

**2012 JUDICIAL CONFERENCE
THE UNITED STATES COURT OF APPEALS FOR THE FEDERAL CIRCUIT**

I. Intersection Between Commission Jurisdiction and Remedial Authority in Section 337 Investigations

The U.S. International Trade Commission’s (“Commission”) jurisdictional authority under Section 337 of the Tariff Act of 1930, as amended, 19 U.S.C. § 1337 (“Section 337”) is quite broad. The broad grant of authority to the Commission is to ensure that the central purpose of the relief provided for in Section 337 investigations – namely, to grant complete relief to the domestic industry from unfair acts – is achieved. In relevant part, Section 337 provides that “[t]he importation into the United States, the sale for importation, or the sale within the United States after importation by the owner, importer, or consignee, of articles that ... infringe a valid and enforceable United States patent . . .” constitute unlawful activity. The statutory language, and thus Commission jurisdiction, is therefore dependent upon two interrelated requirements: importation and infringement. These requirements also circumscribe, to some extent, the scope of relief that may be provided for upon a finding of a violation of Section 337.

A. The Importation Requirement

Since its early investigations, the Commission has taken the view that there is no such thing as a vested right to import goods into the United States; rather importation is a privilege granted by Congress. Hence, Congress may exclude goods from the United States, or empower the Commission to do so. The Commission’s jurisdiction to investigate and issue exclusion orders under Section 337 is therefore in rem and not in personam and the act of importation is the event that invokes that jurisdiction.

In this regard, a complainant need only prove importation of a single accused product to satisfy the importation element and invoke the Commission’s in rem jurisdiction. The Commission also has jurisdiction over, and the importation requirement is satisfied by, electronic transmissions or importations. In short, the Commission has recognized that Section 337(a)(1)(B), which codifies the importation requirement, does not address the purpose for the imported products, and thus, includes importation by a respondent without regard to purpose.

As stated above, Section 337 prohibits the importation into the United States, the sale for importation, or the sale within the United States after importation of articles that, inter alia, infringe a valid and enforceable U.S. patent. Thus, if a product is wholly manufactured in the United States and there is no importation, then the product may not fall within the jurisdiction of the Commission. Domestic manufacture, however, is not a complete safe harbor from the scope of Section 337. In this regard, the Commission has held that it has jurisdiction over products that are entirely manufactured within the United States if they are exported and then subsequently re-imported into the United States. In addition, Section 337 jurisdiction can also be found in connection with a product assembled in the United States if components of that product are imported.

B. The Infringement Requirement for Components

By its terms, Section 337 is not limited to articles that directly infringe a valid and enforceable U.S. patent. Section 337 does not distinguish between direct, contributory, or induced infringement, rather, Section 337 incorporates the indirect forms of infringement provided for in the patent statute. Direct infringement also does not have to precede importation for the Commission's jurisdiction to reach contributorily infringing imported components and the directly infringing assembled products.

To determine whether the products or acts constitute an unfair trade practice sought to be remedied, it is necessary to discern whether any unfair methods or acts (i.e., patent infringement) exists with respect to the relevant importations before the Commission has power to act.

There is no question that such an unfair act exists when the imported article itself directly infringes a patent. Where the patents-in-suit, however, cover a product that is finally assembled in the United States with imported components, a finding of direct infringement with respect to the finally assembled product does not necessarily establish the requisite unfair act with respect to the imported components. The same is true where such final assembly refers to the loading of software. The Commission has instructed that the proper test for such imported components is to establish that the imported components infringe the patents by way of contributory or induced infringement. More specifically, the Commission has noted:

Although we generally believe that the Commission's jurisdiction and authority should be broadly read, in light of the remedial nature of Section 337, we concur [that] in patent-based cases, the appropriate test is that of direct, contributory, or induced infringement. Where the imported article itself (or, in the case of inducement, where the surrounding acts) does not infringe, there is an insufficient nexus for Section 337.¹

The Commission has cited several reasons in support of this conclusion.

First . . . , the contributory infringement test is the same test as would be applied in a federal district court. A federal court could not issue relief against a component of a patented product if that component did not contributorily infringe the patent. To adopt [a broader] test would be to create substantive rights under Section 337 that go beyond the substantive rights cognizable in federal court Such an extension of Commission power may contravene the national treatment provisions contained in the international obligations of the United States, particularly Article III of the General Agreement on Tariffs and Trade. Such an extension may well be considered a nontariff barrier incompatible with GATT.

¹ GC-840108 (July 17, 1984).

A second major reason for adoption of the contributory infringement test is its relative ease of operation. The concept of contributory infringement is well understood in patent law and there is a significant body of case law interpreting and refining those concepts.²

Utilizing this test, the Commission has found that it is clear that source code, object code, and thus software can be a “component” of a patented invention, and where they are found to directly, contributorily, or otherwise indirectly, infringe one or more of the patent claims in suit, the requisite elements of Section 337 can be established. For example, in Certain Set-Top Boxes and Components Thereof, Inv. No. 337-TA-454, respondents argued that they did not import infringing articles; rather, they imported the accused set-top boxes and/or component into the United States.³ These set-top boxes and/or components were imported with hardware and/or software that enabled the later downloading of the accused software. Specifically, the investigation involved: (1) the importation of set-top boxes into which infringing software was installed after importation; (2) importation of set-top box components which were incorporated into set-top boxes domestically, and into which infringing software was installed after importation; (3) importation of new infringing software, including updates, upgrades, and bug fixes; and (4) satellite transmissions from abroad of infringing software and/or program schedule data. Therein, the presiding Administrative Law Judge rejected respondents’ contention that Commission jurisdiction could not lie and that they could not be found to have violated Section 337 because they did not import the allegedly infringing article. The presiding Administrative Law Judge found that the term “unfair act” has been construed broadly to include not only the direct infringement of patents, but also the alleged unfair acts occurring incident to importation of the articles or products involved or affected and the indirect forms of infringement. The presiding Administrative Law Judge further found that there is nothing in the language of Section 337(a)(1)(B), or the legislative history that would limit articles that infringe a patent to only those articles that directly infringe, and would exclude those articles that indirectly infringe. Moreover, the scope of Section 337 is broad enough to prevent every type and form of unfair practice with respect to the acts relating to products that indirectly infringe, including the transmission of infringing software by electronic means, electronic transmission of software and/or data that induce an infringing use of an imported product, and the servicing of imported products that induce infringement. Ultimately, however, the presiding Administrative Law Judge found no infringement by respondents’ imported set-top boxes, or their components, including software.

More recently, in Certain Digital Set-Top Boxes and Components Thereof, Inv. No. 337-TA-712, respondent argued that there was no jurisdiction because the alleged infringement did not occur until after importation.⁴ Respondent’s argument was based on the premise that the accused products, digital set-top boxes, were not imported with software that enabled the accused functionalities. Rather, such software was automatically downloaded when the user of the accused set-top box activated the relevant feature. Respondent attempted to distinguish this

² GC-840108 (July 17, 1984).

³ Certain Set-Top Boxes and Components Thereof, Inv. No. 337-TA-454, Comm’n Op. (Nov. 2002).

⁴ Certain Digital Set-Top Boxes and Components Thereof, Inv. No. 337-TA-712, Initial Determination (May 20, 2011).

case from the previous set-top boxes case, discussed in the preceding paragraph, by arguing that not all set-top boxes would download the software that enabled the accused functionalities. Nonetheless, the Administrative Law Judge rejected respondent's argument, in part because some set-top boxes, loaded with the enabling software in the United States, were exported for repair and then re-imported. The Administrative Law Judge further held that the respondent induced infringement because it advertised the channels that triggered the automatic download to its customers, provided access to such channels, and intended for its customers to use the channels. Furthermore, the ALJ held that there was contributory infringement because the accused channels that implemented the software do not have any substantial non-infringing use. Ultimately, the Commission found the asserted patent to be invalid and held that there was no violation of Section 337.

Finally, in Certain Personal Watercraft and Components Thereof, Inv. No. 337-TA-452, respondents contended that their LRV watercraft should be excluded from the investigation because it was not at that time, nor had it ever been imported into the United States.⁵ Specifically, respondents asserted that the design of the LRVs originated at their facility in Grant, Florida, that the engineering and production of LRVs exclusively occurred at their plant in Benton, Illinois and nowhere else in the world, and that all LRVs sold in the United States were shipped from the Benton, Illinois plant. Complainants argued that the scope of the investigation included components of personal watercrafts and that respondents imported approximately 450 components that were used to manufacture and assemble LRVs in the United States. Complainants further alleged that these components infringed each of the asserted patents either by way of direct infringement, contributory infringement, or inducement of infringement. The presiding Administrative Law Judge sided with the Commission investigative attorney, who noted that importation of components that are assembled into infringing products in the United States can form the basis for Commission jurisdiction and a violation of Section 337. The presiding Administrative Law Judge found that it is well-established that Section 337 covers direct, contributory and induced infringement, and that the Commission has found violations of Section 337 in the importation of a component of a patented invention where direct infringement did not occur until after the component was imported into the United States. Because respondents had not established that the imported components did not indirectly infringe the patents-in-suit, the presiding Administrative Law Judge denied their request to exclude the LRV watercraft from the scope of the investigation.

Contrary to the precedent above, however, complainants in certain investigations have urged the Commission to adopt a test broader than indirect infringement – a “direct step” in the infringement test – to establish the requisite nexus, citing Certain Personal Computers and Components Thereof, Inv. No. 337-TA-140, Comm'n Op. (Mar. 1984). At issue therein, however, was copyright infringement, not patent infringement, and the concept of indirect infringement is not the same in copyright cases. Second, the imported components therein were not capable of a commercially significant non-infringing use. Indeed, and as noted in Certain Personal Computers and Components Thereof, Inv. No. 337-TA-140, as well as in subsequent investigations, had the analysis been undertaken with respect to indirect patent infringement, the activities would have amounted to either contributory or induced infringement and satisfaction of

⁵ Certain Personal Watercraft and Components Thereof, Inv. No. 337-TA-452, Order No. 31 (Aug. 13, 2001).

the nexus requirement because there were no substantial non-infringing uses for the imported components.

Accordingly, to establish the requisite nexus between the importation and the unfair act of patent infringement, direct, contributory, or induced infringement must be established with respect to the imported accused product (whether it be the finally assembled product or a component thereof, including software).

C. The Scope of Remedial Relief

Assuming importation and infringement have been established, it is then necessary to evaluate the scope of the remedy provided for under Section 337. The Commission has broad discretion in selecting the form, scope, and extent of the remedy in Section 337 investigations. To be sure, the scope of Section 337 is broad enough to prevent every type and form of unfair import practice. As discussed above, to invoke the Commission's broad remedial authority a single importation must be established that is coupled with an unfair act (in a patent-based investigation, direct, contributory, or induced infringement). However, the Commission's remedial authority is not limited to those acts which occur during the actual physical process of importation. In short, Congress intended Section 337 to attack all unfair trade practices which relate to imported products. The Commission's remedial authority therefore extends to the prohibition of all acts reasonably related to the importation of infringing products and it is not a requirement of Section 337 that all of the unfair trade practices to which the remedial order applies originate outside of the United States. Accordingly, unfair trade practices can be reached by Section 337 when such practices involve purely domestic activities, such as "sales within the United States after importation" by an importer or an owner. The Commission's remedial authority is, however, circumscribed by the scope of the investigation. Specifically, the Commission may direct its remedial orders only to products within the scope of the investigation that infringe the patents at issue. The notice of investigation defines the scope of any Section 337 investigation. However, under certain circumstances one might use the complaint to clarify ambiguous terms in the notice of investigation.

The statutory remedies available under Section 337 include exclusion of the infringing articles from entry into the United States and/or cease and desist orders. An exclusion order can exclude from importation goods and products that directly or indirectly infringe the patented technology. An exclusion order can be of a general nature (excluding from entry the infringing articles regardless of their source), or of a limited nature (excluding from entry the infringing articles of only the respondent(s)), and is technically an in rem order operating against the products themselves. With respect to the former, in order for a complainant to receive such relief, it must establish that either a general exclusion order is necessary to prevent circumvention of a limited exclusion order, or that because of the pattern of the violation, it is difficult to identify the source of the infringing products. In the absence of such proof, a complainant that prevails on the issue of infringement typically receives a limited exclusion order. Both general and limited exclusion orders are enforced by Customs.

As a general matter, Commission exclusion orders are not limited to the specific models of accused devices found by the Commission to infringe. The Commission's long-standing practice is to direct its remedial orders to all infringing products within the scope of the

investigation. Put another way, the Commission's general practice is to direct its remedial orders to all products within the accused class or classes of products that are covered by the asserted patent claims as to which a violation has been found, rather than limiting its orders to only those specific models selected for the infringement analysis. In this regard, the scope of the Commission's remedial orders extends to all models within the accused class or classes of products that are imported at the time of the Commission's determination and to all such products that will be imported during the life of the remedial orders. An exclusion order covering anything less, according to the Commission, could easily be circumvented, thereby denying complete relief to the domestic industry. With this said, however, in at least one investigation, the Commission has limited its remedial relief with respect to future generation imports, finding that infringement as to those future products could not be inferred because the technology in the area changed and evolved rapidly. Notwithstanding, the Commission has indicated in past investigations that the obligation generally is on respondents to demonstrate, either before the Commission or Customs, that new or redesigned products falling within the scope of the accused class or classes of products covered by a Commission exclusion order do not infringe through modification proceedings, advisory opinion proceedings. In addition to or in lieu of an exclusion order, a complainant may also be granted a cease and desist order directed against specific respondents. Because in personam jurisdiction in the constitutional sense (*i.e.*, minimum contacts) is not required for the Commission to remedy unfair acts or methods of competition, cease and desist orders have been issued against domestic and foreign respondents alike. To issue such relief, the Commission requires a complainant to show that there exist within the United States "commercially significant" inventories of the infringing articles or other infringing acts related to imported merchandise that cannot be reached by an exclusion order. Unlike exclusion orders, the Commission itself enforces cease and desist orders.

In addition to cease and desist orders to prevent the domestic sale of imported infringing products and components thereof, the Commission has, where appropriate, issued cease and desist orders directed at other, purely domestic activities. For example, the Commission has found the scope of its authority to issue cease and desist orders under Section 337 broad enough to prevent, among others: the transmission of infringing software by electronic means; electronic transmission of software and/or data that induces an infringing use of an imported product; the servicing of imported products that induce infringement; satellite transmissions from abroad of infringing software and/or programs; marketing and advertising in the United States directed towards the infringing products; *etc.* In short, Section 337 is a remedial statute which authorizes the Commission to prevent unfair acts in their incipiency and the Commission has broadly tailored its cease and desist orders in each investigation with this in mind.

Finally, the Commission does not have the statutory authority to prohibit the export of infringing products. Section 337(f) authorizes the Commission to issue a cease and desist order directing respondents to cease violating Section 337 through unfair acts. As noted above, Section 337(a) defines a violation of that section in pertinent part to be "[t]he importation into the United States, the sale for importation, or the sale within the United States after importation . . . of articles that infringe a valid and enforceable United States patent."⁶ Thus, while the Commission has broad discretion to fashion a cease and desist order that provides complete and effective relief for violations of Section 337, the exportation of infringing products for sale

⁶ 19 U.S.C. § 1337(a)(1)(B).

abroad is not within the purview of activities prohibited by Section 337 and therefore cannot be reached by a Commission cease and desist order. In fact, Commission cease and desist orders typically expressly exclude exportation from their prohibitions.

1. **Kyocera Does Not Limit the Scope of Limited Exclusion Orders As to Named Respondents And May Expand Scope to Include Products of Unnamed Suppliers**

Limited exclusion orders, at least since the U.S. Court of Appeals for the Federal Circuit's ("Federal Circuit") decision in Kyocera Wireless Corp. v. U.S. Int'l Trade Comm'n,⁷ can only be applied to named respondents. In Kyocera, the Federal Circuit, interpreting the statutory directive that a limited exclusion order shall be limited to persons determined by the Commission to be violating Section 337, found that the Commission had exceeded its statutory authority by issuing a limited exclusion order directed towards downstream products of non-respondents. Thus, after Kyocera, if a complainant wants to seek an order excluding downstream products of unnamed respondents, the complainant must meet the heightened requirements of a general exclusion order.

Kyocera, however, does not limit the scope of limited exclusion orders as to named respondents (either supplier or downstream respondents) as to their own products. The scope of the typical limited exclusion order with respect to a named respondent is quite broad, particularly insofar as so-called named downstream product respondents are concerned. In this regard, the typical limited exclusion order implicates a class or classes of accused product and "products containing the same" "that infringe" "one or more claims of the asserted patent" "that are manufactured abroad by or on behalf of, or imported by or on behalf of Respondents or any of their affiliated companies, parents, subsidiaries, successors, assigns, or other related business entities" Furthermore, once a violation is found, it is generally a respondent's obligation to demonstrate, before either the Commission or Customs, that specific products – new or redesigned – falling within the scope of the accused class or classes of products covered by a Commission's exclusion order do not infringe. Accordingly, an entire class or classes of products of a named, downstream product respondent are implicated by a typical limited exclusion order, despite the fact that only a single or select number of products may have specifically been found to infringe and despite the identity of the supplier of the upstream product.

For example, in Certain Semiconductor Chips with Minimized Chip Package Size and Products Containing Same ("Semiconductor Chips"), the presiding Administrative Law Judge addressed the issue of whether a respondent had to provide discovery regarding its products that contain semiconductor chip assemblies supplied by entities who were not named as respondents in the investigation.⁸ In opposing a motion to compel such discovery, the respondent argued that the complaint limits the scope of the investigation to semiconductor chip assemblies designated, manufactured, and supplied by respondents named in the investigation. Respondent further argued that the complainant had not conducted any pre-filing investigation to justify extending the scope of the investigation to encompass all semiconductor chip assemblies that respondent

⁷ 545 F.3d 1340 (Fed. Cir. 2008).

⁸ Semiconductor Chips, Inv. No. 337-TA-605, Order No. 44, 2008 ITC LEXIS 210 (Feb. 14, 2008).

uses and that it was inequitable for complainant to leverage a downstream consumer to make its infringement allegations against upstream suppliers. In granting complainant’s motion to compel the information on respondent’s products containing semiconductor chip assemblies from non-respondent suppliers, the presiding Administrative Law Judge held that the notice investigation included within its scope certain semiconductor chips with minimized chip package size or products containing same. The presiding Administrative Law Judge further held that, because respondent was “an importer of products that allegedly contain infringing semiconductor chips . . . both [respondent] and its products fall squarely within the scope of th[e] investigation . . . regardless of who is the supplier of the semiconductor chips.”⁹ Accordingly, Semiconductor Chips illustrates that the scope of an investigation, as delineated in the notice of investigation, may reach classes of products of a named, downstream product respondent, regardless of the identity of the supplier of the upstream product.

This issue was also the subject of a rare advisory opinion by the Commission, which recently issued in Certain GPS Devices and Products Containing Same (“GPS Devices”).¹⁰ Following the issuance of a limited exclusion order in GPS Devices, a non-respondent supplier petitioned for an advisory opinion under 19 C.F.R. § 210.79(a) that the importation, sale for importation, or sale after importation of GPS products incorporating its GPS chips, rather than those of the named supplier respondent, did not violate the Commission’s limited exclusion order.¹¹ Specifically, in its request the non-respondent supplier explained that it intends to sell its GPS chips to certain respondents for incorporation into GPS products, e.g., personal navigation devices (“PNDs”). The non-respondent supplier further explained that its GPS chips were not before the Commission during the investigation and contends that any products incorporating its GPS chips, as opposed to the respondent supplier’s GPS chips, are not covered by the limited exclusion order. The non-respondent supplier pointed to the language of the limited exclusion order, the complaint, the notice of investigation, the administrative law judge’s final initial determination, and the Commission’s opinion to support its assertion that PNDs of respondents, which incorporate the non-respondent supplier’s GPS chips, should not be covered by the limited exclusion order.

In considering the non-respondent supplier’s request, the Commission noted:

Exclusion orders must be read in the context of the investigation in which they were issued and the Commission’s findings in that investigation. The language in Commission limited exclusion orders directed to articles of named respondents “that infringe” or articles “covered by” generally refers to articles found by the Commission to infringe and articles that are “‘essentially the same,’ meaning that the differences between them are merely ‘colorable’ or ‘unrelated to the limitations in the claim of the patent.’” See Yingbin-Nature (Guangdong) Wood Indus. Co. v. U.S. Int’l Trade Comm’n, 535 F.3d 1322 (Fed. Cir. 2008); see also

⁹ Id. at *6-7.

¹⁰ Inv. No. 337-TA-602 (Apr. 20, 2010).

¹¹ Certain GPS Devices and Products Containing Same, Inv. No. 337-TA-602, Advisory Op. at 2 (Apr. 20, 2010).

Certain Automated Mechanical Transmission Systems for Medium-Duty and Heavy-Duty Trucks and Components Thereof, Inv. No. 337-TA-503, Comm’n Op. at 4 (July 2005) (“[T]he scope of the remedy is dependent upon the scope of the investigation, which is determined by the notice of the investigation.”); Certain Systems for Detecting and Removing Viruses or Worms, Components Thereof, and Products Containing Same, Inv. No. 337-TA-510, Comm’n Op. at 4 (Aug. 2005) (“[O]ur remedial orders cover –respondent] hardware components only in instances where an . . . anti-virus software module [found to infringe by the Commission] is installed on [respondent] hardware.”).¹²

In this case, the Commission’s opinion indicates that it investigated “[respondent supplier’s] GPS chips and products incorporating *the* GPS chips, such as portable navigation devices (‘PNDs’), personal digital assistants (‘PDAs’) and cell phones made by [downstream respondents].” Certain GPS Devices and Products Containing Same, Inv. No. 337-TA-602, Comm’n Op. at 4-5 (Jan. 2009); see also Broadcom’s Complaint at ¶¶ 86-88 (including that the allegedly infringing products are [respondent supplier’s] GPS chips and “downstream products using accused [respondent suppliers chips]). The Commission’s findings of infringement in the underlying investigation are based almost entirely on the operation of [respondent supplier’s] proprietary software, data services, and hardware in the products of [the downstream respondents] Indeed, the Commission found that [respondent supplier’s] GPS chips, its proprietary software, and its proprietary data services are responsible for performing all of the claimed features, elements, and method steps in the asserted patents.¹³

Based on the foregoing analysis, the Commission concluded that the “GPS Devices limited exclusion order, when properly read in the context of the investigation, is directed only to [respondent supplier’s] infringing GPS chips and products of [downstream respondents] that incorporate [respondent supplier’s] infringing chips.”¹⁴ Accordingly, the Commission determined to grant the request for an advisory opinion that importation of products containing the non-respondent supplier’s GPS chips do not violate the limited exclusion order. Thereafter, respondents were permitted to import downstream products containing the non-respondent supplier’s GPS chips outside the scope of the limited exclusion order.

Accordingly, the Commission’s advisory opinion in GPS Devices provides a narrow avenue for a named downstream respondent to seek an exception for certain downstream products containing components of non-respondent suppliers. However, to obtain such an exception, the downstream respondent must meet the high bar of establishing that those

¹² Id. at 4.

¹³ Id. at 4-5.

¹⁴ Id. at 5.

particular products were not found by the Commission to infringe and are not articles that are essentially the same – meaning that the differences bring those products outside the limitations in the claims of the patents.

Thus, although Kyocera, on its face, ostensibly limited the scope of the Commission’s authority to exclude products, such result was only reached with respect to downstream products of unnamed respondents. Kyocera did nothing to limit the scope of the Commission’s authority to exclude the upstream products of unnamed suppliers. In fact, by encouraging complainants to name more downstream respondents, Kyocera may even lead to the proliferation of such exclusions.