

## Legal Updates & News

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#### U.S. International Trade Commission Schedules Public Hearing On 'Downstream Products' Exclusion Order In Section 337 Case Involving Cellphones

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The U.S. International Trade Commission (“ITC”) has taken the unusual step of scheduling a public hearing before the full six-member Commission to receive public testimony and comments on the remedy to be provided in a case of patent infringement that may be of interest to a great number of businesses and consumers. The general relevance of the proceedings may be apparent from the end phrase of the investigation’s long caption: “*Certain Baseband Processor Chips and Chipsets, Transmitter and Receiver (Radio) Chips, Power Control Chips, and Products Containing Same, Including Cellular Telephone Handsets*,” Inv. No. 337-TA-543 (emphasis added). Thus, the ITC may, in this investigation, issue an exclusion order that could potentially exclude *all* mobile telephone handsets that include the infringing chips.

The ITC instituted this investigation on June 21, 2005, based on a complaint filed by Broadcom Corporation. The complaint alleges infringement by Qualcomm Inc. of several Broadcom patents covering chips (such as those used in many wireless phones) that improve device power management and network connection integrity and efficiency. Pursuant to 19 U.S.C. § 1337 (“Section 337”), the ITC has authority to preclude the importation of articles that are found to infringe valid U.S. patents. In his Initial Determination issued in October 2006, ITC Administrative Law Judge Charles E. Bullock agreed with Broadcom that there was infringement. The Commission affirmed Judge Bullock’s ruling this past December.

When the Commission concludes that there has been importation of infringing goods as in this case, Section 337(d) authorizes the Commission to provide certain remedies. Among these are exclusion orders directing Customs to stop infringing products from entering the United States. Exclusion orders may be of two types: limited or general. A limited exclusion order directs Customs to prevent importation of only those goods that originate from one or more specified parties who were named as respondents in the Commission investigation. A general exclusion order, in contrast, directs Customs to intercept *all* goods of the type found to be infringing, regardless of the goods’ source or owner.<sup>[1]</sup> The Commission also has authority to issue an exclusion order that covers “downstream products,” which are products that incorporate the infringing articles as components. In making such a determination the Commission applies the test originally established in *Certain Erasable Programmable Read Only Memories, Components Thereof, Products Containing Such Memories, And Processes For Making Such Memories*, Inv. No. 337-TA-276, USITC Pub. No. 2196 (Mar. 16, 1989), which was later affirmed by the Federal Circuit in *Hyundai Electronics Indus. Co. v. USITC*, 899 F.2d 1204 (1990). That test balances a number of factors including the relative value contributed by the infringing article compared to the value of the downstream product, the incremental value to the complainant of the downstream exclusion, and the burdens imposed on third parties by a downstream exclusion order.

In the current *Baseband Processor Chips* investigation, Broadcom requested that the Commission issue a limited exclusion order that would cover both the subject chips and also handsets that contain the accused chips (*i.e.*, the downstream products.) Judge Bullock agreed that a limited exclusion order should issue, but did not recommend that the Commission extend the order to the downstream products. His decision was influenced primarily by the facts that (1) Broadcom knew at the time of filing its complaint that Qualcomm did not manufacture any handsets; (2) Broadcom knew

the identity of the manufacturers prior to filing its complaint and could have named them as respondents; and (3) Broadcom knew that almost all the accused chips were imported in handsets. The administrative law judge believed that Broadcom had made a tactical decision in naming only Qualcomm, and that exclusion of downstream products was not necessary for Broadcom to have “complete and effective relief” considering the manner in which Broadcom framed its complaint.

Judge Bullock also recommended against exclusion of downstream products because he concluded there would be a significant financial burden borne by third parties, mostly stemming from the fact that there was no comparable substitute for the Qualcomm chips at issue. As a result, manufacturers would have to redesign handsets at great cost in time and money. In addition, consumers would suffer with fewer handset choices, fewer handset features, fewer network providers, and potentially higher costs if forced to purchase more expensive PDA or “smartphone” multi-function units that do not use the infringing chips.

The Commission now must decide an appropriate remedy, taking into account the recommendation of the administrative law judge and the public interest including the potential impact of a downstream exclusion order on legitimate trade. When the Commission issued its opinion this past December, it requested written public comments on the question of what remedy, if any, it should order. Subsequently, Qualcomm moved for an oral argument and hearing on that issue. In a February 9, 2007 Notice to be published in the Federal Register, the Commission has agreed that such a hearing is appropriate “in view of the impact that an exclusion order covering downstream products may have on the public interest.” The ITC will hear presentations from the parties, intervenors such as cellular phone companies, government agencies, public-interest groups, and interested members of the public. This is an unusual occurrence, and it may signal the Commission’s inclination to exclude downstream products and depart from Judge Bullock’s recommendation.<sup>[2]</sup> In any event, the request for public comment is certainly due to the potentially large impact of any remedy on businesses (both inside and outside the communications industry) and on consumers, in light of the prevalence of wireless phones using the chips at issue.

The hearing will be held at the ITC starting on March 21, 2007, at 9:30 a.m. in the Commission’s main hearing room. Parties wishing to participate must limit their oral presentations to ten minutes, and are requested to submit a one-page summary of their position for placement in the public record. Based on the Commission’s earlier directions for written submissions, the oral presentations presumably should be focused on the effects that any Commission remedy order will have on (1) the public health and welfare, (2) competitive conditions in the U.S. economy, (3) U.S. production of articles that are like or directly competitive with those that are subject to investigation, and (4) U.S. consumers.<sup>[3]</sup>

Anyone wishing to speak also must provide advance notice in writing to the ITC’s Office of the Secretary by February 28, 2007. Additional details of the requirements can be found in the Commission’s Federal Register Notice, available at:

[http://www.usitc.gov/secretary/fed\\_reg\\_notices/337/337-TA-543.Notice.1171052710.pdf](http://www.usitc.gov/secretary/fed_reg_notices/337/337-TA-543.Notice.1171052710.pdf)

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#### Footnotes:

<sup>[1]</sup> A general exclusion order may issue only under certain special circumstances, such as when there is a widespread pattern of unauthorized use of the patented invention and difficulty in identifying the source of the infringing product.

<sup>[2]</sup> The full Commission rarely holds public hearings in Section 337 cases. The last time the full Commission held a public hearing in a Section 337 case was in 1993 (*Sputtered Carbon Coated Computer Disks and Products Containing Same*, Inv. 337-TA-350, 58 Fed. Reg. 41487 (1993)).

<sup>[3]</sup> Of note, Judge Bullock made no findings as to whether the exclusion of downstream products would stifle innovation in wireless broadband technology. Intervening handset manufacturers and service providers raised this argument during the investigation, but Judge Bullock decided the exclusion related more to public interest considerations, which should be addressed directly by the Commission.

