IP Alert: Federal Circuit Limits ITC Jurisdiction to “Material Things”

FEDERAL CIRCUIT LIMITS ITC JURISDICTION TO “MATERIAL THINGS”

By Benjamin M. Koopferstock

The Court of Appeals for the Federal Circuit has limited the scope of 19 U.S.C. § 1337 (Section 337) to “material things,” which does not include electronic transmissions of digital data. ClearCorrect Operating, LLC v. ITC, No. 2014-1527, (Fed. Cir., Nov. 10, 2015). In ClearCorrect, the Federal Circuit overturned an International Trade Commission decision regarding the importation of electronic transmission of digital data and limited the ITC’s jurisdiction under Section 337 to “material things.”

Infringing Act

ClearCorrect produces orthodontic aligners that are designed to be placed successively on a patient’s teeth until a final tooth arrangement is achieved. Id.at 5. To produce the aligners, a

patient's teeth are scanned and the scan is used to produce a digital recreation of the patient's initial tooth arrangement. Id. The digital recreation is then transmitted from ClearCorrect U.S. to ClearCorrect Pakistan. Id. In Pakistan, the position of the teeth in the digital recreation of the initial tooth arrangement is modified to produce a digital model of a desired final tooth arrangement. Id. ClearCorrect Pakistan then creates digital models of intermediate tooth positions and transmits these digital models to ClearCorrect U.S. Id. ClearCorrect U.S. uses the digital models that were created in Pakistan to produce the actual aligners. Id.

International Trade Commission Opinion

Under Section 337, the ITC has authority to regulate articles that infringe U.S. patents or copyrights. 19 U.S.C. §1337(a)(1)(B). Here, the infringing articles are digital models and data sets transmitted over the Internet from ClearCorrect Pakistan to ClearCorrect U.S. ClearCorrect at 5. The ITC issued an opinion concluding that the digital models were "articles" under Section 337 and thus subject to ITC jurisdiction.

Opinion of the Court

The Federal Circuit disagreed with the ITC's interpretation of Section 337. The Opinion of the Court was written by Chief Judge Prost, who reviewed the ITC's interpretation under Chevron, U.S.A., Inc. v. Natural Res. Def. Council Inc., 467 U.S. 837 (1984). Chevron describes a two-part test for determining whether an agency interpretation of a statute receives deference. The first step of Chevroninvolves determining whether the intent of Congress is clear, or whether there is an ambiguity to resolve in the statute in question. If there is some ambiguity, then under the second step of Chevron, the court determines whether the agency's interpretation is reasonable. The court found that the interpretation of the ITC was invalid under both steps one and two of Chevron. ClearCorrect at 3. Because the term "articles" is not defined in the 1930 or 1922 Tariff Acts, the court reviewed contemporaneous dictionaries and concluded that the ordinary meaning of the term "articles" is "material things."

The court then examined how the term "articles" is used throughout Section 337 and the remainder of the Tariff Act to determine if there is ambiguity in the meaning of the term as used within the statute. The court found that the term articles is used consistently throughout the statute to mean "material things," and that a definition of articles that included electronic transmissions would render certain punishments included within the Act impossible to implement. Prior to the addition of cease and desist orders in the 1974 Trade Act, the remedy for violations of Section 337 was to refuse entry of infringing goods. ClearCorrect at 23–24. Data transmitted by electronic means "do not pass through United States ports and cannot be excluded by Customs," thus, a finding that "articles" covers the digital models in ClearCorrect would require a finding "that Congress included

an entire set of commodities in the statute without providing a method to curtail their importation." Id. at 24.

Finally, noting that "[t]he clarity of the statutory context obviates the need to turn to the legislative history," the court states that the Tariff Act's legislative history further confirms that "articles" is limited to "material things." Although analysis of the second step of Chevron was not necessary because the court had already found that the intent of Congress was not ambiguous, the court further found that, regardless of the results of step one, the ITC's interpretation of the term "articles" was unreasonable. Among other reasons, the court notes that the ITC misquoted a portion of Senate Report 67-595 regarding the Tariff Act. The court stated that the misquotation is "highly misleading," and that "[b]ecause the Commission uses this misquote as its main evidence that the purpose of the Act was to cover all trade, independent of what form it takes, the Commission's conclusion regarding the purpose of the Act is unreasonable."

The court reversed and remanded the ITC decision, finding that "the Commission does not have jurisdiction over this case."

Judge O'Malley's Concurrence

Judge O'Malley concurred with the holding of the court, but argued that the ITC interpretation is owed no deference under Chevron. ClearCorrect at 2 (O'Malley, J. concurring). Judge O'Malley stated that "there are times when courts should not search for an ambiguity in the statute because it is clear Congress could not have intended to grant the agency authority to act in the substantive space at issue." Id. at 2. Although the ITC clearly has jurisdiction over imported physical goods, Judge O'Malley writes that Congress would not have implicitly allowed the ITC to regulate the international exchange of data over the Internet. Id. at 3. Thus, because Congress never intended to delegate this authority to the ITC, the two step Chevron framework is inapplicable. Id. at 4. Were Chevron to apply, Judge O'Malley agreed with the majority ruling that the ITC has no jurisdiction over the data transmitted from ClearCorrect Pakistan to ClearCorrect U.S. Id. at 5.

Judge Newman's Dissent

In a dissent, Judge Newman agreed with the ITC that "articles" should be interpreted as "articles of commerce" and that Section 337 should be read broadly to remedy unfair trade acts. ClearCorrect at 5, 8 (Newman, J., dissenting). The dissent argues that Section 337 should be interpreted to cover technologies that did not exist when the Tariff Act was enacted, and that imports covered by Section 337 should not be limited based on mode of entry into the United States. Id. at 6–8, 11–12. The dissent further argues that difficulty of enforcement is not grounds for the elimination of a remedy. Id. at 14–15. Judge Newman wrote that if Section 337 were deemed ambiguous, the ITC's interpretation is entitled to judicial deference under Chevron. Id. at 15.

What Does This Mean?

The ITC's jurisdiction under Section 337 has been limited after the ClearCorrectdecision. The importation of digital data by electronic transmission cannot be restricted by the ITC under Section 337. Instead, litigation should be pursued in a district court rather than with the ITC if the alleged infringement involves the importation of digital data by electronic means, as opposed to importation of a material thing. The Federal Circuit's holding applies not only to patent infringement but also copyright infringement, in which importation of digital data by electronic means may be more common. For example, a movie being streamed from a foreign server into the U.S. would not be subject to ITC jurisdiction, although enforcement could still be pursued in a federal district court.

The holding in ClearCorrect has altered the jurisdiction of the ITC, but has not made any changes to whether or not the transmission of data can constitute an infringing act under 35 U.S.C. § 271. Although the transmission of data from ClearCorrect Pakistan to ClearCorrect U.S. cannot be limited by the ITC, district court litigation can still be pursued to enforce the relevant patents against transmission of the digital models transmitted by ClearCorrect. Importation of digital data by electronic transmission can no longer be limited by the ITC, but remedies for infringing acts no longer covered by the ITC remain available through district court litigation.

Please click here to view the decision.

Please click here to download a printable version of the article.

Posted: November 12, 2015