

Tips For Litigating Design-Arounds At ITC And Customs

Law360, New York (March 19, 2014, 12:01 PM ET) -- Whether you are a complainant or respondent, litigants at the U.S. International Trade Commission — and in later phases at U.S. Customs and Border Protection — will likely confront the issue of design-around products.

For example, a respondent must decide early in an investigation whether to embark on a path to design around the asserted patent and whether to have the ITC adjudicate the new design. Conversely, the complainant must decide whether to pursue discovery of respondent's yet-to-be-released products, including design-arounds, and whether to seek to exclude the design-arounds.

In the post-remedy stage, litigants will likely need to address with CBP or the ITC whether the remedy properly encompasses the design-around, including with CBP under expected procedural changes in its ruling request procedure under 19 C.F.R. Part 177. Each of these stages presents opportunities, and pitfalls, for litigants.

Design-Arounds at the ITC

Litigating design-arounds in fast-paced ITC proceedings raises a number of important questions. The Federal Circuit has observed that “[l]egitimate design-around efforts should always be encouraged as a path to spur further innovation”^[1] and “[d]esigning or inventing around patents to make new inventions is [to be] encouraged.”^[2] Notwithstanding these principles, either the complainant or respondent might be disinclined, for various strategic reasons, to place an available design-around at issue before the ITC.

This has the potential to frustrate the adverse party who seeks an adjudication of the design-around in the first instance by the ITC, not by CBP. For example, a respondent might not seek an adjudication of its design-around and instead might attempt to persuade CBP, *ex parte*, that the design-around falls outside the scope of an exclusion order. Conversely, a complainant might try to persuade CBP that the design-around should be swept into the scope of an exclusion order after having avoided an adjudication of the design-around by the ITC.^[3] Despite these varying tactical approaches, certain guidelines may be discerned from the case law.

With respect to the threshold issue of jurisdiction, ITC and Federal Circuit precedent indicate that design-arounds that have been imported suffice to confer jurisdiction upon the ITC.^[4] Under *Certain Reclosable Plastic Bags and Tubing*, “the sale of product for importation (‘imminent importation’) affords jurisdiction under section 337.”^[5] In addition, the commission held in *Certain Trolley Wheel Assemblies* that the importation requirement was satisfied even where a single article with no commercial value had been imported.^[6]

While the foregoing cases suggest that the ITC's jurisdiction over design-arounds may be easily conferred, a party seeking to avoid adjudication of the design-around might still argue that jurisdiction should be defeated because, for example, an adjudication of the design-around would be an improper declaratory judgment or advisory opinion outside the scope of the investigation.[7]

Further uncertainty may be on the horizon with respect to design-arounds involving electronically transmitted software. In *Hardware Logic Emulation Systems*, jurisdiction was found to exist over electronic transmissions imported into the United States.[8] However, the ITC appears poised to reconsider that precedent. In *Digital Models*, the ITC has asked for briefing on the question of whether electronic transmissions are "articles" within the meaning of Section 337.[9]

Assuming jurisdiction is found, *Electronic Digital Media Devices* provides instructive guidance on when it may be appropriate for an administrative law judge to adjudicate an available design-around. In that case, the commission affirmed the ALJ's adjudication of respondent's design-arounds where complainant sought and received discovery on the design-arounds, had the opportunity to inspect the design-arounds, and took depositions of the relevant witnesses.[10]

In addition, the commission did not find persuasive the complainant's view that the design-arounds should not be adjudicated where the complainant refused to agree to carve out the design-arounds from any remedy that might issue.[11] Having adjudicated the respondent's design-arounds as noninfringing, the ITC issued an exclusion order that explicitly carved-out the design-arounds.[12]

Issuing a remedy that explicitly addresses noninfringing design-arounds, as the ITC did in *Electronic Digital Media Devices*, has the benefits both of providing business certainty to the litigants and of providing concrete guidance to CBP in its enforcement of the exclusion order. These same benefits accrue where the ITC explicitly adjudicated the design-around as infringing. Also, these benefits would follow from establishing a clear record when the design-around is found to fall outside the scope of the investigation such that any exclusion order could not encompass the design-around.

Sometimes, however, as discussed above, complainants or respondents calculate that other perceived advantages can be gained as a result of not adjudicating available design-arounds in the first instance by the ITC, or not ensuring that the record is otherwise clear how those design-arounds should be treated by CBP when enforcing an exclusion order.[13]

Post-Remedial Actions at Customs and the ITC With Respect to Design-Arounds

Because of positions taken by the litigants, the ITC may sometimes issue exclusion orders on a record that leaves ambiguity as to whether a design-around is properly within the scope of the order. In these post-remedial situations, the right holder and importer may utilize any one of several strategic options, respectively, to oppose or urge entry of the design-around into the commerce of the United States. Both the ITC and CBP offer their own procedures to address questions regarding importation of previously unadjudicated design-arounds.

The current CBP regime under 19 C.F.R. Part 177 for ruling whether design-arounds should be excluded from entry into the United States allows for ex parte communications with CBP. Under this ruling process, a right holder, importer, or other interested persons, may request a ruling from CBP on whether an unadjudicated design-around should be permitted entry into the United States. However, the CBP ruling process under Part 177 has been criticized because the ex parte nature of the

proceedings does not require input from all interested parties.[14]

CBP has an important and critical role in enforcing exclusion orders. CBP has recently reiterated that it is “often required to determine whether redesigned products that were not at issue before the ITC fall outside the exclusion order’s scope and are therefore admissible or, conversely, whether the redesigned products have not avoided infringement and must be excluded from entry.”[15] Importantly, CBP has indicated that it is undertaking a review of its rulings process under 19 C.F.R. Part 177 “with a view to implementing an inter partes proceeding ... that would enable it to make decisions in a manner akin to that employed by the ITC.” [16]

Thus, if CBP changes its current ex parte process to an inter partes proceeding, all interested parties would be able to provide input to CBP and help to shape CBP’s enforcement of exclusion orders. For now, though, litigants may be confronted with a surprise and adverse ruling by CBP based on ex parte communications their adversary had with CBP, which highlights the continuing importance of all interested parties opening their own lines of communication with CBP and of establishing a record at the ITC to which they can point in their discussions with CBP.

Alternatively, an importer might attempt to import the design-around without first seeking a ruling under Part 177, thereby risking the filing of a formal enforcement action at the ITC. If CBP excludes the shipment, the importer may file a protest and, if unsuccessful, may appeal the unfavorable decision to the U.S. Court of International Trade. Notably, the right holder is not permitted to intervene or participate in any such CIT proceeding.[17]

The ITC may also play a significant role in ascertaining whether importation of a design-around would violate an exclusion order. For example, an importer may elect not to avail itself of the (current) ex parte CBP process under Part 177, and may instead seek an advisory opinion from the ITC. Historically, however, advisory opinions have been disfavored because of the time required to obtain the opinion and also because the opinions are not appealable.[18] Also, as noted above, the ITC can institute formal enforcement proceedings, which are typically initiated by the complainant in the underlying ITC investigation, and informal enforcement proceedings handled through the ITC’s Office of Unfair Import Investigations.[19]

Conclusion

Given the prospective nature of remedies issued by the ITC and enforced by CBP, anticipating how to address design-arounds can be an important part of a company’s business and litigation strategy.

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[1] Tivo Inc. v. Echostar, Corp., 646 F.3d 869, 883 (Fed. Cir. 2011).

[2] London v. Carson Pirie Scott & Co., 946 F.2d 1534, 1538 (Fed. Cir. 1991).

[3] Certain Electronic Digital Media Devices and Components Thereof, Inv. No. 337-TA-796, (“Electronic Digital Media Devices”), Comm’n Op. at 105 (Sept. 6, 2013) (“The ALJ determined that Apple did not seem to want the design around products adjudicated, but still wanted to be able to argue that they fall within the scope of any exclusion order that may issue. We agree with the ALJ that Apple, having requested and received discovery as to these redesigned products, it was proper for the ALJ to issue a determination as to infringement.”).

[4] See *Amgen. v. Int’l Trade Comm’n*, 565 F.3d 846, 854 (Fed. Cir. 2009) (“The Commission has jurisdiction as a result of Amgen’s allegation that Roche imported an article The Commission therefore was correct to reach the merits of Amgen’s claim.”); and *Certain Inkjet Ink Cartridges with Printheads and Components Thereof*, Inv. No. 337-TA-723, Order No. 23 at 2 n.1 (Dec. 21, 2010) (“The issue of importation is a jurisdictional requirement of Section 337.”).

[5] *Certain Reclosable Plastic Bags and Tubing*, Inv. No. 337-TA-266, Initial Determination at 45 n.21 (Aug. 31, 1987).

[6] See *Certain Trolley Wheel Assemblies*, Inv. No. 337-TA-161, Comm’n Op. at 7-8, USITC Pub. No. 1605 (Nov. 1984) (deeming the importation requirement satisfied by the importation of a single product of no commercial value) (cited by *Certain Audiovisual Components and Products Containing The Same*, Inv. No. 337-TA-837, Initial Determination at 5 (July 18, 2013)).

[7] See *Certain Ceramic Capacitors and Products Containing Same*, Inv. No. 337-TA-692, Order No. 37 at 3-4 (June 24, 2010).

[8] See *Certain Hardware Logic Emulation Systems and Components Thereof*, Inv. No. 337-TA-383, Comm’n Op. at 57–59 (Apr. 1, 1998) (exercising jurisdiction based on importation via electronic transmission).

[9] See *Certain Digital Models, Digital Data, and Treatment Plans for Use in Making Incremental Dental Positioning Adjustment Appliances*, Inv. No. 337-TA-833, Comm’n Notice at 2 (Jan. 17, 2014).

[10] See *Electronic Digital Media Devices*, Inv. No. 337-TA-796, Comm’n Op. at 104-05 (Sept. 6, 2013).

[11] *Id.* at 105 (“The ALJ determined that [complainant] did not seem to want the design around products adjudicated, but still wanted to be able to argue that they fall within the scope of any exclusion order that may issue. We agree with the ALJ that [complainant], having requested and received discovery as to these redesigned products, it was proper for the ALJ to issue a determination as to infringement.”).

[12] See *Electronic Digital Media Devices*, Limited Exclusion Order at 3-4 (Aug. 9, 2013).

[13] Although beyond the scope of this article, it is worth noting that there are practical and policy reasons for not circumscribing the scope of exclusion orders only to those products explicitly adjudicated as infringing. Confining the scope of an exclusion order to only a set of listed products found to infringe may unduly narrow the remedy such that it would not extend to other infringing products and would thereby inappropriately constrict the scope of the complainant’s intellectual property right.

[14] See generally *Microsoft v. United States*, Case No. 13-1063 (RWR) (D.D.C.).

[15] Letter from CBP to Senator Ron Wyden, at 3 (Nov. 20, 2013).

[16] *Id.*, at 4.

[17] See 28 U.S.C. 2631(j)(1); and *Corning Gilbert v. United States*, 34 Int'l Trade Rep. 1503 (Ct. Int'l Trade 2012) (denying patent holder's motion to appear as *amicus curiae*).

[18] See 19 C.F.R. 210.79(a).

[19] See 19 C.F.R. 210.75.

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