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Computer & Communications Industry Association

November 30, 2010

Ms. Marilyn R. Abbott
Secretary, U.S. International Trade Commission
500 E Street, SW
Room 112
Washington, DC 20436

RE: Docket MISC-032

Dear Ms. Abbott:

Attached please find comments of the Computer & Communications Industry Association (CCIA) in the above-captioned rulemaking. CCIA is an international, nonprofit association of computer and communications industry firms, representing a broad cross-section of the industry. Our members have a strong interest in the actions of the Commission regarding investigations taken under Section 337 of the Tariff Act and in open markets. CCIA submitted an *amicus* brief to the United States Supreme Court in the case of *eBay Inc v. MercExchange, L.L.C.*, 547 U.S. 388 (2006).

Please do not hesitate to contact us should you have any questions regarding these comments.

Sincerely,

Handwritten signature of Edward J. Black in black ink.

Edward J. Black
President & CEO

Handwritten signature of Erika Mann in black ink.

Erika Mann
Executive Vice President
& Head of European Office

Comments of Computer & Communications Industry Association (CCIA)

In the Commission's Notice of Proposed Rulemaking on its Rules of Practice and Procedure "concerning [the Commission's] rules of general application, adjudication, and enforcement,"¹ you requested comments on "information regarding the public interest at each stage of the investigation" and also invited commenters to "consider addressing how the proposed rules amendments could be improved, and/or offering specific constructive alternatives where appropriate."²

We accept this invitation to offer an alternative approach. This rulemaking provides a perfect opportunity for the Commission to consider an important aspect of the public interest in its investigations under Section 337 of the Tariff Act of 1930³ and also address a persistent source of tension with important trading partners of the United States. We believe that the best and most appropriate way for the Commission to consider the public interest in its Section 337 investigations would be for the Commission explicitly to adopt the provisions of the Supreme Court's decision in *eBay Inc v. MercExchange, L.L.C.*, 547 U.S. 388 (2006). We further believe that taking this step will also achieve a second benefit by assisting the United States in complying with its obligations under the Agreement on Trade-Related Aspects of Intellectual Property Rights (TRIPS).

Under current U.S. law and the Commission's Rules, as an example, a manufacturer in Kansas that is alleged to infringe a valid patent held by a U.S. person must be sued in Federal district court by the patentholder, while a manufacturer in Scotland can be made the subject of a complaint at the Commission as well as a parallel complaint in Federal district court. This disparate treatment – which notably extends to the fact that the Commission refused to adopt⁴ for its own use in exclusion order proceedings the *eBay* rule that Federal district courts must follow on injunctions – gives complainants in proceedings at the Commission vastly more power by permitting them to obtain a much stronger remedy (the exclusion order) than could easily be obtained in Federal district court.

The need to address the disparate treatment of U.S. and foreign corporations in this rulemaking is even more pronounced because the Commission's Section 337 procedures have already been the subject of complaints from important U.S. trading partners.⁵ The Commission's

¹ 75 **Fed. Reg.** 60671 (Oct. 19, 2010), available at http://www.usitc.gov/secretary/fed_reg_notices/rules/Public_Comment_Rulemaking.pdf

² *Id.* at 60672.

³ 19 U.S.C. §1337.

⁴ In the Matter of Certain Baseband Processor Chips and Chipsets, 2007 ITC LEXIS 621, *102 n. 230.

⁵ There is no formal ruling from a WTO panel that the jurisdiction of the Commission under Section 337 of the Tariff Act of 1930, as amended, to limit imports of items which infringe U.S. patents violates the WTO/TRIPS agreements. However, as discussed below, Section 337 in and of itself provides less favorable treatment to foreign companies than that offered to domestic companies, primarily in the matter of access to the Federal courts and thus constitutes a violation of the United States' obligations under the TRIPS Agreement. As further evidence for this view, an advisory panel under the former General Agreement on Tariffs and Trade found that a previous version of

procedures provide that a respondent to a complaint may seek to remove the complaint to Federal district court; in contrast, patent disputes wholly between two non-importing American companies do not have access to the Commission's procedures for relief. Because of the history of litigation concerning Section 337 described below, it is all the more important for the Commission to adopt the Supreme Court's eBay rule, to avoid a worsening problem with the disparate treatment of U.S. and foreign companies in patent cases.

This issue arising from the application of Section 337 issue was litigated in the 1980s under the old General Agreement on Tariffs and Trade. In 1989, a GATT panel reached a decision in a case⁶ brought by the European Economic Community alleging that Section 337 violated Article III:4 of the General Agreement on Tariffs and Trade.

After considering the United States' arguments that Section 337 "accords imported products more favourable treatment than that accorded to domestic products," largely because "the substantive economic elements relating to injury and industry that a Section 337 complainant has to prove [] do not have to be proved in patent litigation in federal district courts", "the possibility that relief under Section 337 might be modified or not applied on public interest or policy grounds, which possibility does not exist in federal district courts", and procedural differences between the ITC and Federal courts,⁷ the panel sharply disagreed. Notably, with respect to counterclaims, "[t]he Panel found that the inability of the respondent to make counterclaims in a Section 337 action - a right that the defendant has in federal district court proceedings - deprives the respondent of an option that is available where products of United States origin rather than imported products are concerned."⁸

The Panel then concluded that

Section 337, inconsistently with Article III:4 of the General Agreement, accords to imported products alleged to infringe United States patents treatment less favourable than that accorded under federal district court procedures to like products of United States origin as a result of the following factors:

- (i) the availability to complainants of a choice of forum in which to challenge imported products, whereas no corresponding choice is available to challenge products of United States origin;
- (ii) the potential disadvantage to producers or importers of challenged products of foreign origin resulting from the tight and fixed time-limits in proceedings under

Section 337 was inconsistent with the U.S.' obligations under Article III:4 of the GATT and not justified under Article XX(d).

⁶ General Agreement on Tariffs and Trade, L/6439-36S/345), *United States – Section 337 of the Tariff Act of 1930* (Nov. 7, 1989).

⁷ *Id.* at ¶5.15.

⁸ *Id.* at ¶5.19.

Section 337, when no comparable time-limits apply to producers of challenged products of United States origin;

- (iii) the non-availability of opportunities in Section 337 proceedings to raise counterclaims, as is possible in proceedings in federal district court;
- (iv) the possibility that general exclusion orders may result from proceedings brought before the USITC under Section 337, given that no comparable remedy is available against infringing products of United States origin; “
- (v) the automatic enforcement of exclusion orders by the United States Customs Service, when injunctive relief obtainable in federal court in respect of infringing products of United States origin requires for its enforcement individual proceedings brought by the successful plaintiff;
- (vi) the possibility that producers or importers of challenged products of foreign origin may have to defend their products both before the USITC and in federal district court, whereas no corresponding exposure exists with respect to products of United States origin [.]”⁹

Article XX(d) of the GATT, however, permitted Contracting Parties to adopt provisions inconsistent with the GATT so long as certain conditions were met, including that the “laws or regulations” (such as substantive U.S. patent law) were “not inconsistent” with GATT, that the measures were “necessary to secure compliance” with the laws or regulations, and were “not applied in a manner which would constitute a means of arbitrary or unjustifiable discrimination between countries where the same conditions prevail, or a disguised restriction on international trade.” In the view of the Panel, those considerations did not apply. It was clear to the Panel that “a contracting party cannot justify a measure inconsistent with another GATT provision as ‘necessary’ in terms of Article XX(d) if an alternative measure which it could reasonably be expected to employ and which is not inconsistent with other GATT provisions is available to it. By the same token, in cases where a measure consistent with other GATT provisions is not reasonably available, a contracting party is bound to use, among the measures reasonably available to it, that which entails the least degree of inconsistency with other GATT provisions.”¹⁰

In this instance, although the Panel explicitly did not adopt or suggest a specific remedy but merely left it to negotiations among the U.S. and EU, a resort to Federal district court rather than to the provisions of Section 337 would clearly have satisfied most if not all of the Panel’s concerns. Thus, the Panel concluded that Section 337 is “inconsistent with Article III:4, in that it accords to imported products challenged as infringing United States patents treatment less favourable than the treatment accorded to products of United States origin similarly challenged, and that these inconsistencies cannot be justified in all respects under Article XX(d).”¹¹

⁹ Id. at ¶5.20.

¹⁰ Id. at ¶5.26.

¹¹ Id. at ¶6.3. It was considered necessary that a justification under Article XX(d) meet each of the tests; some of the justifications offered by the United States were found to be acceptable, but this was not sufficient. *See also* id. at ¶6.2: “The Panel also wishes to state that although it found that some elements of Section 337 are inconsistent with the GATT obligations of the United States, it found no evidence that these elements had been deliberately introduced so as to discriminate against foreign products.”

During the pendency of this dispute, the United States adopted the Omnibus Trade and Competitiveness Act of 1988, which made several changes to the procedures of the ITC in patent infringement investigations. Notably, under the new law, “it is now possible for a United States process patent holder seeking to challenge importation of a product alleged to be made by the process in question to proceed either before the USITC under Section 337, as before, or to seek an injunction and/or damages in a federal district court [.]” The Panel, under its terms of reference, could only consider the version of the statute that applied at the time the EEC brought the complaint and did not consider whether this new provision was sufficient to satisfy the requirements of Article XX(d) of the former GATT.

By direct analogy to this litigation, Article 44 of TRIPS provides that Members of the World Trade Organization may impose injunctions of offending items, and Article 46 permits “other remedies” (such as destruction of the offending items outside the channels of commerce). While Article 44 is limited to “judicial” procedures, Article 49 nevertheless explicitly states that “[t]o the extent that any civil remedy can be ordered as a result of administrative procedures on the merits of a case, such procedures shall conform to principles equivalent in substance to those set forth in this Section [of TRIPS].” Yet under the Commission’s current practice, a disparate result may obtain in patent-related actions (litigation in Federal district court or a Commission investigation under Section 337) between a foreign and a domestic party and two domestic parties, in a manner at least as serious as that cited in the earlier litigation.

In 2000, subsequent to the chartering of the World Trade Organization, the European Communities brought a request for consultations against the U.S. regarding Section 337 “and the related Rules of Practice and Procedures of the International Trade Commission,” alleging that “those measures violate Article III of GATT 1994 and TRIPS Agreement Articles 2 (in conjunction with Article 2 Paris Convention), 3, 9 (in conjunction with Article 5 Berne Convention), 27, 41, 42, 49, 50 and 51 [.]” As of 2010, this request for consultations is ongoing.

There is a well-known canon of construction that U.S. laws should be read to avoid conflict with the provisions of an international treaty such as the Marrakech Agreement establishing the World Trade Organization, *Murray v. The Charming Betsy*, 6 U.S. (2 Cranch) 64 (1804). However, given the history of litigation described above, there is no need for this type of disparate impact affecting foreign manufacturers of products which has led to the litigation and request for consultations discussed above. In contrast to the Commission’s rules and procedures, the rule adopted by the Supreme Court in *eBay* is straightforward: it is the traditional four-factor test of equity jurisprudence regarding injunctions.¹² As the Court had taken this approach regarding copyrights, it saw no reason to depart from its traditional rules on equity in the case of patents.

Unlike in patent cases of earlier decades, today’s global supply chain for complex products, along with the large number of patents necessary to manufacture complex, high-

¹² “According to well-established principles of equity, a plaintiff seeking a permanent injunction must satisfy a four-factor test before a court may grant such relief. A plaintiff must demonstrate: (1) that it has suffered an irreparable injury; (2) that remedies available at law, such as monetary damages, are inadequate to compensate for that injury; (3) that, considering the balance of hardships between the plaintiff and defendant, a remedy in equity is warranted; and (4) that the public interest would not be disserved by a permanent injunction.”

technology and other innovative products, have created an industry in which firms use patents not as a basis for producing goods but rather as a means to obtain licensing fees. Because complex products may contain hundreds, or thousands of patented functions or components, some firms are able to leverage their patents to extort disproportionately large licensing fees.

Justices Kennedy, Stevens, Souter and Breyer recognized this problem in their concurring opinion in *eBay*: “For these firms, an injunction, and the potentially serious sanctions arising from its violation, can be employed as a bargaining tool to charge exorbitant fees to companies that seek to buy licenses to practice a patent. When the patented invention is but a small component of the product the companies seek to produce and the threat of an injunction is employed simply for undue leverage in negotiations, legal damages may well be sufficient to compensate for the infringement and an injunction may not serve the public interest.” 547 U.S. 388 (2006).

The type of undue leverage by patent holders as described in the concurring opinion in *eBay* is a growing problem. The situation is already affecting global supply chains and therefore likely to elicit additional complaints against Section 337 procedures from other WTO members in the future. The application of the four-factor test, and in particular the balancing of hardships within the third factor, would allow the ITC to better determine whether an exclusion order is truly the best remedy in cases where nonproducing entities seek to enforce their patents for small components of complex innovative products.

The fourth factor of the test reaffirmed in *eBay* directly addresses the question of the public interest in any permanent injunction. It is straightforward and does not lead to further procedures or extensive litigation. Yet because the ITC has not yet followed the Supreme Court’s lead to adopt *eBay* regarding exclusion orders, this sets up another instance in which the ITC’s procedures differ from those in Federal district courts in patent cases and thus another instance of non-compliance with the WTO Agreements.

In the interest of judicial economy and to avoid parallel proceedings that could lead to additional WTO complaints, the ITC should avoid adjudicating patent cases based on standards that differ from those employed by federal courts.

We urge the Commission to adopt the Supreme Court’s decision in *eBay* for exclusion orders in patent cases as part of its Rules of Practice and Procedure. Doing so would fully encompass the public interest test regarding exclusion orders in Section 337 investigations, align the Commission’s practice with the decision of the Supreme Court, help relieve a persistent source of tension with our important trading partners, and eliminate any discrimination with respect to the granting of permanent injunctions and exclusion orders.