ITC jurisdiction restricted

THE CASE:
ClearCorrect Operating, LLC v The International Trade Commission
US Court of Appeals for the Federal Circuit
10 November 2015

Electronically transmitted data deemed not to be an 'article'. **Andrew Thomases**, **Paul Schoenhard** and **Matthew McDonell** examine

The year 2015 saw two major US Court of Appeals for the Federal Circuit decisions regarding the jurisdiction of the US International Trade Commission (ITC): *Suprema v ITC* and *ClearCorrect Operating, LLC v ITC*. Significantly, both decisions highlight a divergence of views within the Federal Circuit bench over the extent to which the ITC may determine the scope of its own authority under Section 1337 of the Tariff Act of 1930, as amended (Section 337). This article focuses on the latter of these decisions – *ClearCorrect* – in which a split panel held that Section 337 does not vest the ITC with authority to investigate unfair methods or acts of competition in situations involving electronic transmissions of data only, as opposed to situations involving the importation of material things. This ruling is likely to disappoint companies hoping to use the ITC to combat online piracy, but it is likely to be well received by companies that rely on cross-border information transactions or seamless cloud-computing platforms. Looking ahead, the *ClearCorrect* case suggests an ongoing policy debate over the appropriate role of the ITC in today's global economy.

Background

The *ClearCorrect* case pitted two competing manufacturers of clear dental aligners against one another. Align Technology, which makes Invisalign, filed a complaint with the ITC against competitor ClearCorrect's US and Pakistan subsidiaries, alleging that ClearCorrect infringed Align's patents relating to methods of forming dental appliances. The ITC found that ClearCorrect's electronic transmission of digital models of teeth alignment from computer servers in Pakistan into the US infringed Align's patents and violated Section 337, where the digital models were subsequently used in the US to create physical models of teeth alignment and to form dental appliances. But because an exclusion order – the ITC's primary form of relief – would be ineffective in prohibiting the electronic transmission of digital models across the US border, the Commission instead imposed a cease-and-desist order prohibiting ClearCorrect from certain activities relating to the importation of digital models. Recognising the uncertain state of the law concerning the ITC's jurisdiction over electronically imported data, the ITC took the rare step of staying enforcement of the cease-and-desist order until the issue was resolved on appeal.

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The ITC devoted much of its opinion to this key issue of whether the statutory term 'importation of articles' may encompass electronic transmissions into the US. Before reaching its decision on the issue, the ITC sought briefing from the parties and the public, and several third parties submitted arguments for and against ITC jurisdiction and authority over electronic transmissions. The ITC took these arguments into consideration, and specifically noted its prior opinions supporting the conclusion that the ITC's authority did extend to electronic transmissions. In particular, in *Certain Hardware Logic Emulation Systems*,[1] the ITC included electronically transmitted software within the scope of a cease-and-desist order. Subsequent decisions over the next 15 years, including a related dental appliances investigation in 2013,[2] reinforced the ITC's inclusion of electronic transmissions in cease-and-desist orders, but no decision prior to the *ClearCorrect* investigation explicitly relied upon electronic transmissions alone to satisfy the importation requirement of a Section 337 violation.

The Federal Circuit weighs in

The principal issue before the Federal Circuit on appeal was whether the term 'articles' in the context of Section 337 must mean material things or whether, as the ITC concluded, articles could also include electronically transmitted data. US Court of Appeals for the Federal Circuit Chief Circuit Judge Sharon Prost's majority opinion concluded that articles must in fact be material things and reversed the ITC's finding of a violation of Section 337 and its imposition of a cease-and-desist order. Echoing the Federal Circuit's recent evaluation of the term 'articles that infringe' in *Suprema*, the majority first conducted the two-step *Chevron USA, Inc, v Natural Resources Defense Council* analysis to determine whether the ITC's interpretation of articles was owed deference. But contrary to the *en banc* Federal Circuit's conclusion in *Suprema* that 'articles that infringe' was ambiguous – a conclusion from which Chief Circuit Judge Prost dissented – the majority in *ClearCorrect* concluded that the term articles is not ambiguous in the context of Section 337. According to the majority, neither the statutes at the time of the Tariff Act's passing nor contemporary dictionaries defined articles as anything other than material things. Therefore, the court held that Congress had unambiguously intended that the ITC's jurisdiction relates to only material things and that the ITC's interpretation that electronic transmissions should also be included within the definition of articles was owed no deference. The case is now reversed and remanded to the ITC for dismissal for lack of jurisdiction, although a petition for *en banc* review or *certiorari* is likely to be filed. The Federal Circuit granted an extension of the

time to file a petition for *en banc* review to 27 January 2016.

Implications of the ClearCorrect decision

The *ClearCorrect* decision has broad-sweeping implications that corporate counsel in several industries should be aware of and prepare for. The *ClearCorrect* decision also demonstrates the importance to ITC litigants of preparing evidence on the public-interest factors of Section 337 and the balance of harms.

Rightsholders hoping to use the ITC to combat online piracy will have to look elsewhere – for now

By the numbers, most Section 337 investigations are patent infringement actions, thus other IP rights are sometimes overlooked when it comes to ITC involvement. But the ITC's Section 337 jurisdiction does extend to articles that infringe federally registered US copyrights and several major entertainment-industry players filed briefs with the Federal Circuit in support of ITC jurisdiction over infringing digital files entering the US through the internet. To these industry players, the ITC's decision in ClearCorrect confirmed the viability of a mechanism for stopping the electronic transmission of copyrighted works into the US. Pending a reversal of fortune on *en banc* review by the full Federal Circuit or before the US Supreme Court, those industry players seeking another tool to combat online piracy will have to look elsewhere.

As far as revisiting the ITC, industries suffering from online piracy may not be content with further judicial review of the *ClearCorrect* decision. Stakeholders may turn away from the courts and seek to overturn the decision through an amendment of Section 337. The latest patent reform offerings considered by Congress in 2015 – the STRONG Patents Act, the Innovation Act, and the PATENT Act – did not propose modifications to ITC jurisdiction or otherwise include provisions targeting online piracy. However, combating online piracy was the purpose behind the hotly debated Stop Online Piracy Act and Protect IP Act legislation of 2012, which failed after encountering significant popular opposition. Thus, industry players seeking to amend Section 337 to address electronic transmissions need to be prepared for resistance and those opposed to further efforts to regulate online activities need to be prepared for renewed legislative activities in the wake of *ClearCorrect*.

Offshoring practices avoid a potentially significant blow

Other industries stand to benefit from the *ClearCorrect* decision. ClearCorrect is hardly alone in its reliance on overseas data processing and electronic transmission of data back into the US. To name a couple of well-known examples, hospitals send CAT, MRI, and X-ray scans to radiologists outside the US for analysis and IT support for various industries is increasingly performed by personnel abroad. The latent risk of patent litigation is hard to gauge and is not equal across technical fields and business models. However, any company that receives digital files prepared overseas has less patent infringement risk today than it did immediately following the ITC's decision in *ClearCorrect*. Given the relative uncertainty over whether the Federal Circuit's decision is the last word on this issue, however, counsel for companies relying on electronic data transmissions would be wise to assume some possibility of ITC relief as part of their future risk analysis.

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Paying attention to ITC practices pays off

Finally, beyond the specific jurisdictional issue resolved by the Federal Circuit, the *ClearCorrect* case should serve as a reminder of the ITC's unique jurisdiction, procedures and remedies. For example, after the ITC issued its cease-and-desist orders against ClearCorrect, ClearCorrect moved to stay enforcement of the orders pursuant to the ITC's authority under Section 10(d) of the Administrative Procedure Act, 5 USC § 705. A four-factor test for determining whether a judicial stay was warranted was applied, looking at whether the stay applicant made a strong showing that he was likely to succeed on the merits, whether the applicant would be irreparably injured absent a stay; whether issuance of the stay would substantially injure the other parties interested in the proceeding, and where the public interest lay. The ITC granted ClearCorrect's request for a stay. Critically, the ITC recognised that its decision involved a difficult and unsettled legal question and that the equities of the case suggested the status quo should be maintained.

Each year, a number of Federal Circuit or Supreme Court decisions on IP significantly impact the business of technology, media and telecommunications companies. A fair number of these decisions could be categorised as addressing difficult legal questions, like the *ClearCorrect* decision. The intersection of ITC litigation with these difficult legal questions is not a rare occurrence. Parties facing the prospect of exclusionary relief blocking the importation of their products in a case potentially involving such a difficult legal question would be wise to develop the record on the balance of harms and the public interest in order to support a stay. The ITC noted in *ClearCorrect* that the public interest factor in its stay analysis is broader than the statutory public interest analysis under Section 337. And, as demonstrated by the *ClearCorrect* case, a stay of ITC relief is valuable – the Federal Circuit may reverse on the legal point that serves as the backbone of an opponent's case before any products are blocked from the US.

Footnotes

1. *Certain Hardware Logic Emulation Systems and Components Thereof,* Inv No 337-TA-383, Comm'n Op on Remedy, the Public Interest, and Bonding at 3, 28-29 (1 April 1998).
2. *Certain Incremental Dental Positioning Adjustment Appliances and Methods of Producing Same*, Inv No 337-TA-562 (Enforcement), Comm'n Op at 7-9 (19 Feb 2013).

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