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ITC May Be Straying From Traditional Exclusion Order Test

By **Matt Rizzolo and Brendan McLaughlin** (December 17, 2019)

The U.S. International Trade Commission plays an increasingly critical role in patent litigation. The commission serves to protect companies within the United States from unfair business practices, and under Title 19 U.S. Code Section 1337, it prohibits unfair acts in the importation of goods — particularly patent infringement.



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Complainants can potentially receive significant relief: The commission may grant exclusion orders and/or cease and desist orders, either of which can deliver profound business and legal strategic victories. But as technologies converge and increasingly complex products are imported, this leads to difficult questions regarding which products are subject to exclusion — for example, should a \$30,000 automobile be subject to an exclusion order merely because a \$10 chip in the dashboard infringes a patent?



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In determining whether to grant an exclusion order against downstream products that incorporate infringing components, the ITC has traditionally applied a multifactor test: the so-called EPROMs factors. However, some U.S. Court of Appeals for the Federal Circuit decisions have left the status of the EPROMs factors in doubt, and the commission has declined to apply them in at least two recent Section 337 proceedings.

Yet the EPROMs factors continue to be argued by litigants. This raises the questions of when, if at all, the EPROMs factors are still relevant and what factors the commission should consider in the context of downstream exclusionary relief.

Background

Section 337 grants the commission the power to issue two types of exclusionary relief: limited exclusion orders and general exclusion orders. LEOs prohibit respondents from importing products found to violate Section 337 into the United States “unless, after considering the effect of such exclusion upon the public health and welfare, competitive conditions in the United States economy, the production of like or directly competitive articles in the United States, and United States consumers, it finds that such articles should not be excluded from entry.”[1]

These considerations are known as the public interest factors. GEOs prohibit the importation of any products that infringe, whether the products are imported by a named respondent or not. The commission grants GEOs if they are “necessary to prevent circumvention of an exclusion order limited to products of named persons, or there is a pattern of violation of this section and it is difficult to identify the source of infringing products.”[2]

EPROMs Factors

For many years, a complainant in a patent case at the ITC needed to show that the infringement substantially injured a domestic industry — typically, investments made in the

United States associated with patent-practicing products. But in an effort to strengthen IP protection, Congress in 1988 amended the ITC's statute by removing this so-called injury requirement.[3]

Shortly thereafter, the commission changed how it analyzed requests for LEOs in certain cases. In *Certain Erasable Programmable Read-only Memories, Components Thereof, Products Containing Such Memories, and Processes for Making Such Memories*, the commission applied a nine-factor test aimed to "balance the complainant's interest in obtaining complete protection from all infringing imports by means of exclusion of downstream products against the inherent potential of even a limited exclusion order, when extended to downstream products, to disrupt legitimate trade." [4]

These nonexclusive factors are:

1. The value of the infringing articles compared to the downstream products in which they are incorporated;
2. The identity of the downstream manufacturers;
3. The incremental value to complainant of downstream exclusion;
4. The incremental detriment to respondents of such exclusion;
5. The burdens imposed on third parties resulting from downstream exclusion;
6. The availability of alternative noninfringing downstream products;
7. The likelihood that imported downstream products actually contain the infringing articles;
8. The opportunity for evasion if an exclusion order does not include downstream products; and
9. The enforceability of an order by U.S. Customs and Border Protection.

Applying the test, the commission excluded respondent Hyundai Motor Cos.'s downstream products such as "computers, computer peripherals, telecommunications equipment, and automotive electronic equipment," [5] but found "exclusion of Hyundai automobiles per se" excessive because of the relative cost and importance of the infringing components—small memory chips—to the whole automobile. [6] On appeal, the Federal Circuit affirmed the ITC's remedy determination in EPROMs, expressly approving the EPROMs factors and the ITC's balancing of the parties' interests in fashioning the remedy. [7]

Although the EPROMs case concerned an exclusion order against a respondent's products, the ITC has applied the EPROMs factors broadly — the commission began granting LEOs directed not only to infringing products of named parties, but also products of downstream nonrespondents whose products included the adjudicated infringing components. The commission continued this treatment of nonrespondents for almost two decades — and then the Federal Circuit weighed in.

Kyocera and Spansion

In the mid-2000s, Broadcom Inc. brought an ITC complaint naming Qualcomm Inc. — and only Qualcomm — as a respondent. The ITC determined that certain Qualcomm baseband

processor chips and chipsets infringed the claims of an asserted patent, and proceeded to issue an LEO against those chips and chipsets — as well as certain downstream wireless devices which incorporated those infringing components.[8]

In effect, the LEO applied both to Qualcomm (the respondent) and to Qualcomm's customers (nonrespondents). Qualcomm and several of its customers appealed, arguing that the ITC lacked the authority to issue an LEO to exclude products of nonrespondents.

In 2008's *Kyocera Corp. v. ITC*, the Federal Circuit agreed and rejected the ITC's remedy as overly broad.[9] The Federal Circuit distinguished the scope of the ITC's authority to issue LEOs versus GEOs, concluding that while GEOs could apply to both respondents and nonrespondents, LEOs could apply only to respondents.[10] Because Broadcom failed to meet the heightened requirements for obtaining a GEO, the court held that the ITC could not exclude the products of nonrespondents.[11]

Two years later, the Federal Circuit addressed the factors the commission must consider when granting exclusionary relief in *Spanion Inc. v. ITC*. [12] While the statute requires only that the commission consider the public interest factors before issuing an exclusionary remedy,[13] the respondents in *Spanion* argued that the ITC should consider the equitable eBay[14] factors in patent cases, just like a district court would.

But the Federal Circuit rejected this argument, explaining that "[b]y statute, the Commission is required to issue an exclusion order upon the finding of a Section 337 violation absent a finding that the effect of one of the statutorily enumerated public interest factors counsel otherwise." [15]

After Kyocera and Spanion, Confusion Over the EPROMs Factors

Together, *Kyocera* and *Spanion* called into question the continued applicability of the EPROMs factors. The Federal Circuit stated that LEOs may not be granted against nonrespondents and that when evaluating exclusion, the commission must consider only the statutorily enumerated public interest factors. Yet at the same time, the Federal Circuit declined to explicitly overrule EPROMs, which led to a decade of uneven application and inconsistent rulings by the ITC and its administrative law judges.

Shortly after *Kyocera*, the commission in *Certain Liquid Crystal Display Modules* stated that "[i]n determining whether an exclusion order should extend to downstream products, the Commission applies a test first articulated in [EPROMs]," and it adopted the ALJ's detailed EPROMs analysis as its own.[16]

Over the next several years, ALJs struggled to reconcile the commission opinion in *Certain Liquid Crystal Display Modules* with the Federal Circuit's holding in *Kyocera* (and later, *Spanion*). Four ALJs continued applying the EPROMs factors,[17] one clearly stated that they did not apply to LEOs,[18] one found them inapplicable under particular conditions,[19] three seem unsure,[20] and three have apparently yet to offer an opinion.[21] More recently, the commission has in two different investigations found the EPROMs factors irrelevant based upon the facts of the particular cases, but did not expressly overrule them.

In *Certain Graphics Systems, Components Thereof, and Consumer Products Containing the Same*, [22] the complainant *Advanced Micro Devices Inc.* alleged that *VIZIO* violated Section 337 by importing televisions — a downstream product — that incorporated infringing graphics chips components, which were manufactured by other respondents. The

commission found that the EPROMs factors were irrelevant to the Investigation because the LEO request was directed toward downstream products and respondents that were expressly included in the Investigation.

The commission went on to say that although the EPROMs factors were not relevant, “[t]he question of whether the exclusion order should exempt VIZIO’s infringing televisions is a matter to be addressed in connection with the Commission’s analysis of the statutory public interest factors and the tailoring of relief.”[23]

Then, approximately one month later, the commission issued its opinion in *Certain Non-Volatile Memory Devices and Products Containing the Same*. [24] There, complainant Macronix America Inc. alleged that Toshiba Corp. and its foreign affiliates violated Section 337 by importing nonvolatile memory devices and downstream products incorporating the devices.

Citing *Graphics Systems*, the commission found that the EPROMs factors were irrelevant to the Investigation because the requested LEO was directed only toward Toshiba’s products and not those of nonparties who incorporate Toshiba’s products overseas and then import assembled articles containing those products. But again, the commission did not overrule the EPROMs factors — in fact, the commission seemed to imply that they may still be relevant in an analysis of potential exclusion of downstream products “which were not themselves the subject of a finding of violation of section 337.”[25]

Taken together, these cases indicate that the EPROMs factors are now effectively a dead letter when a party is seeking only a limited exclusion order. As the commission indicated in *Graphics Systems*, the statutory public interest factors must be considered before issuing any exclusionary relief, including against downstream products of named respondents, and downstream respondents are free to make EPROMs-like arguments in public interest briefing.

But while the EPROMs factors may now be irrelevant where only an LEO is sought, the commission left open the possibility that they still apply where a complainant is seeking a broader GEO.

For Downstream Issues, Focus is Now on the Public Interest Factors

The upshot is that the focus on whether an exclusion order should extend to downstream products has likely now shifted to the parties’ public interest briefing. When downstream products are at issue, complainants should ensure that their public interest briefing elaborates on how the imported products substantially harm the public interest and how exclusion is required to promote the public interest — for example, whether there is a need for the exclusion order to extend to downstream products to provide the complainant with fully effective and enforceable relief.

And respondents should highlight the relative unimportance of potentially infringing components to a downstream product and attempt to fit that into the framework of the public interest factors. For example, in some cases a respondent may be able to show that U.S. consumers would be harmed by the unavailability of the accused downstream products. And while discovery on the public interest issues is not delegated to the ALJ in every case, in cases where downstream products are at issue, delegation may be more appropriate so that both sides can fully develop a record for the ALJ and the commission.

But regardless of when the downstream product-related public interest issues are

addressed, it is important that parties simply not make these arguments in a vacuum — to be most effective, they must be connected to the commission’s consideration of the effect of the remedy on the public health and welfare, competitive conditions in the U.S. economy, the production of similar or directly competitive articles in the U.S. or U.S. consumers.

ALJs and the commission have often criticized parties for making remedy-related policy arguments without tying them to one or more of the statutory public interest factors. While the commission has rarely found that public interest considerations preclude issuing a remedy (or that the remedy should be tailored) once it has found a violation of Section 337, ITC litigants must be aware of the shift away from EPROMs factors and argue accordingly.

Although the EPROMs factors might now be relevant only in cases where a general exclusion order is sought, the public interest factors are statutory and must be considered in every Section 337 investigation.

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[1] 19 U.S.C. § 1337(d)(1).

[2] 19 U.S.C. § 1337 (d)(2).

[3] Omnibus Trade and Competitiveness Act of 1988, Pub. L. 100-418 (Aug. 23, 1988).

[4] Inv. No. 337-TA-276, USITC Pub. No. 2196 at 125 (May 1989), *aff’d sub nom. Hyundai Elec. Indus. Co. v. ITC*, 899 F.2d 1204 (Fed. Cir. 1990).

[5] *Id.* at 127.

[6] Specifically, the Commission found that “while the actual value of the EPROMs compared to the value of the equipment may be small, they are vital to its operation. . . . However, unlike computers, automobiles can be built without EPROMs—it is only the newest technology in automotive engineering which relies heavily on advanced electronics, including EPROMs. . . . In addition, the incremental benefit to the complainant of exclusion of non-respondent manufacturers’ products appears relatively small compared to the burden which would be imposed on those manufacturers by the certification requirements of an exclusion order applicable to them.” *Id.*

[7] *Hyundai Electronics Indus. Co. v. ITC*, 899 F.2d 1204, 1209 (Fed. Cir. 1990).

[8] Certain Baseband Processor Chips and Chipsets, Transmitter and Receiver (Radio) Chips, Power Control Chips, and Products Containing Same, Including Cellular Telephone Handsets, Inv. No. 337-TA-543, Commission Opinion (Jun. 7, 2007).

[9] 545 F.3d 1340 (Fed. Cir. 2008).

[10] *Id.* at 1356.

[11] Id.

[12] 629 F.3d 1331, 1357 (Fed. Cir. 2010).

[13] Id. at 1360.

[14] eBay Inc. v. MercExchange, L.L.C., 547 U.S. 388 (2006).

[15] Spansion, 629 F.3d at 1358.

[16] Certain Liquid Crystal Display Modules, Products Containing Same, and Methods for Using the Same, Inv. No. 337-TA-634, Commission Opinion at 2 (Nov. 24, 2009).

[17] ALJ Shaw applied the EPROMs factors numerous times post-Kyocera (see Inv. Nos. 337-TA-781, -784, -837, and -941). Former ALJs Charneski (Certain Flash Memory and Products Containing Same, Inv. No. 337-TA-685, Initial Determination at 109-10 (Mar. 24, 2011), Gildea (See, e.g., Certain Wireless Consumer Electronics Devices and Components Thereof, Inv. No. 337-TA-853, Recommended Determination at 7 (Oct. 24, 2013)) and Luckern (See, e.g., Certain Integrated Circuits, Chipsets, and Products Containing Same Including Televisions, Media Players, and Cameras, Inv. No. 337-TA-709, Final Initial and Recommended Determinations at 97-100 (Apr. 4, 2011)) all continued to use the EPROMs factors as well.

[18] Former ALJ Rogers found that the EPROMs factors were “obviated by the Federal Circuit’s decision in Kyocera.” Certain Flash Memory Chips and Products Containing Same, Inv. No. 337-TA-735, Order No. 32 at 8 (May 9, 2011).

[19] Certain Thermoplastic-encapsulated Electric Motors, Components Thereof, and Products and Vehicles Containing Same II, Inv. No. 337-TA-1073, Recommended Determination at 14, n. 3 (Nov. 27, 2018) (Former ALJ Pender finding that an “EPROMs analysis is not applicable” where the downstream products at issue were specifically accused by the complainant and were imported and sold by named respondents).

[20] ALJ Bullock in one investigation recommended a remedy against downstream respondents without analyzing the EPROMs factors, but in a subsequent investigation, denied motions in limine to preclude respondents from arguing EPROMs factors. Compare Certain Static Random Access Memories and Products Containing Same, Inv. No. 337-TA-792, Initial Determination and Recommended Determination on Remedy and Bond at 62 (Oct. 25, 2012), with Certain Flash Memory Chips and Products Containing Same, Inv. No. 337-TA-893, Order No. 51 at 3 (Sept. 29, 2014). Former ALJ Essex also seemed unsure of whether the EPROMs factors are still relevant, and applied them in some cases while declining to do so in others. Compare Certain Semiconductor Chips and Products Containing Same, Inv. No. 337-TA-753, Initial Determination and Recommended Determination on Remedy and Bond at 372 (Mar. 2, 2012), with Certain Computers and Computer Peripheral Devices and Components Thereof and Products Containing the Same, Inv. No. 337-TA-841, Initial Determination and Recommended Determination on Remedy and Bond at 162 (Aug. 2, 2013). And ALJ Lord initially continued to apply the factors as well, but more recently, she found that “[t]he EPROMs factors are not relevant” when considering a respondent’s own downstream products. Compare Certain Television Sets, Television Receivers, Television Tuners, and Components Thereof, Inv. No. 337-TA-910, Order No. 57 at 2 (Nov. 21, 2014), with Certain Non-volatile Memory Devices and Products Containing the Same, Inv. No. 337-TA-1046, Recommended Determination on Remedy and Bonding at 2-3 (May

10, 2018).

[21] ALJs McNamara (who joined the ITC in 2015), Cheney (2018), and Elliot (2019) have yet to opine on the applicability of the EPROMs factors.

[22] Inv. No. 337-TA-1044, Commission Opinion at 66-68 (Sep. 18, 2018).

[23] Id. at 68.

[24] Inv. No. 337-TA-1046, Commission Opinion (Oct. 26, 2018).

[25] Id. at 51 (citing EPROMs, Commission Opinion at 125).