

Suprema Did Not Resolve Inconsistent ITC Rationales

Law360, New York (November 16, 2015, 10:43 AM ET) -- The Federal Circuit's recent en banc ruling in *Suprema v. U.S. International Trade Commission* has affirmed an inconsistency in two different ITC decisions. *Suprema* affirmed that the commission had authority to exclude articles that do not infringe at the time of importation where the importer induced direct infringement of a third party who used the articles after importation.[1] But in *Certain Electronic Devices*, the commission held that it lacked authority to exclude articles that do not infringe at the time of importation, even though the importer directly infringed the claim by using the articles after importation.[2] The commission's rationales for its decisions in these two investigations cannot be reconciled. U.S. Supreme Court review of *Suprema* may be the last opportunity to correct this inconsistency in commission practice.

Under Electronic Devices, Proof of Post-Importation Direct Infringement Using Imported Articles Is Insufficient to Exclude the Imported Articles

In *Electronic Devices*, the respondent, Apple Inc., was found to have imported, sold for importation and/or sold after importation computers that had a particular software codec preinstalled, and Apple was found to have activated this software codec when it tested computers after importation.[3] Further, when operated, the codec was found to infringe method claim 16 of the '146 patent that recited steps such as "fitting," "computing" and "mapping" that were performed when the software was activated.[4]

The commission concluded that it did not have authority to exclude these imported computers. The commission's enabling statute, Section 337, specifies that a violation may be based upon importation, selling for importation, or selling after importation "articles that — infringe" a U.S. patent.[5] The commission interpreted "articles that — infringe" to refer to the articles at the time of importation and interpreted "infringe" to be defined by the patent statute as including both direct infringement and the two types of indirect infringement: induced and contributory infringement.[6] The commission then held that because the Apple computers did not infringe the asserted method claim at the time of importation, the commission lacked authority to issue an exclusion order.[7] In so holding, the commission overruled its prior decisions that suggested the commission had jurisdiction to exclude articles that did not infringe at the time of importation so long as there was a "nexus" between the imported goods and subsequent acts of direct infringement.[8]

Despite this holding, the commission in *Electronic Devices* also suggested that it still had authority to exclude articles involved with induced infringement, even though induced infringement also requires post-importation direct infringement.[9] Since there was no induced infringement shown in *Electronic Devices*, this dictum may have been an effort to proactively address the fact that the commission had issued an exclusion order the previous month in a different investigation, *Biometric Scanning Devices*, that excluded articles based on the importer inducing the direct infringement of a third party who used the articles in an infringing manner after importation.[10] The appeal of the commission's decision in *Biometric Scanning Devices* would become the en banc Federal Circuit opinion in *Suprema Inc. v. ITC*.

Under Suprema, Proof of Post-Importation Induced Infringement Using Imported Articles Is Sufficient to Exclude the Imported Articles

Suprema imported fingerprint scanners and was alleged to have induced its customer, Mentalix, to infringe a valid method claim by combining Suprema's scanners with Mentalix's software. Similar to the asserted method claim in *Electronic Devices*, the asserted method claim in *Suprema* recited steps such as "scanning," "capturing," "filtering," "detecting" that were performed by the combined scanner and software.[11]

Coming several weeks prior to the commission's opinion in *Electronic Devices*, the commission's opinion in *Biometric Scanning Devices* did not delve into the same jurisdictional intricacies of *Electronic Devices* for the simple reason that the complainant and respondents all agreed that the commission had the authority to issue exclusion orders for indirect infringement where the imported article does not infringe at the time of importation.[12] The parties instead disputed whether there was induced infringement in the first place. But, on appeal at the Federal Circuit, respondents argued that the subsequent change in law announced in *Electronic Devices* meant that the commission no longer had authority to exclude articles based on indirect infringement where the imported articles do not infringe at the time of importation.

Before the Federal Circuit, the commission argued that although Section 337 limited the commission's authority to articles that infringed at the time of importation, the act of induced infringement occurred over a period of time from before importation and continuing until the induced act of direct infringement was completed. Therefore, articles involved in induced infringement are "articles that infringe" at the time of importation and the commission has authority to exclude them.

The Federal Circuit's en banc opinion affirmed the commission's argument. The Federal Circuit found that there was an ambiguity between Section 337, which barred importation of infringing articles, and the patent statute, which defined infringement in terms of actions.[13] Given this statutory ambiguity, the Federal Circuit held that the commission was entitled to Chevron deference and entitled to choose any reasonable interpretation that resolved the ambiguity.[14]

The Federal Circuit found the commission's interpretation was reasonable because it was consistent with the statutory text, policy, and legislative history of Section 337.[15] The commission's rationale was consistent with the statutory text because, while it is reasonable to construe Section 337 to only cover articles that infringe at the time of importation, the act of inducement can occur over a period of time that includes importation.[16]

In analyzing the legislative history and statutory policy, the Federal Circuit analyzed commission practice before and after 1988 because that is when Congress added the "articles that — infringe" language to Section 337.[17] Pre-1988, the commission excluded articles that were involved in post-importation direct infringement that was induced by the importers.[18] The legislative history showed that the 1988 amendment to Section 337 was intended to expand the commission's authority by removing the injury requirement.[19] Given this, it would be contrary to policy and legislative history to conclude that the addition of the words "articles that — infringe" worked to limit the commission's authority in any way.[20] Thus, because the commission had excluded articles that did not infringe at the time of importation but were involved with induced post-importation direct infringement before 1988, it had authority to continue to do so after 1988.

The Commission's Rationales in Electronic Devices and Suprema Cannot Be Reconciled

When the Federal Circuit reviewed the commission's induced infringement rationale, alone, it appears reasonable, but when reviewing the commission's rationales for all of the different types of infringement, it becomes unreasonable to resolve the statutory ambiguity one way in the case of induced infringement and the opposite way in the case of direct infringement.[21] There are two reasons why this is so.

First, it is unreasonable to interpret induced infringement to span a period of time as the commission did in *Biometric Scanning Devices*, but interpret direct infringement to be an act that begins only after importation, as the commission did in *Electronic Devices*. For example, Apple's direct infringement of the claimed method in *Electronic Devices* did not begin when Apple powered up an imported computer and activated the codec to complete the steps of the claimed method. That direct infringement was, instead, a continuous act that began when the computers were manufactured overseas, imported into the US, and then, finally, when Apple tested the codec post-importation to complete the steps of the claimed method. Under this proper view of direct infringement, the imported computers were "articles that — infringe" at the time of importation.

Second, the commission's direct infringement statutory interpretation is inconsistent with the policy and legislative history that the en banc Federal Circuit found to support the commission's induced infringement interpretation. For example, just as with pre-1988 commission decisions regarding induced infringement, prior to 1988, the commission excluded articles because they were involved in post-importation direct infringement by the importer.[22] And, just as with induced infringement, the 1988 amendment to Section 337 was intended to expand the commission's authority, not limit the commission's authority to block infringing articles in any way. So because the commission had authority to exclude articles involved in post-importation direct infringement by the importer prior to 1988, the commission retained authority to do so after 1988. Thus, the statutory interpretation in *Electronic Devices* was unreasonable.

Opportunities to Resolve This Inconsistency

There are not many opportunities left to resolve this inconsistency in a manner consistent with the policy and legislative history identified by the Federal Circuit. This is because the most direct route for resolving the inconsistency, by reversing the decision of *Electronic Devices*, is no longer available after the parties in that investigation withdrew the pending appeal. And it is unlikely future complainants would develop a factual record that would support a challenge to the *Electronic Devices* direct infringement decision. Instead, future complainants will likely either develop a record showing induced infringement or, if that is not possible, the complainants will bring their complaints to district court.

As for *Suprema* itself, there may be Supreme Court review. But even if the Supreme Court were to hear the case, no party in that appeal will be motivated to resolve the commission's decisions on direct infringement and induced infringement by arguing that the commission's induced infringement rationale in *Suprema* was reasonable while the commission's decision in *Electronic Devices* was unreasonable. Amicus briefing could potentially offer this argument, but because *Electronic Devices* is not squarely before the Supreme Court, there is no guarantee a Supreme Court opinion would address it.

If the Supreme Court were to hear an appeal of *Suprema*, rather than hoping amicus briefing might induce the court to address the unreasonable Electronic Devices interpretation, the best hope for fixing this inconsistency may be a Supreme Court remand back to the commission. The court could decide to remand because the “commission rationale” reviewed by the Federal Circuit in *Suprema* was not from the underlying commission decision, but was rather first proffered by the commission’s appellate attorney in briefing before the Federal Circuit. In similar cases, administrative decisions have been remanded.^[23] In such a remand, the commission would have an opportunity to realign its jurisdictional decisions on post-importation direct infringement and indirect infringement.

Absent either of these unlikely scenarios, or the even more unlikely possibility of congressional action, this inconsistent interpretation has now effectively become a permanent feature of commission practice.

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DISCLOSURE: The author, while employed at another firm, represented the complainant in *Electronic Devices*.

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[1] *Suprema, Inc. v. Int’l Trade Commission*, 796 F.3d 1338 (Fed. Cir. Aug. 10, 2015) (en banc).

[2] *Certain Electronic Devices with Image Processing Systems, Components Thereof, and Associated Software*, 337-TA-724, USITC Pub. 4374 (ITC 2011).

[3] *Id.*, Commission Opinion at 11-12.

[4] *Id.*, Commission Opinion at 6, 18.

[5] *Id.*, Commission Opinion at 13 (citing 19 U.S.C. §1337(a)(1)(B)(i)).

[6] *Id.*, Commission Opinion at 13-19

[7] *Id.*

[8] *Id.*

[9] *Id.*, Commission Opinion at 18-19.

[10] Certain Biometric Scanning Devices, Components Thereof, Associated Software, and Products Containing the Same, 337-TA-720, USITC Pub. 4366 (ITC 2011).

[11] *Suprema*, 796 F.3d at 1341-42.

[12] Biometric Scanning Devices, Commission Opinion at 21.

[13] *Suprema*, 796 F.3d at 1346-49.

[14] *Id.* at 1349.

[15] *Id.*

[16] *Id.*

[17] *Id.* at 1350-52.

[18] *Id.* at 1350-51.

[19] *Id.* at 1351.

[20] *Id.* at 1351-52.

[21] See *FDA v. Brown & Williamson Tobacco Corp.*, 529 U.S. 120, 132-33 (2000) (a court must “interpret the statute ‘as a symmetrical and coherent regulatory scheme,’ and ‘fit, if possible, all parts into a[] harmonious whole’” (citations omitted)).

[22] See, e.g., *Certain Apparatus for the Continuous Production of Copper Rod*, Inv. No. 337-TA-52, USITC Pub. 1017, Commission Op. at 14-15 (ITC 1979).

[23] See *Bowen v. Georgetown Univ. Hosp.*, 488 U.S. 204, 212-213 (1988) (“[W]e have declined to give deference to an agency’s counsel’s interpretation of a statute where the agency itself has articulated no position on the question.”).

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