the last remaining respondent was pending, the complainant moved to amend the procedural schedule permitting it to file a motion for summary determination of violation of Section 337 and to request a general exclusion order. The ALJ issued an initial determination terminating the last remaining respondent and an order amending the procedural schedule as per complainant's request, and the Commission decided not to review. The complainant subsequently moved for summary determination. The ALJ concluded that the Commission had the authority to issue a general exclusion order even though all respondents had settled, but denied the motion on public policy grounds.

The Commission concluded, based on the language of the statute and its legislative history, that it does not have the authority to issue a general exclusion order pursuant to 19 U.S.C. § 1337(g)(2) when all respondents have settled. The Commission noted that it is required that no person appear to contest the investigation concerning violation, in order to issue a general exclusion order under this provision.<sup>9</sup> The complainant and the Staff asserted that this requirement was met if no respondent remained in the investigation up to and until a finding of violation on the merits is made. The Commission rejected this argument, finding that when

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<sup>8</sup> 19 U.S.C. § 1337(g)(2).

<sup>9</sup> *Plastic Molding Machines*, Inv. No. 337-TA-462, Comm'n Op. at 5.

respondents have appeared in the investigation, participated and then settled, those respondents have appeared to contest the investigation.<sup>10</sup> The Commission also concluded that the legislative history was clear that 19 U.S.C. § 1337(g)(2) was intended for circumstances involving defaulting respondents.<sup>11 12</sup>

It is important to note, however, that, when addressing a hypothetical posed by the Staff, the Commission stated that:

The IA presents a hypothetical situation where a complainant names ten respondents, nine of whom never made an appearance and a tenth that only filed an answer to the complaint before defaulting. The IA presupposes that a Commission determination that a general exclusion order should not be issued in the present investigation, in which all respondents have settled, inexorably leads to a determination that a general exclusion order would not issue under the IA's hypothetical. We disagree, however, that the ability to obtain a general exclusion order would necessarily be defeated under the IA's proposed set of facts. The issue of whether subsection 337(g)(2) would apply to investigations that include a mix of respondents that do not appear and respondents that settle or enter into consent orders is not before the Commission. All the respondents in this investigation appeared and were terminated on the basis of settlement agreements. The Commission does not decide here whether subsection 337(g)(2) applies when some respondents fail to appear in an investigation. Rather, it decides only that subsection 337(g)(2) does not apply where all respondents participated in the investigation before entering settlement agreements with complainant. Depending on the particular circumstances of the case, the rationale that a general exclusion under subsection 337(g)(2) is appropriate where complainant has difficulty in getting discovery may or may not

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<sup>10</sup> *Id.* at 7.

<sup>11</sup> *Id.* at 7-8.

<sup>12</sup> The Commission also dismissed the arguments of the complainant and Staff based on Commission Rule 210.16, rejecting their interpretation of that rule and further noting that "[i]n any case, the Commission's rules cannot confer statutory authority where none exists." *Id.* at 12 (citing *Killip v. Office of Pers. Mgmt.*, 991 F.2d 1564, 1569 (Fed. Cir. 1993)).

apply in an investigation in which some named respondents fail to appear.<sup>13</sup>

With this statement, it is clear that the Commission, at least for now, is limiting this opinion to the circumstances present in *Plastic Molding Machines*.

Moreover, the Commission further noted that in such mixed cases, a complainant may seek a general exclusion order pursuant to 19 U.S.C. § 1337(d).<sup>14</sup> In *Certain Devices for Connecting Computers*, two respondents did not appear, and the remaining respondents settled. The complainant moved for summary determination of violation, and the two remaining respondents failed to oppose the motion. The ALJ granted the motion for summary determination in an initial determination that was not reviewed by the Commission. The Commission subsequently issued a general exclusion order.

It is clear from the Commission Opinion in *Plastic Molding Machines* that the Commission does not believe that it has the authority to issue a general exclusion order pursuant to 19 U.S.C. § 1337(g)(2) when all respondents have settled. Moreover, based on Commission policy, it will not reach the issue of violation when terminating investigations based on a settlement agreement thus precluding issuance of a general exclusion order pursuant to 19 U.S.C. § 1337(d). It remains possible, however, that a general exclusion order can be obtained, pursuant to either 19 U.S.C. § 1337(d) or 19 U.S.C. § 1337(g)(2), if there is a mix of defaulting and settling respondents.

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<sup>13</sup> *Id.* at 13-14.

<sup>14</sup> *Id.* at 14 (citing *Certain Devices for Connecting Computers*, Inv. No. 337-TA-360, Comm'n Op. (Dec. 1994)).

## THE CELL PHONE BATTLE

On June 7, 2007, the Commission issued its Opinion on Remedy, the Public Interest, and Bonding in *Certain Baseband Processor Chips and Chipsets, Transmitter and Receiver (Radio) Chips, Power Control Chips, and Products Containing Same, including Cellular Telephone Handsets*, Inv. 337-TA-543 ("*Baseband Processor Chips*"). In perhaps its most anticipated opinion in many years, the Commission rejected the remedies proposed by the parties and the Commission Investigative Attorney and, instead, issued an alternative remedy that excluded the accused chips and "downstream handheld wireless communications devices, including cellular telephone handsets, that contain the infringing chips and that are models not being imported into the United States for sale to the general public on or before June 7, 2007." The decision to include the unique grandfathering clause in the downstream relief is unprecedented. Even before this remedy determination issued, the *Baseband Processor Chips* investigation and the Commission were the subject of extensive debate, discussion, analysis and even vituperation because of the nature of the potential remedy, i.e., the exclusion of imported cellular telephones. The Commission Opinion, along with the Dissenting Opinion and Concurring Opinion, represent significant analyses of Section 337 remedies, in particular, downstream remedies and the role of public interest.

The Commission instituted the investigation on June 21, 2005, based on a complaint filed by Broadcom Corporation ("Broadcom"), alleging infringement of five patents by Qualcomm Incorporated ("Qualcomm"). The complaint sought a limited exclusion order directed to Qualcomm's infringing chips, as well as all cellular telephones and other devices that incorporate the infringing chips. During the course of the investigation, several cellular telephone manufacturers and wireless network operators, including Cellco Partnership d/b/a Verizon

Wireless ("Verizon"), LG Electronics Mobilecomm U.S.A., Inc. ("LGEMU"), Motorola, Inc. ("Motorola"), Kyocera Wireless Corp. ("Kyocera"), Sprint Nextel Corp. ("Sprint") and Samsung Electronics Co., Ltd. ("Samsung"), were permitted to intervene for the limited purpose of presenting evidence related to remedy and bonding. These entities asserted that they were not aware of the impact the proposed remedy would have on their business until late in the investigation.

On October 19, 2006, the ALJ issued a final Initial Determination ("ID") finding a violation of section 337 and recommended issuance of a limited exclusion order directed solely to Qualcomm's chips. The ALJ also recommended that a cease and desist order be issued. On December 8, 2006, the Commission issued a notice of its decision to review and modify in part the ALJ's final ID, which included a request that certain interested persons file written submissions on the issues of remedy, the public interest, and bonding. Further, the Commission held a public hearing on March 21-22, 2007, on the issues of remedy and public interest. On June 7, 2007, the Commission determined to issue a limited exclusion order containing a unique "grandfathering" exemption covering:

[T]he infringing chips as well as certain handheld wireless communications devices containing the same which are not models being imported into the United States for sale to the general public on or before June 7, 2007, and a cease and desist order.<sup>15</sup>

Two Commissioners issued a dissenting opinion, and one Commissioner agreed to the form of remedy but issued a separate concurring opinion.

In determining whether to extend the scope of an exclusion order to cover downstream articles, the Commission has traditionally followed the approach first articulated in its 1989

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<sup>15</sup> *Baseband Processor Chips*, Inv. No. 337-TA-543, Comm'n Op. at 5.

*EPROMs* decision.<sup>16</sup> That decision set forth a number of factors ("*EPROMs* factors") to be considered, in addition to the statutorily defined "public interest" factors, in balancing the complainant's interest in obtaining maximum protection from unfair trade practices against the potential burden of exclusion upon the public and third parties.<sup>17</sup> In reaching its determination to issue a limited exclusion order including downstream relief with a grandfathering clause, the Commission provided a painstaking analysis of each of these factors. This paper will limit itself, however, to those factors found to be significant by the Commission.

As an initial point, the Commission considered the Intervenor's challenge to the Commission's authority to issue downstream relief against products of non-respondents. The Intervenor asserted that the addition of Section 337(d)(2) "clarified" that relief under Section 337(d)(1) could not extend to downstream products of non-parties. The Commission rejected this argument, noting that the statute refers to the exclusion of "the articles concerned," rather than to the identity of specific parties. Further, the Commission stated that the violation finding was made with respect to a defined set of Qualcomm chips, which are contained in certain

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<sup>16</sup> *Certain Erasable Programmable Read Only Memories, Components Thereof, Prods. Containing Such Memories, and Processes for Making Such Memories*, Inv. No. 337-TA-279, USITC Pub. No. 2196 (Mar. 16, 1989) ("*EPROMs*").

<sup>17</sup> The nine non-exclusive *EPROMs* factors are: (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. *See EPROMs* at 124-26. The public interest factors are: (1) the public health and welfare; (2) competitive conditions in the United States; (3) the production of like or directly competitive products in the United States; and (4) United States consumers. *See* 19 U.S.C. § 1337(d)(1).

downstream products. As such, any exclusion order aimed at these chips and downstream products containing these chips is consistent with the requirement that the limited exclusion order be directed to articles of persons determined to be violating the statute, "because it does not extend to telephone handsets or other devices that do not contain the infringing articles." Citing the legislative history for Section 337(d)(2), the Commission concluded that:

Section 337(d)(2) therefore addresses the issuance of general exclusion orders, not downstream relief afforded in connection with limited exclusion orders. Accordingly, the assertion that section 337(d)(2) was intended to limit the scope of articles subject to downstream relief is without support.<sup>18</sup>

Finally, noting that Section 337 states that the Commission "shall" exclude infringing articles, the Commission found no exception to this requirement for downstream products.

The Commission also rejected a similar argument that Broadcom's failure to name all known importers weighs against downstream relief. As the Commission explained:

[W]hile we conclude that the policy encouraging complainants to name all potential infringers as respondents applies to both general exclusion order cases and limited exclusion order cases, complainant's failure to name all known potential infringers as respondents should not result in an automatic denial of a downstream remedy against third parties. Rather, complainant's failure to name all known potential infringers should be considered in combination with all factors, and may yield different results in different investigations.<sup>19</sup>

The Commission concluded that the ALJ erred in giving the omission special weight, because Broadcom did not mislead any third parties as to the scope of the investigation and the phrase "and Products Containing Same, Including Cellular Telephone Handsets" is in the title of the investigation.

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<sup>18</sup> *Baseband Processor Chips*, Inv. No. 337-TA-543, Comm'n Op. at 46.

<sup>19</sup> *Id.* at 50.

The Commission largely based its determination on the third, fifth, and sixth factors, finding that the substantial burden imposed on third parties and the lack of alternative products collectively outweigh the value to Broadcom of obtaining a complete exclusion of the infringing articles. The Commission found that the fourth, eighth and ninth factors had limited significance. In addition, although the second factor weighed against downstream relief, and the first and seventh factors supported such relief, none of these factors was decisive. The Dissenting Commissioners assigned particular weight to the absence of any meaningful alternative sources of chips (sixth factor), the heavy burden on third parties (fifth factor), and the absence of a demonstrable economic benefit to Broadcom (third factor), in concluding that downstream relief was not appropriate.

The Commission found that the parties' proposals were inadequate to alleviate the aforementioned burdens, while, at the same time, affording relief to Broadcom. Therefore, the Commission searched for an alternative exclusion order "that would provide meaningful relief to the Complainant, yet substantially ameliorate the burdens imposed on third parties."<sup>20</sup> The Commission's principal concern with respect to third parties focused on those with little or no ability to limit their exposure to the consequences of conduct found in violation of section 337: providers of services, software, and content that depend on the existence of EV-DO and WCDMA networks, as well as network operators' service contract revenues and their ability to operate and receive a return on their investments in their EV-DO and WCDMA networks. The Commission found that the "grandfathering" exemption would permit the number of subscribers to grow, which would greatly reduce any negative impact on providers of EV-DO and WCDMA. Further, the burden on handset manufacturers would be lessened because manufacturers would

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<sup>20</sup> *Id.* at 123.

not be forced to engage in expensive re-design efforts merely to participate in EV-DO and WCDMA markets.

At the same time, the Commission's alternative remedy would benefit Broadcom, given that the market for downstream products is undergoing rapid change and production of innovative devices is a powerful sales driver. This desire for new products will create a strong incentive for chip and handset manufacturers to design around or license Broadcom's patent.

Having formulated an alternative remedy that was appropriate under the *EPROMs* factors, the Commission turned to the four public interest factors. At the outset of its discussion, the Commission noted that it must be mindful of two issues: (1) there is a strong public interest in enforcing intellectual property rights; and (2) the Commission must ensure that it does not improperly impose an injury requirement.

With respect to the impact of downstream relief on the public health and welfare, the Commission concluded that there was evidence that EV-DO and WCDMA networks enhance first responders' and public safety officials' abilities to perform their duties. As such, downstream relief would have a negative impact on public health and welfare. The Commission's alternative remedy, however, would allow public safety personnel to continue accessing the existing features of EV-DO and WCDMA. Moreover, the Commission determined that its alternative relief would permit the widespread use of EV-DO and WCDMA handsets by the general public, which would also facilitate mass transmission of important information in emergency situations. The Commission found that the record evidence indicated that excluding some 3G handsets could limit consumers' access to enhanced 3G services, thus resulting in at least some negative impact on consumers. The Commission determined, however, that its alternative remedy would significantly reduce this adverse impact, as consumers would be

permitted to obtain existing models of handsets and access data-intensive services. Finally, the Commission found that exclusion of downstream products would likely result in some adverse impact on the development of advanced telecommunications technology and on expansion of broadband access. Notwithstanding this adverse impact, the Commission stated that its "grandfathering exception would significantly lessen negative effects on competitive conditions in the U.S. economy."<sup>21</sup>

Accordingly, the Commission concluded, "[o]n balance, we find that the exemption contained in our exclusion order would adequately address public interest concerns such that the public interest factors do not preclude the issuance of the remedy we have determined to be appropriate under our *EPROMs* analysis."<sup>22</sup> The Commission issued its Notice of Final Determination on June 7, 2007. Because no action was taken by the President, the Commission's Order was left in place.<sup>23</sup>

The foregoing is an extremely truncated description of the Commission Opinion, which provides a quite detailed analysis of law as it relates to the provision of downstream relief, in particular, the *EPROMs* factors, and the application of the public interest considerations in Section 337 investigations. It is frequently said that big cases make bad law. This does not appear to be the case with the Commission Opinion in *Baseband Processors*. If there is a lesson

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<sup>21</sup> *Id.* at 151.

<sup>22</sup> *Id.* at 150.

<sup>23</sup> At the time of publication of this White Paper, the Commission's final determination is on appeal to the United States Court of Appeals for the Federal Circuit. On September 12, 2007, the Federal Circuit stayed the Commission's limited exclusion order as it relates to the exclusion of downstream products of various intervenors. *Kyocera Wireless Corp v. Int'l Trade Comm'n*, Appeal Nos. 2007-1493, Order (Sept. 12, 2007). These intervenors requested a stay based, in part, on the assertion that there is "a substantial question whether the ITC has authority to issue an LEO excluding products imported by persons other than Qualcomm." Order at 6. It will be interesting whether the Federal Circuit circumscribes the Commission's traditional entry of downstream relief when it is necessary to provide the patentee with effective relief under Section 337.

to be taken from the *Baseband Processors* by owners of intellectual property rights, it would be that the Commission will defend intellectual property rights even against substantial pressure from entities with substantial investments in a business in which the core component was found to infringe. As the Commission noted in its opinion, the longstanding principle that "[o]ne who elects to build a business on a product found to infringe cannot be heard to complain if an injunction against continued infringement destroys the business so elected."<sup>24</sup>

## **FEDERAL CIRCUIT DECISIONS AFFECTING REMEDY**

### **A FLASH FOR THE UNWARY**

In a Section 337 investigation, a general exclusion order is the broadest remedy that the Commission can impose. A general exclusion order bars the importation of products that infringe a valid and enforceable U.S. patent, even if the manufacturer and/or importer of an excluded product was not a party to the Section 337 investigation in which the general exclusion order was issued. Due to their potential to disrupt legitimate international trade, as well as various due process and WTO considerations, general exclusion orders are only issued under very specific circumstances. General exclusion orders are usually sought in circumstances where there are numerous unidentified or unidentifiable infringers in addition to the respondents named in the complaint, who are importing the accused infringing product.

One of the perceived benefits of a general exclusion order is that the complainant can obtain relief from unfair imports without repeatedly relitigating issues such as the validity of the patent-at-issue that were decided by the Commission in the original investigation. The U.S. Court of Appeals for the Federal Circuit ("Federal Circuit"), however, in *Vastfame Camera, Ltd. v. International Trade Commission*, 386 F.3d 1108 (2004), interpreted 19 U.S.C. §§ 1337(b) and

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<sup>24</sup> *Id.* at 117 (quoting *Windsurfing Int'l, Inc. v. AMF, Inc.*, 782 F.2d 995, 1003 n.12 (Fed. Cir. 1986)).

(c) to permit respondents in enforcement proceedings who were not named in the original investigation to raise patent invalidity as an affirmative defense. This interpretation is based on the Federal Circuit's conclusion that the Commission's statutory authority for conducting enforcement proceedings arises under 19 U.S.C. § 1337(b). Investigations conducted pursuant to 19 U.S.C. § 1337(b) are governed by 19 U.S.C. § 1337(c) which provides that "[a]ll legal and equitable defenses may be presented in all cases."<sup>25</sup> The Federal Circuit, therefore, held that such defenses, including patent invalidity, are available in enforcement and advisory opinion proceedings.

The *Vastfame* decision arises out of the *Certain Lens-Fitted Film Packages*<sup>26</sup> investigation in which, following a full investigation, a general exclusion order was issued. Vastfame Camera, Ltd. ("Vastfame"), which was not a party to the original investigation, was subsequently named as a respondent in a complaint seeking enforcement and advisory opinion proceedings to determine whether there was a violation of the general exclusion order. During the enforcement proceedings, Vastfame attempted to raise invalidity of an asserted patent as an affirmative defense. The Administrative Law Judge and the Commission refused to consider the invalidity defense.

On appeal, the question before the Federal Circuit was whether the Commission has the authority to limit the scope of enforcement proceedings and advisory opinion proceedings by precluding respondents from raising legal and equitable defenses therein. At the outset of its analysis, the Federal Circuit noted that there is no express statutory authority for the Commission

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<sup>25</sup> See 19 U.S.C. § 1337(c) (2004).

<sup>26</sup> *Certain Lens-Fitted Film Packages*, Inv. No. 337-TA-406.

to conduct enforcement proceedings.<sup>27</sup> The Commission asserted that its inherent authority to do so "emanates from the penumbra of § 1337."<sup>28</sup> The Federal Circuit rejected the Commission's "inherent authority" argument, however, because "[t]he Commission is a creature of statute"<sup>29</sup> that "must find authority for its actions in its enabling statute."<sup>30</sup> Over the objections and arguments of the Commission, the Federal Circuit found statutory authority to conduct enforcement proceedings based on 19 U.S.C. § 1337(b), which provides that "[t]he Commission shall investigate any alleged violation of this section on complaint under oath or upon its initiative." This subsection is not limited by its language to a complaint seeking institution of an original investigation, but rather refers to investigations of "any alleged violation of this section," which would include alleged violations of a general exclusion order. The Federal Circuit, therefore, held that "the Commission has authority to conduct proceedings to enforce general exclusion orders, and that its authority to conduct such proceedings arises under and is subject to the provisions of § 1337(b)."<sup>31</sup>

Investigations conducted pursuant to 19 U.S.C. § 1337(b) are governed by 19 U.S.C. § 1337(c), which provides, in part, that "[a]ll legal and equitable defenses may be presented in all cases."<sup>32</sup> Accordingly, the Federal Circuit concluded that the Commission's refusal to allow Vastfame to assert its invalidity defense was improper under 19 U.S.C. § 1337(c).

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<sup>27</sup> *Vastfame*, 386 F.3d at 1112.

<sup>28</sup> *Id.*

<sup>29</sup> *Id.* (citing *Sealed Air Corp. v. U.S. ITC*, 645 F.2d 976, 987 (CCPA 1981)).

<sup>30</sup> *Id.* (citing *Young Eng'rs, Inc. v. U.S. ITC*, 721 F.2d 1305, 1311-12 (Fed. Cir. 1983)).

<sup>31</sup> *Id.* 1113.

<sup>32</sup> *Id.*

## SUPREME COURT DECISION AFFECTING REMEDY

### TROLLING AT THE ITC

At first glance, one may question why the U.S. Supreme Court's decision in *eBay, Inc. v. MercExchange, LLC*, which does not involve or even reference Section 337, the U.S. International Trade Commission or exclusion orders is being discussed in a paper concerning Section 337 remedies. The answer is quite simple. In *eBay*, the Supreme Court made it more difficult for patent owners to obtain a permanent injunction against infringers. Accordingly, it has been suggested by some commentators that one of the effects of this decision will be that patent owners will turn to the Commission and request a Section 337 investigation to obtain the substantial equivalent of an injunction, i.e., an exclusion order, when such relief may not be as readily available in U.S. District Court.<sup>33</sup> Interestingly, this has also caused some to question whether the decision in *eBay* applies to Section 337 investigations.

The relevant underlying facts of the *eBay* decision are straightforward. MercExchange, L.L.C. ("MercExchange") is the owner of several patents, including a business method patent that it believed was being infringed by eBay, Inc. ("eBay") and Half.com. MercExchange successfully brought a patent infringement case against eBay and Half.com in the U.S. District Court for the Eastern District of Virginia and was awarded damages. The District Court, however, denied MercExchange's request for a permanent injunction. 275 F. Supp. 695 (2003). This decision was reversed by the Federal Circuit, holding that there was a "general rule that courts will issue permanent injunctions against patent infringement absent exceptional circumstances." 401 F.3d 1323, 1339 (2005). The Supreme Court rejected this "general rule" concluding that:

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<sup>33</sup> See, Rodney R. Sweetland III and Michael G. McManus, *Patently Better Odds*, THE LEGAL TIMES, Vol. XXIX, No. 21 (May 22, 2006).

According to well-established principles of equity, a plaintiff seeking a permanent injunction must satisfy a four-factor test before a court may grant such relief. A plaintiff must demonstrate: (1) that it has suffered an irreparable injury; (2) that remedies available at law, such as monetary damages, are inadequate to compensate for that injury; (3) that, considering the balance of hardships between the plaintiff and defendant, a remedy in equity is warranted; and (4) that the public interest would not be disserved by a permanent injunction. . . . These familiar principles apply with equal force to disputes arising under the Patent Act.<sup>34</sup>

Patent owners seeking to enforce their patent rights in district court now have a much higher burden to meet in order to obtain an injunction.

Whether the *eBay* decision will have a significant impact on the Commission's docket is yet to be seen. The number of Section 337 investigations was already increasing significantly before the *eBay* decision. It would seem that the entities most likely to take advantage of Section 337 based on the decision in *eBay* would be companies whose primary function is the holding and licensing of patents. Such entities have been labeled with the unfortunate name "patent trolls." As a result of *eBay*, it is far less likely that patent trolls can obtain an injunction, because monetary damages in the form of royalties would, at least theoretically, be sufficient to compensate them for any damage. It was the threat of an injunction, however, that gave these entities the leverage to force infringers into settling for substantial royalty payments, sometimes for patents of marginal actual value. In any event, time will tell whether patent holders, including patent trolls, start taking greater advantage of Section 337.

As to the applicability of the *eBay* decision to Section 337, in its Opinion in *Baseband Processors* discussed above, the Commission discussed the applicability of the *eBay* decision to Section 337 proceedings. In a footnote, the Commission rejected the argument that the Commission is required to follow the *eBay* test for granting injunctive relief. Specifically, the

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<sup>34</sup> *eBay, Inc. v. MercExchange, LLC*, 126 S.Ct. 1837, 1839 (2006).

Commission found that *eBay* is not applicable because: (1) the Tariff Act of 1930 represents a legislative determination that there is an inadequate remedy at law; (2) the Tariff Act of 1930 was amended in 1988 to remove the injury requirement, showing a legislative determination that it is unnecessary to prove irreparable harm to a patentee in a Section 337 investigation; (3) the balance of hardships and public interest factors of the four part permanent injunction test are analyzed in the *EPROMs* factors and the public interest analysis; and (4) there is a long-standing principle that importation is treated differently from domestic activity.<sup>35</sup> Accordingly, the Commission concluded that "the Tariff Act of 1930, as amended, represents a legislative modification of the traditional test in equity."<sup>36</sup>

### **CONCLUSION**

Suffice it to say, remedies available under Section 337 have been, either directly or indirectly, the subject of or impacted by some significant court and Commission decisions. The Commission has clarified important aspects of the law of remedy as it related to general exclusion orders, downstream relief and the public interest. The U.S. Supreme Court may even have, perhaps inadvertently, made Section 337 a more attractive alternative or compliment to district court litigation for intellectual property owners. Perhaps most importantly, however, Section 337 and the remedies available thereunder remain an important and effective mechanism for the enforcement of intellectual property rights.

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<sup>35</sup> *Baseband Processor Chips*, Inv. No. 337-TA-543, Comm'n Op. at 62-63 n.230.

<sup>36</sup> *Id.*