

Lessons From 5 Years Of Public Interest Delegation At ITC

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In 2010, the U.S. International Trade Commission changed its procedures to facilitate the early identification of Section 337 investigations in which an exclusion order would present significant concerns under the statutory “public interest” test and to permit the development of a factual record on public interest issues. Since then, the ITC has flagged 49 investigations — just under a quarter of all new investigations instituted — as meriting an enhanced focus on public interest and directed the assigned administrative law judge to develop an evidentiary record on public interest issues. After five years, it is time to take stock of how these new procedures are working.

When the ITC finds a violation of Section 337, it “shall direct that the articles concerned ... be excluded from entry into the United States, unless, after considering the effect of such exclusion upon the public health and welfare, competitive conditions in the United States economy, the production of like or directly competitive articles in the United States, and United States consumers, it finds that such articles should not be excluded from entry.” 19 U.S.C. §1337(d)(1). This statutory command to consider four factors before imposing a remedy is generally referred to as the “public interest” test. Because the obligation to consider the public interest prior to issuing a remedy falls upon the commission itself, the ITC’s rules provide that the administrative law judge should not take evidence on the public interest factors, or address public interest in his recommended determination on remedy and bonding, unless so ordered by the commission. 19 C.F.R. § 210.42(a)(1)(ii)(C). Prior to 2010, this power was rarely used, with the ITC directing the ALJ to take evidence on the public interest in only a handful of investigations.[1]



Shara Aranoff

Historically, respondents in Section 337 investigations seldom made detailed public interest arguments, so the lack of a detailed factual record has not been a handicap to the commission. In the rare cases where serious public interest issues were raised, the commission gathered relevant information from the parties at the commission review stage. Thus, for example, in *Certain Automatic Crankpin Grinders, Inv. No. 337-TA-60*, USITC Pub. 1022, Op. of Vice Chairman William R. Alberger and Commissioners Catherine Bedell and Paula Stern at 18-20 (Dec. 1979), one of only three investigations in which the commission has found that public interest considerations preclude issuing a remedy after finding a violation of Section 337, the commission found that an exclusion order would slow the development of

fuel efficient engines needed to meet fuel economy standards set by Congress and the president. The only evidence before the commission was written submissions by the parties and a few nonparty companies, plus statements made at a commission hearing, all of which were collected at the commission review stage.

The shortcomings of waiting until after the ALJ issues his initial and recommended determination to begin thinking about the public interest factors became apparent in the course of Investigation 337-TA-543, Certain Baseband Processor Chips and Chipsets, Transmitter and Receiver (Radio) Chips, Power Control Chips, and Products Containing Same, Including Cellular Telephone Handsets. The public interest issues in Baseband Processor Chips arose because there were at the time no commercially viable alternatives to respondent Qualcomm's baseband processors for use in mobile phone handsets used on 3G EV-DO networks (operated by Verizon and Sprint Corp. and "only limited alternatives" for use in handsets used on 3G WCDMA networks (operated by AT&T Inc.). USITC Pub. 4258, Comm'n Op. at 120 (June 19, 2007). Therefore, a broadly drawn exclusion order could have resulted in significant disruption of wireless coverage and services throughout the United States.

When the commission began its review of the ALJ's ID, it received extensive public interest submissions from the parties, as well as from many mobile phone service providers, handset manufacturers, and a variety of other interested individuals and entities. The public interest concerns raised in these submissions included economic harms from failure to build out a national 3G wireless network, if network operators could not obtain a sufficient supply of noninfringing 3G handsets; competitive harms to carriers dependent on EV-DO compared to those who were not, which would upset the competitive balance between the various cellular network operators in the U.S. market; and harms to first responders and the public at large because the position location functionality of 3G handsets greatly enhanced the ability of first responders to locate and assist victims of fires and health emergencies compared to other available technologies.

To resolve these concerns, the commission took the rare step of holding a public hearing on public interest and remedy. Baseband Processor Chips, Inv. No. 337-TA-543, Notice of Comm'n Decision to Hold a Public Hearing (Feb. 9, 2007). The process included an additional round of briefing, two full days of hearings attended by dozens of witnesses and their counsel, and a 3-month delay in the completion of the investigation. As a consequence of the public interest evidence obtained at the hearing and through related briefing, the commission limited the scope of its exclusion order by "grandfathering" infringing handset models that were already being imported into the United States, on the assumption that the less expansive exclusion would reduce the potential impact of its order on the public interest while still vindicating complainant's patent rights. Baseband Processor Chips, Comm'n Op. at 124-130.[2] The issues raised in the public interest debate at the ITC were raised again, with further briefing, during the presidential review process. See, e.g., "Wireless Industry Asks President to Veto ITC Ruling," Law360 (June 20, 2007).

The Baseband Processor Chips investigation had two effects. First, it brought attention to the importance of making well-developed public interest arguments in certain cases and encouraged more respondents to make such issues part of their litigation strategy in hopes of narrowing, if not eliminating, any remedy. Respondents realized that public interest arguments could be used to contest relief in investigations brought by patent assertion entities and by owners of standard-essential patents. Moreover, as complainants have increasingly invoked Section 337 in cases involving ubiquitous products, like mobile phones, or products with health or public safety functions, respondents have begun to focus on the effects of exclusion of such products on adequacy of supply, competition and consumer choice, and public health and welfare.

Second, Baseband Processor Chips convinced the ITC that existing procedures for addressing the public interest were inadequate in cases where the issue is seriously contested. From the commission's perspective, the months-long delay necessary to complete public interest briefing and decision making in Baseband Processor Chips was problematic in light of the statute's command that it conclude investigations "at the earliest practicable time." 19 U.S.C. § 1337(b)(1). The added cost to the parties and the government from protracted proceedings was also a concern. Moreover, the rules governing proceedings before the commission, unlike those governing hearings before an ALJ, do not provide for discovery, cross-examination, or other formal means to test the reliability of evidence submitted with respect to the public interest.

In July 2010, the ITC issued a notice announcing the receipt of a complaint in what became Inv. No. 337-TA-733, Certain Flat Panel Digit Televisions and Components Thereof. The notice invited, but did not require, the complainant, proposed respondents, other interested parties, and members of the public to file comments, not to exceed five pages in length, "on any public interest issues raised by the complaint." 75 Fed. Reg. 42,783, 42,784 (July 22, 2010). In particular, the commission stated that it was interested in comments that:

- (i) Explain how the articles potentially subject to the orders are used in the United States;
- (ii) identify any public health, safety, or welfare concerns in the United States relating to the potential orders;
- (iii) indicate the extent to which like or directly competitive articles are produced in the United States or are otherwise available in the United States, with respect to the articles potentially subject to the orders; and
- (iv) indicate whether Complainant, Complainant's licensees, and/or third party suppliers have the capacity to replace the volume of articles potentially subject to an exclusion order and a cease and desist order within a commercially reasonable time.

This notice effectively launched a pilot program, whereby the commission sought to test out new procedures for the pre-institution identification of public interest issues. The pilot program ran from July 22, 2010 until Nov. 18, 2011. During those 16 months, the ITC instituted 80 investigations, and directed the ALJs to take evidence on the public interest pursuant to commission rule 210.50(b)(1) in 10 investigations, or 12.5 percent of the time. This rate of delegation was considerably higher than in the commission's pre-2010 practice, although not every investigation in which the commission received public interest comments was actually delegated.

The notice launching the pilot program was followed a few months later by a notice of proposed rulemaking seeking comments on proposed changes to the commission's rules. 75 Fed. Reg. 60,671 (Oct. 1, 2010). In the NPRM, the commission proposed to require complainants to include in their complaints the public interest information being voluntarily solicited in the pilot program; to formalize the process of seeking voluntary pre-institution comments on public interest from proposed respondents and other interested parties; and to require respondents to respond to the public interest issues raised by complainant in their answer to the complaint.

The stated purpose of the rule changes was "to gather information on the public interest at an earlier stage in the investigation, and to aid the Commission in determining when to delegate part of the development of the record on the public interest to the administrative law judge." *Id.* at 60,672. Under the proposed rules, if the commission ordered the ALJ to take evidence on the public interest, the ALJ would be required to address the public interest in his recommended determination, and would have

discretion to permit the parties to take discovery on public interest issues. Id. at 60,673.

One year later, after receiving and considering 12 sets of comments from corporations, organizations, law firms, and individuals, the commission issued a notice of final rulemaking which made a number of changes to the previously proposed new rules. 76 Fed. Reg. 64,803 (Oct. 19, 2011) (effective date Nov. 18, 2011). Rather than requiring parties to address the public interest in the complaint and answer, the commission opted to require complainant to file a separate statement of public interest concurrent with the complaint; solicit voluntary pre-institution comments on public interest from proposed respondents and other interested parties; and require respondents to file post-institution public interest comments only in investigations where the commission has delegated the taking of evidence on public interest to the ALJ. Id. at 64,804. Such statement or comments should:

- (a) Explain how the articles potentially subject to the order are used in the United States;
- (b) identify any public health, safety, or welfare concerns relating to the requested remedial orders;
- (c) identify like or directly competitive articles that complainant, its licensees, or third parties make which could replace the subject articles if they were to be excluded;
- (d) indicated whether the complainant, its licensees, and/or third parties have the capacity to replace the volume of articles subject to the potential orders in a commercially reasonable time in the United States; and
- (e) state how the requested relief would impact consumers.

Id. at 64,806. Parties and the public have an additional opportunity to comment on the public interest after the ALJ issues his initial and recommended determination, whether or not the recommended determination includes a discussion of the public interest. Id. at 64,807. Finally, the NFRM notes that the changes to the commission's rules are "for the purpose of improving the Commission's procedures and ensuring the completeness of the record with respect to the required analysis concerning the public interest under Sections 337(d)(1) and (f)(1)" and that there would be "no change in the Commission's substantive practice with respect to its consideration of the public interest factors in its determinations relating to the appropriate remedy." Id. at 64,803.

A number of commenters on the proposed rules expressed skepticism that the benefits associated with developing a more fulsome record on public interest issues would be worth the cost in the vast majority of cases. Commenters pointed out that public interest considerations have rarely been a factor in deciding whether to issue relief in Section 337 investigations, id. at 64,805 and 64,807, and that even in cases where it might be important, requiring public interest comments before parties can know the scope of a violation found and exclusion order proposed is premature and therefore wasteful. Id. at 64,807.

Commenters were particularly concerned that allowing parties to seek discovery on public interest issues would be costly, burden third parties, and encourage abusive practices. In response to such concerns, the final rules indicate that the ALJ "is expected to limit public interest discovery appropriately, with particular consideration for third parties, and not allow such discovery to delay the investigation or be used improperly." Id. at 64,808. Discovery with respect to public interest issues is not permitted in investigations where the commission does not delegate the issue to the ALJ. Id.

Since the new rules went into effect in November of 2011, the commission has ordered the ALJ to take evidence on the public interest in 39 investigations, which amounts to just under a quarter of new complaints instituted in that time frame. Predictably, the investigations most commonly subject to the new procedure involve either (1) pharmaceuticals, medical devices or public safety equipment; (2)

standard-essential patents; or (3) instances where respondents' accused products have a very substantial U.S. market share, such that exclusion might cause a product shortage.

Among all such cases, the commission has addressed the merits of the public interest issues in only one, *Certain Optoelectronic Devices for Fiber Optic Communications, Components Thereof, and Products Containing Same*, Inv. No. 337-TA-860, Comm'n Op. at 37-45 (May 9, 2014).[3] While respondents argued that exclusion would create a shortage, harming competitive conditions in the U.S. economy and U.S. consumers, both the ALJ and the commission concluded that record evidence demonstrated the existence of numerous alternatives to the accused products that could fill the demand that would result if the accused products were excluded. *Id.* at 37, 42. Seeing no shortage, the commission rejected respondents' requests for a delay in the implementation of its remedial orders and for an exemption for replacement parts and warranty repairs. *Id.* at 33-35.

Even with new screening procedures in place, not every investigation that ends up raising serious public interest issues has been flagged for delegation to the ALJ. See, e.g., *Certain Mobile Electronic Devices, Including Wireless Communication Devices, Portable Music and Data Processing Devices, and Tablet Computers*, Inv. No. 337-TA-794, Comm'n Op. at 105-114 (July 5, 2013). In *Mobile Electronic Devices*, the commission solicited voluntary comments on public interest in its pre-institution notice, 76 Fed. Reg. 39,121 (July 5, 2011), but received none. After finding a violation of Section 337, however, the commission received extensive briefing on public interest issues from the parties and more than a dozen nonparty companies and associations. The commission ultimately rejected claims that exclusion would result in a shortage of comparable products, harming consumers and competitive conditions in the U.S. market, and that the public interest categorically precludes granting an exclusion order premised on infringement of a standard essential patent.[4]

Similarly, in *Certain Electronic Digital Media Devices and Components Thereof*, Inv. No. 337-TA-796, Comm'n Op. at 109-132 (Sept. 6, 2013), the commission solicited but did not receive any public interest comments prior to institution. 76 Fed. Reg. 40,744 (July 11, 2011). After the commission found a violation of Section 337, however, the parties and over two dozen nonparty companies, associations, nonprofits and elected officials submitted extensive public interest comments addressing public health and welfare, competitive conditions in the U.S. economy and/or U.S. consumers, and issues related to issuing an exclusion order covering design patents. The commission was not persuaded by these arguments to narrow or delay its remedial orders, except to expressly permit importation of specific models determined to be noninfringing.

What lessons can be learned from the commission's five-year experience with relatively frequent public interest delegation?

As some commenters on the proposed rules predicted, the commission's decision to delegate more frequently the taking of public interest evidence to its ALJs has resulted in new discovery obligations and costs for the parties and, in some instances, for third parties as well. In such investigations, it has become routine for both complainant and respondent to retain at least one expert witness on public interest issues, as well as addressing public interest through one or more fact witnesses. Document discovery requests among the parties now cover public interest. When third parties submit comments on public interest, they may receive requests for documents and testimony. Predictably, disputes over the proper scope of public interest discovery have generated motions practice before the ALJs, who have done their best to balance the commission's desire for a complete public interest record with its instruction to "not allow such discovery to delay the investigation or be used improperly." [5] 76 Fed. Reg. 64,803 at 64,808.

The reason, presumably, that respondents would urge the commission to build a detailed record on public interest is to encourage the commission, in the event that it finds a violation of Section 337, to consider denying, or at least limiting the scope of, its remedy.[6] As is well known, the commission has only denied a remedy based on public interest considerations three times in its history, most recently in 1984,[7] and never in an investigation where the ALJ took evidence on public interest. While in recent years the commission has shown an increasing willingness to narrow or “tailor” its remedies to lessen public interest concerns that might otherwise arise, to date none of those tailored remedies has arisen in an investigation where public interest was delegated.[8] Indeed, in *Optoelectronic Devices*, the commission expressly declined respondent’s request that it include a service and repair exemption in the exclusion order. Inv. No. 337-TA-860, Comm’n Op. at 34. Nonetheless, with only one delegated investigation having reached the merits of the public interest issues thus far, it is probably still too soon to say whether the new procedures will ultimately lead to further tailoring of remedies.

From the commission’s perspective, its goal for revising its procedures was to produce a better record on public interest, for its own benefit and that of U.S. trade representative when conducting presidential review, and to do so without needing to extend its target dates for additional briefing or a hearing. With respect to these goals, the new procedures can be deemed a modest success. In *Optoelectronic Devices*, the only investigation to date in which the commission has reached the merits of the public interest issues under the new procedures, the commission completed the investigation in just under 18 months (and would have done so a month sooner if not for the government shutdown of October 2013). This compares favorably with *Baseband Processor Chips*, which took two years to decide due, in no small part, to the extensions of time necessary to collect public interest evidence at the commission review stage.

In the end, the commission’s and the parties’ ability to receive the most benefit at the lowest overall cost from these new procedures depends on the commission’s ability to predict, prior to institution, which investigations will present significant public interest issues, so that public interest is delegated in only those cases where a robust factual record is likely to matter. To this end, the commission has already figured out that not every investigation involving a pharmaceutical product or medical device raises public health concerns, and that removing a few mobile phone models from the market has fewer consequences for competition and consumer choice than removing many.[9] Over time, it is reasonable to expect that the commission will refine its approach to selecting investigations in which public interest should be delegated and that the current 20-25 percent delegation rate may eventually decline.

—By Shara L. Aranoff, Covington & Burling LLP

Shara Aranoff is of counsel in Covington’s Washington, D.C., office. She was previously commissioner and chairwoman at the U.S. International Trade Commission.

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[1] See, e.g., *Certain Hybrid Electric Vehicles and Components Thereof*, Inv. No. 337-TA-688, Notice of Investigation, 74 Fed. Reg. 52,258 (Oct. 9, 2009); *Certain Catheter, Consoles and Other Apparatus for Cryosurgery, and Components Thereof*, Inv. No. 337-TA-642, Notice of Investigation, 73 Fed. Reg. 17,998 (Apr. 2, 2008); *Certain Modified Vaccinia Ankara (“MVA”) Viruses and Vaccines and Pharmaceutical Compositions Based Thereon*, Inv. No. 337-TA-550, Notice of Investigation, 70 Fed. Reg. 55,918 (Sept.

23, 2005); Certain Monoclonal Antibodies Used for Therapeutically Treating Humans Having Gram Negative Bacterial Infections, Inv. No. 337-TA-323, Notice of Investigation, 56 Fed. Reg. 3,484 (Jan. 30, 1991).

[2] The Federal Circuit later reversed the Commission's decision on other grounds. *Kyocera Wireless v. U.S. Int'l Trade Comm'n*, 545 F.3d 1340 (Fed. Cir. 2008).

[3] The other investigations in which public interest was delegated to the ALJ are either still pending, terminated without a Commission finding on violation, or terminated with a finding of no violation.

[4] The USTR ultimately disagreed with the Commission's analysis on standard essential patents and disapproved the Commission's decision, preventing the exclusion order from continuing in effect. See Letter from Ambassador Michael B.G. Froman to Chairman Irving A. Williamson (Aug. 3, 2013) (disapproving USITC decision in Inv. No. 337-TA-794).

[5] See, e.g., *Certain Wireless Devices with 3G and/or 4G Capabilities and Components Thereof*, Inv. No. 337-TA-868, Order No. 84 (Dec. 18, 2013) (granting complainant's motion to strike the expert report of respondent's public interest expert); *Certain Wireless Communications Base Stations and Components Thereof*, Inv. No. 337-TA-871, Order No. 30 (Nov. 22, 2013) (denying complainant's motion in limine to preclude the testimony of respondents' public interest expert); *Certain Communications Equipment, Components Thereof, and Products Containing the Same, Including Power Over Ethernet Telephones, Switches, Wireless Access Points, Routers and Other Devices Used in LANS, and Cameras*, Inv. No. 337-TA-817, Order No. 12 (May 29, 2012) (denying complainant's motion to certify to the Commission a request for judicial enforcement of a subpoena to non-party Google, to force Google to produce documents asserted to be related to arguments made in its public interest comments); *Certain Adjustable-Height Beds and Components Thereof*, Inv. No. 337-TA-734, Order No. 16 (Mar. 2, 2011) (granting, in part, respondent's motion to compel complainant to respond to interrogatories relevant to public interest).

[6] Respondents might also believe that pursuing public interest arguments could help them to settle on more favorable terms. Among the 40 investigations delegated since July 2010 which have been concluded, over 60 percent have settled. That is a higher rate than the 46 percent average settlement rate the Commission has reported for all Section 337 investigations. USITC, "USITC Section 337 Investigations -- Facts and Trends Regarding Caseload and Parties" (June 10, 2014), available at www.usitc.gov/intellectual_property.htm (citing data for May 2006 through March 2014).

[7] *Certain Fluidized Supporting Apparatus and Components Thereof*, Inv. No. 337-TA-182/188, USITC Pub. 1667, Comm'n Op. (Oct. 5, 1984); *Certain Inclined-Field Acceleration Tubes and Components Thereof*, Inv. No. 337-TA-67, USITC Pub. 1119, Comm'n Op. (Dec. 29, 1980); *Certain Automatic Crankpin Grinders*, Inv. No. 337-TA-60, USITC Pub. 1022, Op. of Vice Chairman Alberger and Commissioners Bedell and Stern (Dec. 12, 1978).

[8] See, e.g., *Certain Personal Data and Mobile Communications Devices and Related Software*, Inv. No. 337-TA-710, Comm'n Op. at 72-73 (Dec. 29, 2011) (delaying effective date of exclusion order by 4 months and exempting imports of infringing handsets refurbished abroad); *Certain Sleep-Disordered Breathing Treatment Systems and Components Thereof*, Inv. No. 337-TA-890, Comm'n Op. at 47 (Dec. 23, 2014) (exclusion order exempting infringing parts imported for service and repair of medical equipment).

[9] See, e.g., Certain Wireless Devices, Including Mobile Phones and Tablets III, Inv. No. 337-TA-942, Notice of Institution (Dec. 23, 2014) (no delegation of public interest; no public interest comments received); Certain Sleep-Disordered Breathing Treatment Systems and Components Thereof, Inv. No. 337-TA-890, Proposed Respondents BMC Medical et al.'s Comments Related to Public Interest (Aug. 2, 2013), and Notice of Institution (Aug. 19, 2013) (not delegating public interest).

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