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# Federal Circuit Rules That ITC Does Not Have Jurisdiction Over Digital Imports

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On November 10, 2015, the Federal Circuit issued its opinion in ***ClearCorrect Operating, LLC v. ITC***, and struck a blow to both the ITC and the entertainment and software industries by overturning the ITC's opinion and finding that "[t]he Commission's decision to expand the scope of its jurisdiction to include electronic transmissions of digital data runs counter to the 'unambiguously expressed intent of Congress'" and stating that the ITC's jurisdiction is limited to "material things." No. 2014-1527, Slip Op. at 3 (Fed. Cir. Nov. 10, 2015).

In an ITC investigation instituted in April 2012, Align Technology claimed that Respondents ClearCorrect Pakistan and ClearCorrect Operating LLC infringed claims of seven patents relating to a system and methods for repositioning teeth. ClearCorrect made models of the U.S. patients' teeth which were then scanned and converted into digital data sets, which were then transmitted to Pakistan. In Pakistan the data sets were manipulated, and the adjusted data sets were sent back to ClearCorrect in the United States, where they were used to create the aligners used by the patents via 3D printing. Thus, no physical articles were imported – the only item imported was a digital data set. In April 2014, the ITC found that ClearCorrect infringed the patents, and issued exclusion and cease and desist orders barring ClearCorrect from importing the data sets. The case received a great deal of attention because of its potential implications for the breadth of the ITC's jurisdiction and the entertainment and software industries. As much of music, software, and film piracy occurs via transmission or download rather than physical importation, the Commission decision gave the entertainment and software industries a powerful tool to fight piracy. In addition, the opinion reassured patentees that infringers could not bypass ITC jurisdiction by using 3D printing to create products in the United States. The decision was appealed to the Federal Circuit.

The Federal Circuit opinion begins by explaining that Section 337 is an enforcement statute enacted "to stop at the border the entry of goods, *i.e.*, articles, that are involved in unfair trade practices," and thus that the ITC's jurisdiction to remedy unfair trade practices "is limited to 'unfair acts' involving the importation of "articles." *Id.* at 10-11. The Court then turned to an analysis under the two-step *Chevron* framework to address whether digital data transmitted electronically is an "article" under the statute.

Under the first *Chevron* step, which requires a determination of whether Congress has directly spoken to the precise question at issue, the Court determined that the literal text of the statute, makes clear that "articles" is defined as "material things," and thus does not extend to electronic transmission of digital data. *Id.* at 13. In order to make this determination, the Court relied heavily on definitions in dictionaries from the 1920s and 1930s to determine that at the time the Tariff Act of 1922 was drafted the meaning of the term "articles" was "material things."

The Court also looked to how "article" is used throughout Section 337 and the Tariff Act in its entirety, explaining that "[i]f the term 'articles' was defined to include intangibles, numerous statutory sections would be superfluous at best." *Id.* at 21. For instance, the Court explained, Section 337's forfeiture subsection, which allows the Commission to issue an order causing an improperly imported article to be seized, would be moot because "an electronic transmission cannot be 'seized' or 'forfeited.'" *Id.* at 21-22.

The Court further explained that the Harmonized Tariff Schedule of the United States limits articles to tangibles. *Id.* at 26-27. Finally, the Court determined that while not necessary to look to the legislative history because of the clarity of the statutory context, the legislative history further confirmed that "articles" must be "material things," non-inclusive of electronic transmission. *Id.* at 27-30.

Because the Court found Congress' expressed intent unambiguous, it determined it was not necessary to address the second step in the *Chevron* analysis. *Id.* at 31. But, had this second step been necessary, the Court stated it was clear that the Commission's interpretation of "articles" was unreasonable, given its "fail[ure] to properly analyze the plain meaning of 'articles,' fail[ure] to properly analyze the statue's legislative history, and improper[] reli[ance] on Congressional debates." *Id.*

Judge O'Malley filed a concurring opinion in which she wrote that, while she agreed with the application of *Chevron* by the majority, the *Chevron* framework was inapplicable in this case because Congress did not intend to delegate authority to the Commission to regulate the internet. No. 2014-1527, Slip Op. at 1-2 (Fed. Cir. Nov. 10, 2015) (J. O'Malley, concurring). Calling the internet "one of the most important aspects of modern-day life," Judge O'Malley stated that Congress would have provided a clear indication that the Commission should have jurisdiction over data exchanged over the internet, and absent such clear indication use of *Chevron* is misplaced. *Id.* at 2-3.

In a forceful dissent, Judge Newman criticized the majority ruling, writing that the majority ruling "conflicts with rulings of the Supreme Court, the Federal Circuit, the Court of Customs and Patent Appeals, the Court of International Trade, the International Trade Commission, the Customs authorities, and the Department of Labor." No. 2014-1527, Slip Op. at 2 (Fed. Cir. Nov. 10, 2015) (J. Newman, dissenting). According to Judge Newman, issuance of a cease and desist order against infringing digital downloads was consistent with the scope of authority granted the Commission by Congress and would effectuate the central purpose of the statute that created the Commission. *Id.* at 3. The Commission's determination to exclude digital downloads, according to Judge Newman, was, "on any standard… reasonable, and warrants respect" while, in her opinion, the "panel majority's contrary ruling is not reasonable, on any standard." *Id.* at 16.

Judge Newman noted that Section 337 was created to "reach every type and form of unfair competition arising from importation" and that a Senate Report confirmed that this mandate was "'broad enough to prevent every type and form of unfair practice.'" *Id.* at 4. She noted that the en banc Federal Circuit recently found that "the legislative history consistently evidences Congressional intent to vest the Commission with broad enforcement authority to remedy unfair trade acts." *Id.* at 6; ***Suprema, Inc. v. Int'l Trade Comm'n***, 796 F.3d 1338, 1350 (Fed. Cir. 2015) (en banc). Judge Newman emphasized that the panel majority has removed, contrary to this precedent, an important remedy effective against a pre-eminent form of modern technology. No. 2014-1527, Slip Op. at 5-6 (Fed. Cir. Nov. 10, 2015) (J. Newman, dissenting).

Judge Newman found that Section 337 is not limited to technology that was in existence as of 1922 or 1930, comparing the current situation to adapting copyright protection to new technologies, such as when radio was invented. *Id.* at 6-7. Judge Newman further noted that the Federal Circuit already rejected the argument that software on a computer was not a material or apparatus capable of infringement, and analogized that reasoning to the articles requirement in Section 337. *Id.*; ***Lucent Techs., Inc. v. Gateway, Inc.***, 580 F.3d 1301, 1321 (Fed. Cir. 2009).

The majority opinion in part justified exclusion of electronic transmissions from the application of "importation," because the electronic articles do not go through Customs and Border Protection ("CBP"). *Id.* at 11. However, Judge Newman noted that CBP has explicitly established that internet transmissions into the United States are importation. *Id.* She also noted that the Supreme Court defined "articles of commerce" to include pure information. *Id.* at 8, 10. She cited the Department of Labor's interpretation of the Trade Act, which found that software transmissions were articles subject to the Trade Act. *Id.*at 13. Due to the restrictions the majority placed on the Commission, Judge Newman went on to criticize the majority for "lock[ing] the International Trade Commission into technological antiquity" and "rendering Section 337 incapable of performing its statutory purpose." *Id.* at 14, 12.

As a final point, Judge Newman criticized the majority's position that because enforcing a remedy against digital downloads would be difficult, Section 337 does not apply to downloads. She noted that the Federal Circuit has already held that "Congress did not intend the Commission to consider questions of remedy when the agency determines whether there is a violation." ***Bally/Midway Mfg. Co. v. Int'l Trade Comm'n***, 714 F.2d 1117, 1122 (Fed. Cir. 1983).

This opinion has broad implications for the ebook, film, entertainment, and software industries, because it reverses a Commission Opinion that, if upheld, would have provided these industries with a powerful tool to fight piracy and knockoffs. If unchallenged, this opinion may result in a contraction of ITC jurisdiction given the increasing prevalence of electronic transmission of data in almost every industry. Given this opinion's potential significant effect on the ITC's jurisdiction, a petition for hearing *en banc* is likely.

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