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A legal update from Dechert's Intellectual Property Group

Federal Circuit Significantly Limits the ITC's Power to Exclude "Downstream Products"

The U.S. Court of Appeals for the Federal Circuit has severely curtailed the power of the U.S. International Trade Commission ("ITC") to exclude from importation into the United States products made by companies that were not a party to the proceedings. On October 14, 2008, the Federal Circuit issued its decision in *Kyocera Wireless Corporation v. International Trade Commission*, overruling a long line of decisions in which the ITC gave itself the authority to exclude not only components that infringe a U.S. patent but also so-called "downstream products" that include such components – even if the manufacturer of the downstream product was not named as a defendant (called a "respondent" in the ITC).

This important decision will have significant implications for patent-holders who initiate ITC proceedings seeking to exclude downstream products.

Prior State of the Law

Under 19 U.S.C. § 1337 ("Section 337"), the ITC, a federal administrative agency located in Washington, D.C., has the authority to exclude from importation into the U.S. articles that infringe a valid U.S. patent. The ITC's power to exclude imports has become increasingly more important in today's global economy. This is especially true since the Supreme Court's decision in *eBay v. MercExchange LLC*, 547 U.S. 388 (2006), increased the hurdles required to obtain injunctive relief in patent infringement actions brought in the U.S. district courts.

The typical form of exclusion order the ITC can issue is called a "limited exclusion order" or "LEO." An LEO is directed to the products made by a respondent in the ITC proceedings. The ITC also has the ability to issue a "general exclusion order" or "GEO" if certain additional criteria are met. A GEO can exclude all infringing articles regardless of the identity of the manufacturer or importer. It is generally understood that a GEO is more difficult to obtain.

In a line of cases involving LEOs, the ITC has addressed the situation where the respondent manufactures an infringing component (for example, a semiconductor chip) that is made and sold abroad and then assembled into a down stream product (for example, a cell phone) before being imported into the United States. Under ITC precedents, if certain factors were met, the ITC could issue an LEO that not only excludes the component from importation, but also excludes the downstream product from importation. The ITC has held that the downstream product could be excluded, even if the manufacturer of the downstream product was not named as a respondent in the ITC's proceeding.

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This arrangement gave patent holders the power to disrupt the business of component manufacturers, even if those component manufacturers themselves import very few components into the U.S. In particular, patent holders could use the threat of an order excluding downstream products to intimidate the component manufacturer's customers while not naming such customers as respondents in the ITC proceedings.

The Federal Circuit's Decision in *Kyocera v. ITC*

The *Kyocera* decision involved a patent dispute in which Broadcom sought an LEO against chips made by Qualcomm. Qualcomm imports very few chips itself, so Broadcom sought an LEO that would also exclude from importation all downstream products (*e.g.*, cell phones) that contained a Qualcomm chip. However, Qualcomm was the only named respondent in the ITC proceedings.

The ITC Administrative Law Judge determined that the Qualcomm chip infringed Broadcom's patent and the full ITC affirmed that decision. At that point, the ITC turned to the issue of the scope of the exclusion order. Many cell phone manufacturers and wireless service providers (*e.g.*, Sprint, T-Mobile, etc.) intervened in the remedy phase of the ITC's proceedings and argued that the LEO should not extend to downstream manufacturers and customers. One argument raised by the interveners was that Section 337 did not permit the exclusion order to cover downstream products made by third parties who had not been named as respondents and thus had not been found to violate Section 337.

After a two-day hearing, the ITC issued an LEO that prohibited the importation of individual Qualcomm chips as well as downstream products containing such chips, even though such downstream products were made by companies who were not named as respondents in the proceedings. Qualcomm appealed, as did the cell phone companies and wireless service providers.

The Federal Circuit reviewed the language of Section 337(d) and determined that the ITC had overstepped its statutory authority. The Court held that LEOs must only apply to parties found to violate Section 337. Thus, downstream products made or imported by third-party non-respondent manufacturers cannot be excluded by an LEO. The Court noted that Congress specifically set forth in Section 337(d) separate provisions (with more stringent criteria) regarding the issuance of a GEO that can exclude products made by parties other than the named respondents. Notably, Broadcom had not sought a GEO.

The Impact of *Kyocera v. ITC*

The Federal Circuit's decision in *Kyocera* diminishes the ITC's power to exclude a non-respondent's downstream products from importation into the United States, even if those products contain a component found to infringe a U.S. patent. This result will likely give manufacturers of downstream products more comfort and certainty regarding ITC proceedings. If the manufacturer is not named as a defendant in an investigation where an LEO is the only requested remedy, that manufacturer's product cannot be excluded from importation.

Additionally, three trends are likely to arise:

- First, patent holders seeking relief in the ITC might tend toward including more respondents in their complaints, especially manufacturers of downstream products. The risk presented by this strategy is that the downstream manufacturers might be customers or potential customers of the patent holder, and suing a customer is not usually a good business decision.

- Second, there may be a significant increase in the number of patent holders seeking GEOs, even though GEOs require additional hurdles that might not be surmountable.

- Third, the ITC may currently have a number of existing LEOs in force that exclude downstream products made by non-respondent parties. Those parties or their suppliers might approach the ITC to seek modification of those LEOs in light of *Kyocera* in order to remove the provisions that exclude their downstream products.

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