

## Seeking Disapproval: Presidential Review Of ITC Orders



### Milbank

*By James R. Klaiber and Ethan Lee, Milbank Tweed Hadley & McCloy LLP*

*Law360, New York (November 10, 2011, 12:51 PM ET)* -- A recent trend in patent litigation is the increasing importance of litigating in the U.S. International Trade Commission. By the first half of 2011, there had already been a record number ITC investigations alleging intellectual property infringement.[1] This increased interest in the ITC as a forum for patent cases is likely due to the 2006 U.S. Supreme Court decision in *eBay Inc. v. MercExchange LLC*,[2] which made it more difficult to get an injunction for patent infringement.

Instead, patent holders are increasingly bringing cases in the ITC, which has the authority to stop the importation of infringing products. One important, and somewhat obscure, aspect of ITC investigations is that its final decisions become effective unless disapproved by the president.

This peculiarity of ITC procedures was highlighted recently in the smartphone wars being waged between Google Inc., Apple Inc., Samsung Electronics Co. Ltd and mobile telecommunications service providers. Verizon Communications recently called on the president to declare that he would disapprove any ITC decision that blocked the importation of wireless devices.[3]

It seems extremely unlikely that any president would issue such a blanket statement. Historically, presidents have used disapproval authority only five times since the ITC's formation. Despite its rarity, however, presidential disapproval of an unfavorable ITC decision should not be overlooked as a possible last-ditch strategy for ITC litigants.

### Background on the ITC

The ITC is a federal agency with quasi-judicial authority. Under Section 337 of the Tariff Act of 1930, a party may request that the ITC bring an investigation into cases of patent, trademark or copyright infringement, as well as other intellectual property violations.[4]

ITC cases are first heard by an administrative law judge. The ALJ's decision is subject to review by the full commission, which then issues a final decision. The primary remedy for a finding of infringement is an

order to stop infringing products at the border.[5] The ITC may also issue an order to stop the sale of infringing products already in the United States.[6]

Under Section 337(j)(2), a final decision of the ITC only becomes effective after 60 days.[7] But before that 60-day period expires, the president may “for policy reasons” disapprove an ITC decision.[8] This disapproval is not appealable.[9] In 2005, the president delegated this authority to the U.S. Trade Representative.[10]

## **Strategies for Seeking Presidential Disapproval**

Because presidential disapprovals are exceedingly rare, it may not make sense for most parties to incur the expense of lobbying the president (or U.S. Trade Representative) to disapprove an unfavorable ITC determination. Analysis of the five instances in which the president has disapproved an ITC order, as well as the strategy recently used to seek such a disapproval can give some guidance in deciding whether a concerted lobbying campaign might be effective.

## **Damage to the Industry**

The most common basis for urging presidential disapproval is the alleged damage an ITC ban would cause to the affected industry, a reasoning relied on in three of the five presidential disapprovals.[11] The industries involved in these cases, all decided in the 1970s and '80s, included paper, welded stainless steel pipes, and computer memory chips.[12]

A review of these successful damage-to-industry cases, however, yields little specific insight, as the disapprovals are short on factual detail.[13] It appears that the success in overturning these ITC orders may have had more to do with the relative lobby strengths of the affected industries than anything else.

On the other hand, it appears more may be learned from the recent unsuccessful lobbying efforts by Qualcomm Inc. On June 7, 2007, the ITC ordered a ban on the importation of chips made by Qualcomm used in cellphones because it determined that the chips infringed a patent for the conservation of battery power owned by Broadcom Corp. Qualcomm lobbied the president for a disapproval arguing that the ban would not only affect Qualcomm but also cellphone manufacturers and wireless operations.[14]

One industry group estimated that the ban would result in up to \$21.1 billion in damages to U.S. industry.[15] Qualcomm also raised concerns that the ban would hinder public safety by inhibiting the use of handsets to locate people calling 911.[16] Ultimately, the Obama administration decided not to issue a presidential disapproval.

Based on the Qualcomm example, an argument for presidential intervention relying on damage to the industry must surmount a very high bar. Although unsuccessful, the strategies employed by Qualcomm were well constructed and hold important lessons. A party making this argument should emphasize the damage to the entire industry, not just to itself. The effect on all the industries that could be affected by the ban should be considered.

If possible, a party should commission a study that shows billions of dollars that could be lost to the national economy. In the current economy, it seems likely that a party urging disapproval could get its senators and representatives involved by emphasizing the possible lost tax revenue and jobs.

Finally, such a party should consider how the ban will go beyond just commercial concerns, such as

Qualcomm's argument regarding possible danger to the public. Other potent argument could be based on detrimental effects to national security or the environment.[17]

### **ITC Order is Contrary to the Executive's Interpretation**

Besides the direct affect that a ban would have on the economy, a presidential disapproval has been issued when the reasoning of the ITC went against a statutory interpretation of the executive branch. In that case, the president stated that the ITC's interpretation of the trademark laws conflicted with that of the U.S. Department of the Treasury.[18]

Accordingly, when seeking a presidential disapproval, one should think about arguments in this vein. For example, several recent cases before the Supreme Court and Federal Circuit have dealt with the issue of subject matter eligibility under Section 101 of the Patent Act.[19] In these cases, the government has submitted amicus briefs outlining the government's position.

An illustration is *The Association for Molecular Pathology v. U.S. Patent and Trademark Office* , which addressed the issue of whether isolated human genes are patent-eligible.[20] The arguments against patent-eligibility represented in the solicitor general's amicus brief was rejected by the Federal Circuit.[21] This area of the law is unsettled, so if a product affected by an ITC order involves (or is analogous to) an isolated gene, a party could argue that under the executive's interpretation the patent is invalid and should not be the basis for an ITC ban.

### **The Ban Could Spark a Trade War**

Another reasoning cited in presidential disapprovals is the affect the ban would have on the United States' trade relations. Two of the disapprovals declared this as a reason for the disapproval.[22] In one, the President asserted concerns that a ban based on a "process patent" may not comply with international obligations.[23]

In the other, the presidential disapproval declared that the ITC ban would be viewed by the United States' trade partners as contrary to internationally agreed-upon procedures for anti-dumping violations.[24] Both of these disapprovals referenced the possibility of retaliation by trade partners if the ITC orders were allowed to stand.

And it appears that the President's concern is justified, as actions by the ITC have indeed sparked retaliatory actions by the U.S.'s trading partners. For example, in 2002, the European Union filed a complaint in the World Trade Organization in response to the ITC's ruling on steel imports.[25] Thus, another possible strategy for a party affected by an ITC import ban is to highlight the possibility of trade retaliation. If possible, the affected countries' trade representatives should be enlisted to lobby on the party's behalf. Warnings of a possible trade war could sway the case towards disapproval.

### **Conclusion**

The presidential disapproval is a powerful weapon in the ITC practitioner's toolkit. A party that has lost at the ITC should consider pursuing a presidential disapproval. While issued very infrequently, the effect of totally negating an ITC order makes the pursuit of a presidential disapproval worth examining.

James Klaiber is a special associate, and Ethan Lee is an associate, in Milbank's intellectual property and litigation group in New York.

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[1] Jenna Greene, Record Number of ITC Cases Filed in First Half of 2011, *The National Law Journal*, July 5, 2011. The ITC's records indicate that while 56 investigations were instituted in 2010 by Oct. 1, 2011, 56 investigations had already commenced. See [http://www.usitc.gov/press\\_room/337\\_stats.htm](http://www.usitc.gov/press_room/337_stats.htm), retrieved on Oct. 10, 2011.

[2] *eBay Inc. v. MercExchange LLC*, 547 U.S. 388 (2006).

[3] Holman W Jenkins Jr., Obama and the Smartphone Wars, *The Wall Street Journal*, Aug. 24, 2011.

[4] See 19 U.S.C. § 1337(a).

[5] See 19 U.S.C. § 1337(d).

[6] See 19 U.S.C. § 1337(f).

[7] 19 U.S.C. § 1337(j)(2).

[8] *Id.*

[9] *Duracell Inc. v. U.S. Int'l Trade Comm'n*, 778 F.2d 1578 (Fed. Cir. 1985).

[10] Assignment of Certain Functions Under Section 337 of the Tariff Act of 1930, 70 Fed. Reg. 43251 (July 26, 2005). The current U.S. trade representative is Ambassador Ronald Kirk. See <http://www.ustr.gov>, retrieved on Oct. 10, 2011.

[11] See Presidential Determination of April 22, 1978, 43 Fed. Reg. 177898 (April 22, 1978) (disapproval of Inv. No. 337-TA-20); Presidential Disapproval of Determination of the U.S. International Trade Commission in Investigation No. 337-TA-82, 46 Fed. Reg. 32361-01 (June 22, 1981); Presidential Disapproval of a Section 337 Determination, 52 Fed. Reg. 46011-02 (Dec. 3, 1987) (disapproval of Inv. No. 337-TA-242).

[12] *Id.*

[13] *Id.*

[14] Marguerite Reardon, Qualcomm Cell Phone Ban to Take Effect, *CNET News*, Aug. 6, 2007.

[15] *Id.*

[16] *Id.*

[17] These argument are similar to the public interest factors which allow the ITC to modify an exclusion order despite a finding of infringement. These factors are “[1] the public health and welfare, [2] competitive conditions in the United States economy, [3] the production of like or directly competitive

articles in the United States, and [4] United States consumers. 19 U.S.C 1337(d). Recently, on October 19, 2011, the ITC finalized a new rule requiring litigants before the ITC to file a separate statement explaining how an ITC action would affect the public interest factors. See 76 Fed. Reg. 64810 (Oct. 19, 2011) (notice of new ITC Rule 210.8(b)).

[18] Determination of the President Regarding Certain Alkaline Batteries, 50 Fed. Reg. 1655-01 (Jan. 11, 1985) (disapproval of Inv. No. 337-TA-165).

[19] See, e.g., *Bilski v. Kappos*, 130 S. Ct. 3218 (2010); *Prometheus Lab. Inc. v. Mayo Collaborative Serv.*, 8 F. 3d 1347 (Fed. Cir. 2010), cert. granted, 131 S. Ct. 3027 (2011).

[20] *The Ass'n for Molecular Pathology v. USPTO*, No. 2010-1406, 2011 (Fed. Cir. July 29, 2011), reh'g denied Sept. 13, 2011 and Sept. 16, 2011.

[21] *The Ass'n for Molecular Pathology*, 2011, at \*18. The authors believe that this case was the first time that one department of the executive branch (i.e., the U.S. Justice Department) filed an amicus brief in support of a party adverse to another such department (i.e., the U.S. Patent and Trademark Office of the Commerce Department).

[22] 43 Fed. Reg. 17789 (disapproval of Inv. No. 337-TA-20); Presidential Disapproval of the Determination of the U.S. International Trade Commission in Investigation No. 337-TA-99, *Certain Molded-In Sandwich Panel Inserts and Methods for Their Installation*, 47 Fed. Reg. 29919-02 (July 9, 1982).

[23] 47 Fed. Reg. 29919-02 (disapproval of Inv. No. 337-TA-99).

[24] 43 Fed. Reg. 17789 (disapproval of Inv. No. 337-TA-20).

[25] Richard Senti, *A New Transatlantic Trade War*, *Intereconomics*, May/June 2002.

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