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## The Battle Brewing Over Kyocera

*Law360, New York (December 18, 2009)* -- On Oct. 14, 2008, the Federal Circuit in *Kyocera Wireless Corp. v. U.S. Int'l Trade Comm'n*, 545 F.3d 1340 (Fed. Cir. 2008) held that the U.S. International Trade Commission exceeded its statutory authority when it found the only named respondent, Qualcomm, in violation of Section 337 but issued a limited exclusion order ("LEO") barring cell phones from entry into the United States made by third parties if they contained the infringing Qualcomm chips.

The Federal Circuit determined that the plain language of the statute created two distinct forms of exclusion orders; namely, either a limited exclusion order ("LEO") or a general exclusion order ("GEO").

It held that an LEO's exclusion of articles "shall be limited to persons determined by the commission to be violating this section." 19 USC 1337(d)(2).

A GEO, on the other hand, could exclude any infringing product regardless of the identity of the manufacturer or importer, but was only appropriate if two exceptional circumstances exist:

- 1) a GEO is "necessary to prevent circumvention of" an LEO, or
- 2) if, "there is a pattern of violation of this section and it is difficult to identify the source of infringing products." 19 USC 1337(d)(2)(A) and (B), respectively.

Under the Federal Circuit's construction of the statute, a complainant seeking to bar the importation of downstream products manufactured by third parties that incorporate the infringing technology has two options:

- 1) name the downstream product manufacturers as respondents, and secure an LEO against each, or

2) establish the heightened evidentiary requirements to justify the broad relief of a GEO on the downstream products.

## **Proposed Legislation**

### *Forms of Exclusion Orders*

LEO — excludes infringing articles manufactured or imported by named entities or on their behalf.

GEO — excludes all infringing products regardless of manufacturer or importer.

Proposed EO — excludes infringing articles manufactured or imported by named entities as well as all downstream products containing such articles regardless of downstream product manufacturer or importer.

A nascent effort is under way to legislatively reverse Kyocera.[1]

Proponents of legislation have called for amendments to Section 337 to expressly allow ITC exclusion orders that extend to any downstream product that incorporates certain manufacturers' infringing components regardless of who manufactures or imports the downstream product.

Proponents of the proposed legislation argue that this amendment merely restores the status quo before Kyocera and will enable the commission to provide complete relief to a complainant.

According to the proponents, Kyocera presents new problems for both complainants and the commission.

One example they identify is that Kyocera will require a complainant to name all potential manufacturers of any downstream products, which will increase dramatically the number of respondents in any particular investigation and make the proceedings unwieldy and unmanageable for the complainant as well as the commission.

They also point out that if complainants do not name all potential downstream product manufacturers, there is a significant risk of multiple investigations, again creating inefficiencies for the commission through repeated determinations and creating the possibility of inconsistent determinations.

GEOs have been considered extraordinary relief and are seldom granted. In fact, the commission has not issued a GEO in any patent investigation since Kyocera was decided.[2]

Proponents of legislative reform use this fact to argue that the heightened evidentiary requirements of Kyocera are unduly burdensome, especially when a complainant has

already proven that the involved article is infringing and when incorporated into a downstream product has no effect on its infringing nature.

Proponents claim that GEOs were not designed for situations where the parties enjoined by an exclusion order occupy different (downstream) positions on the distribution chain.

This is borne out by historical practices of the commission, which (before Kyocera) typically issued GEOs in situations where the parties enjoined occupied the same position on the distribution chain (e.g., multiple manufacturers of the same infringing article being imported).

Finally, proponents propose that implementing rules be adopted by the commission to provide adequate notice of an investigation seeking downstream product relief to downstream product manufacturers.

This, they explain, will enable downstream product manufacturers to decide for themselves whether to intervene in the ITC proceeding.

To facilitate providing notice to downstream manufacturers, they also suggest that the rules require the automatic disclosure of all worldwide customers of each named respondent.

### **An Opposition is Forming**

Opponents of the proposed amendment, particularly consumer electronics manufacturers, are beginning to organize.

They argue that legislation is premature, pointing out that Kyocera is barely a year old and no investigation commenced after Kyocera and requesting a GEO has been completed.

They also assert that the analysis that the commission may use to determine whether a GEO is appropriate is currently under development.[3]

In effect, these opponents argue that the commission should be given the first opportunity to implement Kyocera within the current statutory framework of Section 337.

Only then will it become clear whether there actually is any problem relating to downstream product relief that requires a legislative fix.

Complainants appear to have adjusted to Kyocera by modifying their practice of naming respondents to include the major downstream manufacturers against whom they seek relief and by requesting GEOs against the downstream products themselves.

Opponents argue that while there has been a trend toward an increased number of respondents in investigations requesting downstream product relief after Kyocera, such investigations have not become unmanageable, despite the proponents' dire predictions.

Moreover, opponents argue that as a matter of fundamental fairness, it should not be considered too burdensome for a complainant to specifically name those against whom it wants relief.

Opponents of the legislation also argue that the heightened evidentiary requirements of a GEO are justified to address due process concerns where the products of unnamed entities will be excluded from the United States.

They argue that the rules called for by proponents of reform, which would provide some form of notice and opportunities for intervention by downstream product manufacturers, are inadequate because intervenors do not have the same rights and responsibilities as named respondents.

They also point out that intervention is not a matter of right but is within the discretion of the administrative law judge.

While a respondent is usually named from the outset, a potential intervenor may not be given notice until late in a proceeding (making participation impractical), and may be denied intervention for failing to file in a timely manner.

Intervention also may be granted for less than all of the issues in an investigation, and an intervenor, unlike a named respondent, has no protection against concurrent litigation in the U.S. District Courts under 28 USC §1659.

Finally, opponents warn that a legislative amendment to Section 337 may open a Pandora's box of unintended consequences.

Additional amendments may be proposed including one that attempts to curb the use of Section 337 by nonpracticing "licensing" entities (e.g., by reestablishing a full domestic industry requirement including showing a technical use of the patented invention in the United States by complainant or its licensee).

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[1] At present, no legislation has been introduced.

[2] Since *Kyocera*, the commission has issued GEOs in two trademark infringement cases and has denied GEOs in three patent infringement cases.

[3] Historically, the commission analyzed the propriety of a GEO by balancing the interest of a complainant to obtain complete relief from all potential foreign infringers in one action and the burden that an exclusion order may place on the flow of legitimate trade. In making this determination, it used the multifactorial *Spray Pumps* analysis which requires proof of both a “widespread pattern of unauthorized use” and “business conditions” conducive to additional unnamed foreign manufacturers entering the U.S. market with infringing goods. In light of *Kyocera*, the commission has focused on the statutory language for GEOs and has relegated *Spray Pumps* to simply one way in which to provide some relevant information.