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ALERT

Intellectual Property

August 11, 2015

Divided Federal Circuit Applies *Chevron* Deference and Holds That Inducement May Form the Basis for a Violation of Section 337 in ITC Proceedings

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On August 10, 2015, an *en banc* Federal Circuit issued its much-awaited decision in Suprema, Inc. v. Int'l Trade Comm'n (No. 2012-1170), a case that had the potential to curtail the scope of conduct that may be addressed by the U.S. International Trade Commission ("ITC"). In an opinion written by Judge Reyna (joined by Judges Newman, Wallach, Taranto, Chen, and Hughes), the Federal Circuit held that the ITC has the power under Section 1337 of the Tariff Act of 1930, as amended, ("Section 337") to issue exclusion orders to block the importation of products based on a theory of induced infringement of method claims. For the foreseeable future, therefore, allegations of a violation of Section 337 based on inducement remain viable at the ITC.

In the underlying ITC investigation that was at issue on appeal, the ITC found that respondent Suprema violated Section 337 by importing fingerprint scanners, which, after being imported into the United States, were combined with software made by another company (Mentalix) and were used to infringe patented methods owned by complainant Cross Match Technologies. While the scanners as imported by Suprema were not independently capable of being used to infringe the patented method (because the Mentalix software had not yet been loaded), the ITC nonetheless found a violation of Section 337 based on a theory of active inducement, and issued an exclusion order barring Suprema from importing the accused scanners. Suprema then appealed to the Federal Circuit, where a divided panel held that the ITC's power under Section 337 to exclude products based on the infringement of U.S. patents does not cover the inducement of the infringement of method claims. The panel explained that the ITC's power is limited to excluding "articles . . . that infringe" *at the time of importation*, and an inducement inquiry would require the ITC to improperly evaluate post-importation domestic conduct. This panel opinion was subsequently vacated when the Federal Circuit granted the petitions for *en banc* rehearing filed by Cross Match and the ITC.

Judge Reyna's majority en banc opinion first addressed the threshold question of whether the Federal Circuit should give deference to the ITC's definition of "articles . . . that infringe," applying the familiar two-step framework of *Chevron U.S.A. Inc. v. Natural Resources Defense Council, Inc.*, 467 U.S. 837 (1984). The majority first concluded that the term "articles . . . that infringe" is ambiguous in the context of Section 337 when viewed in the context of the patent laws of the United States, because under the patent laws, "articles" do not infringe—instead, people infringe, such as by making, using, or selling a patented invention. Maj. Op. at 14-19. This, according to the majority, is due to the incompatibility between the in rem nature of Section 337 and the *in personam* nature of the Patent Act. The majority then examined whether the ITC's construction of the term "articles . . . that infringe" is reasonable in light of the text, purpose, and history of Section 337. The majority explained that the ITC's power under Section 337 is "broad and inclusive," and found that for at least the past 35 years, the ITC has consistently interpreted Section 337 to bestow on it the authority to take action to address induced infringement—and that the Federal Circuit has never questioned the ITC's authority to do so. *Id.* at 22, 25. The majority also noted that the purpose behind the 1988 amendments that added the language "articles . . . that infringe" was to strengthen to the ITC's ability to protect intellectual property rights. *Id.* at 23-25. Therefore, the majority concluded that the ITC's interpretation of the term "articles . . . that infringe" to cover goods used by an importer to directly infringe post-importation as a result of the seller's inducement was reasonable in the context of the statutory authority endowed to the ITC by Congress. *Id.* at 26-27.

Judge O'Malley dissented, joined by Judges Prost, Lourie, and Dyk. Judge O'Malley's dissent first disagreed that *Chevron* deference is owed in this case, because the statute is unambiguous. According to Judge O'Malley, by using the term "articles . . . that infringe," Congress explicitly chose to exclude liability for inducement based on a method claim that is not directly infringed until after importation. O'Malley Dissenting Op. at 3. Judge O'Malley also disagreed that the ITC has consistently interpreted Section 337 to cover inducement based on conduct that occurs in the United States post-importation, repeatedly distinguishing prior cases from the facts at hand here. *Id.* at 17-25. Finally, Judge O'Malley contended that the majority's conclusion is policy-based and any concerns about loopholes in Section 337 may either be addressed by the filing of a district court infringement action addressing inducement or by Congress amending Section 337 itself. *Id.* at 25-29.

Judge Dyk also authored a separate dissent in which he explained his view that any alleged acts of inducement on the part of the importer, Suprema, were wholly separate from Suprema's importation of its scanners—*e.g.*, the scanners did not contain instructions directed to infringement of the method claim at issue—and therefore, any exclusion order based on inducement would be inappropriate and overbroad. Dyk Dissenting Op. at 2-4.

The case is now remanded to the original panel for further proceedings, although a petition for a writ of certiorari is likely to be filed. In the meantime, litigants should be aware that inducement theories for both apparatus and method claims remain viable in Section 337 proceedings in the ITC, although the strength of an inducement allegation in an individual case is often highly fact-dependent. To further discuss the potential impact of this decision, please contact your usual Ropes & Gray attorney or one of the Ropes & Gray attorneys listed above.