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Kinesiotherapy Decision Shakes Up ITC Enforcement Outlook

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On June 30, 2014, the U.S. International Trade Commission issued an advisory opinion interpreting the scope of its previously issued 2013 exclusion order in Certain Kinesiotherapy Devices and Components Thereof, Inv. No. 337-TA-823. The commission has a long history of conducting advisory opinion proceedings, but its fast-track process in Kinesiotherapy — which moved from institution to completion in under five months — broke new procedural ground. This is an important step toward making the ITC a more practical forum for timely resolution of disputes over the scope of its remedial orders.[1]

An entity that seeks to enforce or avoid a remedial order may seek relief either from U.S. Customs and Border Protection or from the commission. Requests for relief usually come from the parties to the underlying investigation: either the complainant, who wants to exclude products that it believes are subject to the exclusion order, or a respondent, who wants assurance that the exclusion order does not encompass certain (often redesigned) products.

In choosing between CBP and the ITC, timing can be a key consideration. CBP often resolves disputes faster than the ITC, but it lacks the commission's patent-law expertise, has less familiarity with the record of the original investigation, and its ex parte proceedings are sometimes criticized as opaque. ITC proceedings, in contrast, benefit from the commission's expertise and extensive procedural safeguards, but typically take longer to complete. For example, between fiscal year 2008 and FY 2013, the commission reported that ancillary proceedings lasted between three and 18 months.[2] That is why for companies that cannot tolerate business uncertainty, waiting to get a decision from the ITC may not make commercial sense.

For businesses that can afford the longer wait, the commission offers three types of ancillary proceedings. Formal enforcement proceedings investigate alleged violations of a remedial order, such as continued importation of products subject to exclusion. Modification proceedings consider whether to modify or rescind a remedial order based on changed conditions of fact or law, or the public interest, such as when new Federal Circuit precedent undermines the legal basis for the order. Advisory opinion proceedings consider whether a proposed course of action, such as importing a redesigned product, would violate a commission remedial order.[3]

The ITC's timing challenges are — at least in part — a side effect of its design. Ancillary proceedings, especially when contested, can involve many steps: filing of a complaint or request; a commission determination to institute; referral to an administrative law judge to conduct discovery, hold a hearing and issue an initial determination; briefing by the parties to both the ALJ and later the commission; commission review; and final decision. As in original investigations, neither Section 337 nor the commission's rules set time limits for these proceedings.

There have been calls for change. A recent outreach effort by the White House intellectual property enforcement coordinator reveals notable dissatisfaction with current procedures for the administration and enforcement of ITC remedial orders by both CBP and the commission. With respect to ITC ancillary proceedings, excessive delays are the stakeholders' chief complaint.[4] Since contested ancillary proceedings sometimes last nearly as long as original investigations, the complaints should not surprise.

Fortunately, the commission has been responding. Indeed, the expeditious resolution of ancillary matters has been one of the commission's performance goals for several years.[5] And, in fact, there are promising signs of progress.

First, the ITC is now carving out known, noninfringing redesigns from its exclusion orders at the time of issuance. Traditionally, ITC exclusion orders have directed CBP to exclude all products "that infringe" the relevant patents or other IP rights. This broad language is intended to prevent circumvention of orders through trivial modifications of the product or changing model numbers, and to provide prospective relief from later-developed infringing products. But critics seek narrower, precise orders, hoping to avoid costly and inefficient disputes over the scope of excluded products.[6]

The commission has responded with two recent orders that contain express exclusions for redesigned products adjudicated to be noninfringing by the presiding ALJ. [7] For respondents who can redesign their accused products quickly enough for inclusion in the ALJ's infringement analysis, noninfringing redesigned products may now be carved out of ITC exclusion orders without spending the time and resources otherwise needed to obtain a CBP ruling or an advisory opinion.

The commission has also revised its procedural rules to speed up ancillary proceedings — if only modestly. Revised commission rules 210.75(b) and 210.76 effective May 20, 2013 shorten the time for the commission's determination whether to review an enforcement ID from 90 to 45 days (the same time afforded for deciding whether to review an ID granting summary determination). Moreover, revised rule 210.51(a)(2) makes nonreviewable an ALJ's order setting a target date of 12 months or less in an enforcement proceeding, while the commission may still review longer target dates.[8] Although the commission seldom rejects ALJ target date decisions, this rule creates an incentive to set target dates of 12 months or less.

The most recent and perhaps most significant step forward is the commission's decision to refer the contested Kinesiotherapy advisory opinion proceeding to the Office of Unfair Import Investigations. A few months after the Kinesiotherapy general exclusion order went into effect, respondent Lelo sought guidance on whether two redesigned devices were covered by the order. The commission instituted the advisory opinion proceeding on Feb. 7, 2014.[9] Rather than refer the proceeding to an ALJ for a hearing, the commission ordered the OUII to issue a report within 90 days on whether the redesigned devices were covered by the general exclusion order. The commission gave itself 45 days to review the OUII's report and set a target date of June 30, 2014.

After meeting with counsel for the parties to clarify the issues in dispute and the process to be followed,

the OUII requested that each party (1) set forth its proposed construction of two disputed claim terms, citing all supporting evidence; and (2) provide its infringement contentions regarding the two redesigned models.[10] On April 1, 2014, the parties filed a stipulation that the proceeding need only address whether the two new models infringed three independent patent claims and that the two models did not materially differ.[11] On April 2, 2014, the parties submitted their initial written submissions; reply briefs came a week later.

The OUII issued its report, recommending a finding of no infringement, on May 5, 2014 — 10 days ahead of schedule. The report was grounded on evidence in the record of the original investigation and a declaration from complainant's expert prepared for the advisory opinion proceeding. Notably, Lelo had objected to the declaration for lack of an opportunity to cross-examine complainant's expert. The OUII observed, however, that the commission did not limit the information the OUII could consider in the advisory opinion proceeding, that Lelo could have submitted its own expert declaration, and that an advisory opinion proceeding is not subject to the same procedural requirements as an original investigation.[12] On May 15, 2014, the parties filed comments on the OUII's report, followed by reply comments on May 22. On June 30, the commission determined to adopt the OUII's report as its advisory opinion.[13]

What makes the Kinesiotherapy process atypical — and promising — is not its speed, per se, but the commission's willingness to shorten the process by reducing the number of procedural steps between institution and final decision. As noted above, contested ancillary proceedings typically involve many procedural steps and multiple actors within the agency. Along with resource constraints and complexity of the issues in dispute, the number of actors and procedural steps within the agency are important factors accounting for the length of ancillary proceedings. In this instance, avoiding discovery and a hearing saved a lot of time.[14]

Could more ancillary proceedings follow the path set by Kinesiotherapy Devices? We believe so. Because advisory opinions are not appealable final agency decisions, they present the simplest, but perhaps not the only, opportunity to streamline ancillary proceedings. In the future, other disputes may arise that, like Kinesiotherapy, present relatively straightforward issues capable of resolution mostly, if not entirely, on the record from the original investigation.[15] In the meantime, the fact that the commission has begun to focus on practical ways to expedite its ancillary proceedings is a positive step that stakeholders should encourage and support.

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[1] ITC remedial orders include exclusion orders, cease and desist orders, and consent orders. See 19 U.S.C. §§ 1337(c) (consent orders), 1337(d-e) & (g) (exclusion orders), 1337(f) (cease and desist orders).
[2] USITC Annual Performance Plan, FY 2014-2015 & Annual Performance Report, FY 2013, 49 (Mar. 2014) ("2013 Performance Report"), available at, http://www.usitc.gov/press_room/documents/2013_APP_APR_FINAL.pdf.

[3] Ancillary proceedings are provided for in the Commission's rules. See 19 C.F.R. §§ 210.75(b), 210.76, and 210.70.

[4] See OMB, Request for Public Comment: Interagency Review of Exclusion Order Enforcement Process, 78 Fed. Reg. 37,242 (June 20, 2013). Comments received in response to the notice are available at http://www.regulations.gov/#!docketDetail;D=OMB-2013-0003 (last accessed July 14, 2014) ("IPEC Comments").

[5] See, e.g., 2013 Performance Report at 12-13, 49-51(setting goals for reducing the average length of ancillary proceedings).

[6] See, e.g., Timothy Q. Li, Exclusion Is Not Automatic: Improving the Enforcement of ITC Exclusion Orders Through Notice, A Test for Close Cases, and Civil Penalties, 81 Geo. Wash. L. Rev. 1755, 1770 (2013) (arguing that ITC exclusion orders are too broad and fail to provide adequate guidance to CBP, calling for reform); Jonathan Engler, ITC Remedial Orders: Obey the Law? (Oct. 18, 2013), available at http://www.bna.com/itc-remedial-orders-obey-the-law/ (last visited Jul. 15, 2014) ("The broad 'obey the law' language in the Commission's remedial orders is the source of much of CBP's difficulty in enforcing ITC exclusion orders."); see generally IPEC Comments.

[7] See In the Matter of Certain Electronic Digital Media Devices and Components Thereof, USITC Inv. No. 337-TA-796, Notice of Commission's Final Determination, at 4 (Jul. 15, 2014); In the Matter of Certain Encapsulated Integrated Circuit Devices and Products Containing Same, USITC Inv. No. 337-TA-501, Commission Opinion, at 39 (Apr. 28, 2014).

[8] See 78 Red. Reg. 23,474, 23,485-486 (Apr. 19, 2013).

[9] 79 Fed. Reg. 8731-32 (Feb. 13, 2014).

[10] In the Matter of Certain Kinesiotherapy Devices and Components Thereof, USITC Inv. No. 337-TA-823, Letter to Counsel (Mar. 14, 2014).

[11] Id., Stipulation at ¶¶ 2 & 4 (Apr. 1, 2014).

[12] Id., Report of the Office of Unfair Import Investigations at 18, n. 10. (May 5, 2014).

[13] Id., Notice of Commission Decision to Adopt a Report Issued by the Office of Unfair Import Investigations as an Advisory Opinion (Jun. 30 2014).

[14] Despite these changes, and unlike Commission rule 210.10(a)(1) requiring a Commission decision whether to institute a new investigation within 30 days of receiving a complaint, there is no time limit for the Commission's decision whether to institute an ancillary proceeding. Our analysis of the most recent 10 advisory opinion proceedings shows the time between request and institution ranged from 43 to 130 days. Rectifying this omission would contribute importantly to shortening ancillary proceedings. Had such a rule applied in the Kinesiotherapy proceeding, the process from request through advisory opinion would have taken under 6 months.

[15] Examples might include: cases involving purely legal questions; cases where the facts are undisputed but raise a new claim construction issue that was not before the ALJ; cases where the record

does not require further development because the ALJ took evidence but did not expressly decide an issue; or cases where the factual issues are simple enough to be decided informally, such as where a design change is readily apparent to the naked eye and can be analyzed without expert testimony.
