

MAYER • BROWN

# Section 337 Proceedings

## Part 3 of 3: What Happens After the ITC Issues Its Final Determination?

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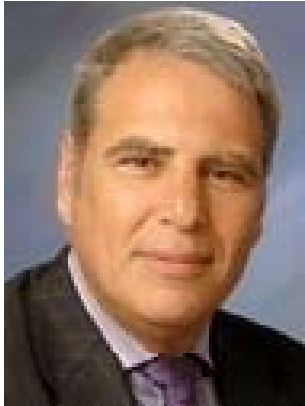
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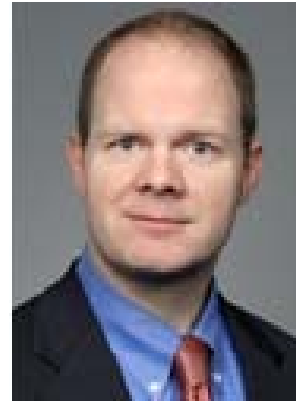
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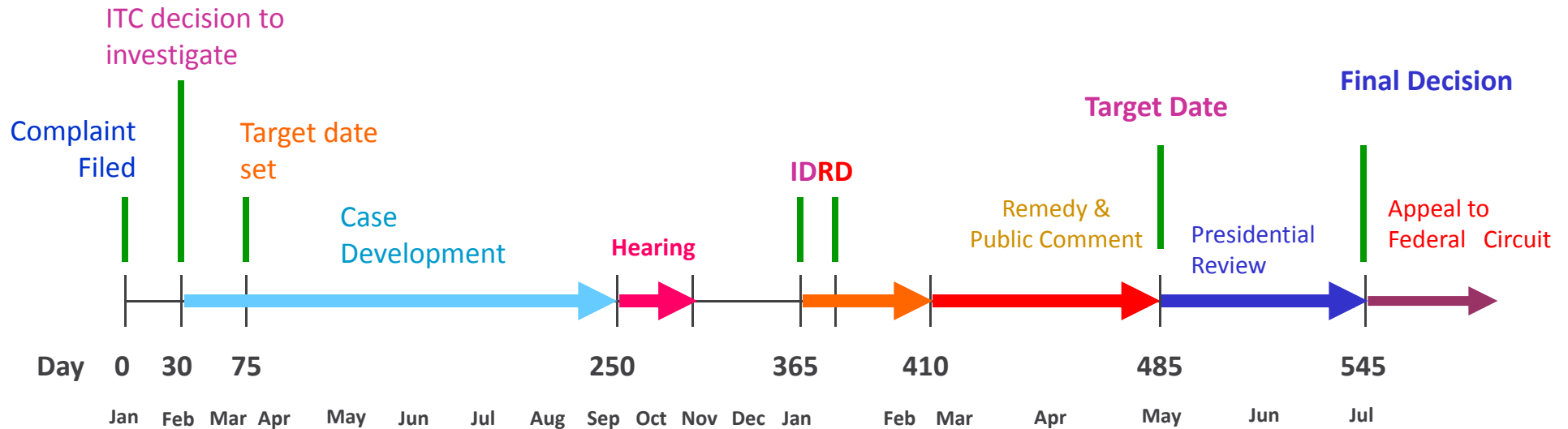


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# Timeline of an ITC 337 Investigation



Based on 15-month target date (typical range is 12-16 months)

## Case Development Process

### Process

- Discovery
- Experts
- Motions
- Settlement Conferences (3-4)
- Summary Determinations
- Hearing preparation

## Notes

- Target Date = date for final ruling by ITC
- ID = Initial Determination on liability
- RD = Recommended Determination on Remedy
- 45 day ID review period

## Executive Branch Review

- Statute grants the President the authority to review an ITC Section 337 determination for “policy reasons” (19 U.S.C. § 1337(j))
- President has up to 60 days to make determination

## Executive Branch Review (cont.)

- If the President does not take action, or if he notifies the ITC during the 60-day period that he approves the ITC determination, the determination becomes final the next day
- ITC orders are rarely rejected. Examples: *Certain Welded Stainless Steel Pipe & Tube*, ITC Inv. No. 337-TA-29 (1978); *Certain Multi-Ply Headboxes*, ITC Inv. No. 337-TA-82 (1981); *Molded-In Sandwich Panel Inserts*, ITC Inv. No. 337-TA-99 (1982); *Alkaline Batteries*, ITC Inv. No. 337-TA-165 (1985); *Certain Dynamic Random Access Memories*, Inv. No. 337-TA-242 (1987)

## Executive Branch Review (cont.)

- Authority was delegated to the U.S. Trade Representative (USTR) in 2005. (Presidential Memorandum of July 21, 2005)
- USTR uses normal inter-agency trade policy review structures to reach decision (TPSC and TPRG)
- Strong institutional inclination to leaving ITC orders undisturbed, viewed as protecting IP
- Qualcomm-Broadcom (Baseband Processors) is the most recent high-profile decision; USTR announced that it would not disapprove the ITC order

## When to Appeal

- 19 U.S.C. § 1337(c): Notice of Appeal should be filed within 60 days after the ITC issues a final determination
- An ITC determination in favor of a complainant is not “final” until the day after the expiration of the 60-day Presidential review period (*Duracell v. USITC*, 778 F.2d 1578 (Fed. Cir. 1985))
- A determination that is adverse to the complainant is final and appealable immediately upon issuance by the Commission (*Import Motors Ltd. v. USITC*, 530 F.2d 940 (CCPA 1976))
- Split review periods may apply if part of the determination is favorable to the complainant and part is unfavorable (*Allied Corp. v. USITC*, 782 F.2d 982 (Fed. Cir. 1986))

## Who Can Appeal

- Any person who has been adversely affected by a final determination of the ITC may appeal (19 U.S.C. § 1337(c))
- “Adversely affected” requires actual, not speculative, injury (*Rohm & Haas v. USITC*, 554 F.2d 462 (CCPA 1977))
- A party that prevailed before the ITC is not “adversely affected,” even if it did not prevail on every issue (although such parties may intervene and raise arguments in support of the underlying decision) (*Surface Technology v. USITC*, 801 F.2d 1336 (Fed. Cir. 1985))



## What Can Be Appealed

- Only final determinations on the merits can be appealed (*Block v. USITC*, 777 F.2d 1568 (Fed. Cir. 1985))
- A dismissal of an ITC proceeding without a finding on the merits is not a “final determination” and is not appealable (*Block v. USITC*)
- Modification of a previous remedial order is appealable, even if it occurred in the context of an enforcement proceeding (*Crucible Materials v. USITC*, 127 F.3d 1057 (Fed. Cir. 1997))
- Only issues actually decided can be appealed; issues as to which the ITC takes no position are not appealable (*Beloit Corp. v. ValmetOy*, 742 F.2d 1421 (Fed. Cir. 1984))
- Sanctions decisions are appealable to the Federal Circuit (*Nutrinoa v. USITC*, 224 F. 3d 1356 (Fed. Cir. 2000); *Genentech v. USITC*, 122 F.3d 1409 (Fed. Cir. 1997))

## The Exhaustion Requirement

- The doctrine of exhaustion of administrative remedies applies to Section 337 investigations (*see, e.g.,* Commission Rule 210.43(b))
- A party who does not file a petition for review of an ID is deemed by the Commission and Federal Circuit to have abandoned all issues decided adversely to it
- If an issue was not raised in a petition for review, it cannot be raised on appeal before the Federal Circuit (*Texas Instruments v. USITC*, 988 F.2d 1165 (Fed. Cir. 1993))
- There is no waiver if a party does not petition for review of an issue that was not decided adversely to it (*Fuji Photo Film v. USITC*, 386 F.3d 1095 (Fed. Cir. 2004))

## Standard of Review

- Standard of review for ITC factual findings is whether findings are supported by “substantial evidence” (5 U.S.C. § 706(2)(E))
- “It was the intent of Congress that greater weight and finality be accorded to the Commission’s findings as compared with those of a trial court,” which are reviewed for clear error (*Tandon v. USITC*, 831 F.2d 1017 (Fed. Cir. 1987))
- “The ‘substantial evidence’ standard is satisfied by ‘such relevant evidence as a reasonable mind might accept as adequate to support a conclusion” (*Enercon GMBH v. USITC*, 151 F.3d 1376 (Fed. Cir. 1998))
- Commission legal determinations are reviewed *de novo* but “[a]s the agency charged with the administration of Section 337, the ITC is entitled to appropriate deference to its interpretation of the statute” (*Enercon GMBH v. USITC*)
- ITC decisions on remedy subject to arbitrary and capricious/abuse of discretion standard of review (*Hyundai v. USITC*, 899 F.3d 1204 (Fed. Cir. 1990))

## Stays Pending Appeal

- ITC orders can be stayed pending appeal, subject to meeting the requirements for stays of appeals generally (*Jazz Photo Corp. v. USITC*, No. 99-1431, Slip Op. at 2-3 (Fed. Cir. July 6, 1999))
- *See also Winbond Electronics Corp. v. USITC*, Order on appeal, Appeal Nos. 01-1031, 01-1032 and 01-1034 (Fed. Cir. Oct. 23, 2000) (granting emergency stay of limited exclusion order where ITC had not yet issued an opinion supporting the order)
- The exclusion order in the Broadcom/Qualcomm (*Baseband Processors*) investigation was stayed and ultimately reversed in the *Kyocera* decision
- The exclusion order in the Funai/Vizio case was temporarily stayed due to a reexamination proceeding, but the stay was ultimately lifted

## Effect of Federal Circuit Decisions

- Federal Circuit decisions reviewing ITC determinations on patent issues do not have res judicata effect (*Texas Instruments v. Cypress Semiconductor*, 90 F.3d 1558 (Fed. Cir. 1996))
- Decisions on non-patent issues (such as existence of a license or antitrust violations) may be binding (*see, e.g., Telectronics Proprietary v. Medtronic*, 687 F.Supp. 832 (S.D.N.Y. 1988); *Aunyx v. Cannon U.S.A.*, 978 F.2d 3 (1<sup>st</sup> Cir. 1992))

# Section 337 Exclusion Orders vs. District Court Injunctions

## 1. Scope

- Exclusion orders cover all goods infringing the subject patent, including future products
- District Court injunctions are limited in scope (*e.g.*, accused products and all other products “not colorably different therefrom”)

## 2. Enforcement

- ITC exclusion orders: enforced by the Bureau of Customs and Border Protection (“CBP”)
- District Court injunctions: enforced only if the patent owner brings violation to the Court’s attention and files motion seeking relief

# Will Downstream Products Be Covered?

- ITC considers:
  - Relationship of infringing article to downstream product
  - Need of complainant to include downstream products to obtain meaningful relief
  - Harm to respondent if downstream products are included
  - Burden on Customs to include downstream products
- In recent *Kyocera* case, Federal Circuit held that ITC cannot include third party downstream products in its exclusion orders
- ITC has rejected request for a “limited scope general exclusion order” based on a circumvention theory (*Semiconductor Chips with Minimized Package Design*, Comm’n Op. (June 3, 2009))
- Legislation proposed to address *Kyocera* decision

## Customs' Enforcement of Exclusion Orders

- Administered by Office of Regulations and Rulings, Intellectual Property Rights (“IPR”) Branch
- Notices sent to CBP field offices
- Laboratory facilities to assist in testing and evaluating potentially infringing products
- CBP has limited resources to devote to enforcement of exclusion orders



# Ensuring Effective Enforcement of Exclusion Orders by CBP

- The patent owner has a critical role in assisting CBP to limit the entry of infringing goods:
  - Identify likely ports of entry for infringing goods and how infringing goods are likely to enter commerce
  - Provide background materials on the technology, patent at issue, accused products and Commission Opinions
  - Meet with CBP field officers; provide methodologies and assistance for testing infringing products
  - Monitor marketplace for infringing products that enter the U.S. in violation of the exclusion order

## Enforcement Proceedings at the ITC

- Complainants can also seek enforcement by the Commission.
- Complainant files Complaint with ITC alleging violation of Commission order
- Complainant can assert that a new product of respondent is infringing and therefore violates the exclusion order
- In addition, civil penalties are available for violation of cease and desist or consent orders
- Penalties as high as \$100,000 or twice the value of goods for each day on which violation occurred
- No civil penalties available for violation of exclusion order

## Examples of Penalties in Enforcement Proceedings

- Neodymium-Iron-Boron Magnets: penalties of \$1.55 million for violation of consent order
- Agricultural Vehicles: penalties of over \$2.3 million for violation of cease and desist order
- Lens-Fitted Film Packages: penalties of over \$13 million for violation of cease and desist order, resulting in filing of bankruptcy by respondent
- ALJ and Commission imposed substantial civil penalties even though respondent had obtained opinion from Customs that its redesigned product did not infringe
- Ink Cartridges: \$11,110,000 against the Ninestar Respondents (parent in China and two U.S. affiliates), jointly and severally (on appeal to Federal Circuit)

# Options for Respondents Faced With Exclusion Orders

- Take a license from Complainant
- Seek a ruling of non-infringement or invalidity from district court
- Challenge the patent through reexamination
- Move manufacturing into the U.S.
- Redesign the product and
  - Seek a ruling from Customs that the product is not covered by the exclusion order
  - Seek an advisory opinion from the ITC

## Seeking a Ruling From Customs

- As noted above, all products infringing the patent are excluded, not just the specific products in the investigation
- Often, a losing respondent will try to “design around” the patent – design a new product that is non-infringing
- Customs will decide if a new product infringes
- Respondent can seek ruling before or after importation
- The IPR Branch can have *ex parte* meetings with representatives for complainant and respondent
- IPR then issues a ruling as to whether or not the newly designed product was within the scope of the ITC’s exclusion order
- A respondent that is unhappy with IPR’s ruling can file a protest with Customs and appeal to the Court of International Trade (“CIT”), an Article III court sitting in NYC
- Customs’ and CIT’s determinations are not binding on the ITC

## New Customs Procedure for Resolving Disputes

- In 2005, the IPR Branch announced a new procedure for conducting an adversarial administrative hearing to determine whether or not a redesigned product falls within the scope of the exclusion order
- IPRBranch attorneys meet with both parties simultaneously
- Parties are given an opportunity to argue positions, rebut arguments of the other side, and submit briefs addressing issues raised during the administrative proceeding
- IPR will issue a ruling on whether or not a product falls within the scope of the exclusion order
- Whether to hold a hearing or not (and procedures to be followed) is within the discretion of IPR/CBP – not always used

## Advisory Opinion Proceedings at the ITC

- A Respondent may seek an advisory opinion from the ITC that the new product is not covered by exclusion order
- Proposed importation must be more than hypothetical, but plans or preparation to commercialize a design may be sufficient
- ITC may delegate request for advisory opinion to ALJ
- ALJ has discretion to allow discovery and hold a hearing
- ALJ issues an Initial Advisory Opinion that is reviewed by the Commission; no appeal to the Federal Circuit
- Time period for completion varies from 4 to 13 months
- Advantages: decision is binding on Customs; more thorough review
- Disadvantages: time and expense

## Eaton Corp. v. United States

- Eaton obtained limited exclusion order from ITC excluding all automated mechanical transmission systems that infringed the asserted claim of the '279 patent
- LEO included a certification provision allowing importation of AMT systems or components if the importer certified that imports were outside scope of order
- Respondents sought to import newly designed products while at same time seeking advisory opinion from Commission



## Eaton Corp. v. United States (cont.)

- Customs allowed importation upon certification by importer that product did not infringe
- Complainant filed lawsuit with CIT and sought preliminary injunction, arguing that CBP had unlawfully abdicated its responsibility to determine infringement
- Commission submitted letter clarifying that certification provision not intended to apply to redesigned product
- Court granted preliminary injunction
- Commission ultimately found redesigned product did not infringe

## Certain Digital TVs

- Funai filed complaint against Vizio at the ITC, alleging infringement of patents relating to digital TVs
- Funai was successful as to one patent, ITC issued exclusion order in April 2009
- Vizio redesigned its TVs and obtained a ruling from Customs that they were not covered by the exclusion order
- On September 1, 2009, Funai filed complaint against Customs with the Court of International Trade, claiming Customs acted improperly in allowing importation of TVs
- Vizio has moved to intervene in the case between Funai and Customs
- CIT dismissed Funai's complaint due to lack of jurisdiction (*Funai Electric Co., Ltd. v. U.S. and U.S. Bureau of Customs and Border Protection*, Slip Op. 09-109 (C.I.T. Oct. 6, 2009))

## Certain Digital TVs (Cont.)

- August 14, 2009: Funai filed complaint for an enforcement proceeding with the ITC, requesting “temporary emergency action” in light of alleged irreparable harm
- Vizio, AmTran, TPV Technology, TPV USA, Top Victory Electronics, Envision, Proview International, Proview Shenzhen, Proview Technology, Suzhou Raken Technology and Top Victory Investments (HK) named as respondents
- Commission instituted formal enforcement proceeding on September 4, 2009
- ITC denied request for temporary emergency action, but Judge Charneski set an “expedited” 12-month target date
- Funai seeks order that new products infringe and civil penalties for violation of ITC’s orders

# Questions?