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Apple v. Qualcomm: Is Public Interest Apple's Best Defense in the ITC?

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The Administrative Law Judge at the US International Trade Commission (ITC) recently concluded not to ban Apple from importing its iPhones into the United States, even though he found that Apple infringed claims of a US patent owned by Qualcomm.

Judge Thomas Pender found that Intel-based technology used by Apple in its iPhones infringed one of three Qualcomm patents at issue in the case. However, Judge Pender declined to order Apple to cease importing iPhones with the Intel chips, claiming that doing so would go against public interest.

Rarely has the ITC invoked public policy to avoid issuing an exclusion order. The implications of the decision, particularly because the Judge's findings are subject to review by the full Commission and by the President, who has signaled a willingness to be involved in such matters, are as yet uncertain.

Balancing the Public Interest and the ITC's Mandate

The nub of the dispute between Apple and Qualcomm, both US-based corporations, concerns whether certain Apple iPhones that contain Intel modems infringe patent claims owned by Qualcomm. Apple pays royalties to Qualcomm for phones using Qualcomm's modems, but not for phones using other modems, such as those supplied by Intel.

Section 337 of the Tariff Act of 1930 allows a patent holder to petition the US International Trade Commission (ITC)—a quasi-judicial federal agency that investigates matters of international trade and advises on international trade policy—to issue an exclusion order against an infringer, a remedy that denies the importation and sale in the United States of products that infringe a valid and enforceable US patent. If the ITC finds a violation of Section 337, it must act: "The ITC *shall* direct that the articles concerned . . . be excluded from entry in the United States." 19 U.S.C. § 1337(d)(1).

The Federal Circuit has emphasized that "the use of shall in a statue is the language of command." *Farrel Corp. v. US Int'l Trade Comm'n*, 949 F.2d 1147, 1153 (Fed. Cir. 1991). The Tariff Act thus provides that exclusion orders are the rule—upon finding a violation of Section 337, the Commission shall issue an exclusion order unless the public interest dictates otherwise.

However, pursuant to that same authority, the ITC may also consider how such a ban would impact the economy and the public. Even if "the Commission determines . . . that there is a violation," the Commission may permit the continued importation of the offending products if, "after considering the effect of such exclusion upon the public health and welfare, competitive conditions in the United States economy, the production of like or directly competitive articles in the United States, and United States consumers, it finds that such articles should not be excluded from entry." *Id.* § 1337(d)(1).

As of Judge Pender's ruling, the ITC has found on only three previous occasions that the public-interest considerations outweighed the benefits of issuing an exclusion order.[1] The Federal Circuit has observed that, in the few cases in which the ITC denied an exclusion order upon finding infringement, the ITC did so because it concluded that "an exclusion order would deprive the public of products necessary for some important health or welfare need: energy efficient automobiles, basic scientific research, or hospital equipment." *Spansion, Inc. v. US Int'l Trade Comm'n*, 629 F.3d 1331, 1360 (Fed. Cir. 2010). In other words, unless an exclusion order would pose "a real threat to the best interests of the country," the ITC will issue an exclusion order upon finding a Section 337 violation.

In these limited instances in which the ITC overrode an Section 337 exclusion order, the ITC justifications have tracked closely the statutory public interest factors—public health and welfare, US competitive conditions, the production of competitive articles and US consumers. But overriding an exception order is the rare exception, not the rule.

Certain Fluidized Supporting Apparatus & Components Thereof, No. 337-TA-182/188 (1984):

The ITC denied an exclusion order, finding it was not in the public interest to exclude the importation of specialized hospital beds for burn patients, where the domestic producer could not supply beds within a commercially reasonable time and where no therapeutically comparable substitute was available.

Certain Inclined-Field Acceleration Tubes & Components Thereof, No. 337-TA-67 (1980):

The ITC denied relief due to an overriding public interest in continuing basic atomic research using imported acceleration tubes which were of higher quality than the domestic product.

Certain Automatic Crankpin Grinders, No. 337-TA-60 (1979):

During an oil shortage in late 1979, the ITC found that it was not in the public interest to exclude the importation of crankpin grinders (which are used to make pins on crankshafts for internal combustion motors) because of an overriding national interest in the supply of fuel efficient automobiles, where domestic industry was unable to supply domestic demand.

More recently, in Certain Baseband Processor Chips, the ITC cited the public interest factors in crafting a limited exclusion order to reduce the burdens such orders imposed on downstream firms, third parties and consumers.

Presidential Action

The ITC is not the only body that can override Section 337 exclusion orders for policy reasons. Within 60 days of receiving the ITC's determination, the President, "for policy reasons," may disapprove of the determination, in which case the ITC's determination will have "no force or effect." § 1337(j)(2). Nevertheless, Presidential review is exceedingly rare. The President has reviewed a Section 337 determination only six times since the creation of the ITC. (President Obama and President Carter each issued one; President Reagan issued four.)

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1 Certain Fluidized Supporting Apparatus & Components Thereof, Inv. No. 337-TA182/188, Pub. 1667, 1984 WL 63741 (USITC Oct. 1, 1984) (Final); Certain Inclined-Field Acceleration Tubes & Components Thereof, Inv. No. 337-TA-67, Pub. 1119, 0080 WL 594319 (USITC Dec. 1, 1980) (Final); Certain Automatic Crankpin Grinders, Inv. No. 337-TA-60, Pub. 1022, 0079 WL 419349 (USITC Dec. 1, 1979) (Final).

1. President Obama disapproved the ITC's ban of the import of older iPhones and iPads that ITC found to infringe a Samsung standard-essential patent, regarding the way cell phones connect to a network, because Samsung was not fairly licensing it. *See* Letter from Michael B.G. Froman, Ambassador, Exec. Office of the President, to Irving A. Williamson, Chairman, US Int'l Trade Comm'n at 3 (Aug. 3, 2013).

2. President Reagan disapproved the ITC's issuance of a limited exclusion order that applied to downstream products that incorporates the infringing memory devices because it could unnecessarily disrupt trade in the downstream products, suggesting the ITC should have issued a narrower remedy. *See* Presidential Disapproval of Determination of the US Int'l Trade Comm'n, Certain Dynamic Random Access Memories, USITC Inv. No. 337-TA-242, 52 Fed. Reg. 46,011 (Dec. 3, 1987).

3. President Reagan disapproved an ITC determination that certain gray market batteries infringed on Duracell patents because the interpretation of the Trademark Act used by the ITC went against long-standing Department of Treasury regulations. See Presidential Disapproval of Determination of the US Int'l Trade Comm'n, Certain Alkaline Batteries, USITC Inv. No. 337-TA-165, 50 Fed. Reg. 1655 (Jan. 11, 1985).

4. President Reagan disapproved the ITC's infringement determination, and noted that "directing the three [domestic] purchasers not to use imported products when practicing a process . . . that infringes a process patent may not be in compliance with US international obligations" since the remedy may "result in less favorable treatment . . . being accorded imported products than the treatment being accorded domestic products." *See* Presidential Disapproval of Determination of the US Int'l Trade Comm'n, Certain Molded-In Sandwich Panel Inserts, USITC Inv. No. 337-TA-99, 47 Fed. Reg. 29,919 (July 9, 1982).

5. President Reagan disapproved a general exclusion order on the grounds it was too broad, but acknowledged that an exclusion order directed only to the respondent's products, or a narrowly drafted cease and desist order, would be justified. *See* Presidential Disapproval of Determination of the US Int'l Trade Comm'n, Certain Multi-Ply Headboxes, USITC Inv. No. 337-TA-82, 46 Fed. Reg. 32,361 (June 22, 1981).

6. President Carter disapproved an exclusion order based on an allegation of predatory pricing because of the purported overlap in antidumping and Section 337 remedies. *See* Presidential Disapproval of Determination of the US Int'l Trade Comm'n Welded Stainless Steel Pipe & Tubes, USITC Inv. No. 337-TA-29, 43 Fed. Reg. 17,789 (Apr. 26, 1978).

   It is difficult to extract principles from the six presidential disapprovals. Each case presented unique facts, and each ITC determination faced a unique president using his disapproval powers to advance other objectives of their respective administrations.

Apple Technology and the Public Interest

At a June hearing, an ITC staff lawyer argued that a ban on the importation of infringing iPhones would inhibit the US in its race to stay ahead of China in developing so-called 5G technology. At the same hearing, Apple, while denying it infringed any of Qualcomm's patents, likewise focused its opening arguments on public interest.

In ruling that Apple's iPhone technology infringed a patent owned by Qualcomm, Judge Pender concurrently ruled on the "statutory public interest factors" as contained in the Notice initiating the investigation of Qualcomm's claims. See 82 Fed. Reg. 37899 (Aug. 14, 2017) (citing, as authority for finding that the public interest may weigh against otherwise ordering an import ban, 19 U.S.C. § 1337(d)(1), (f)(1) and (g)(1)). How Judge Pender weighed the public's interest against Qualcomm's intellectual property rights will be clearer once the opinion is release, which will occur within the next few weeks.

"We are pleased the [the ITC judge] found infringement of our patented technology, but it makes no sense to then allow infringement to continue by denying an import ban," Qualcomm General Counsel Donald Rosenberg said in a statement. Rosenberg continued by arguing that the judge's decision not to recommend an import ban "goes against the ITC mandate to protect American innovators by blocking the import of infringing products." He finished

by noting that there "are many ways Apple could stop infringing our technology without affecting the public interest."

The Scope of the Public Interest Exception

Judge Pender's full decision, which has yet to be released, must still be reviewed by the full Commission and be approved by President Trump. While this presidential "disapproval" has been used sparingly, President Obama, as discussed, used it during his administration when he vacated an exclusion order against Apple resulting from a complaint filed by Samsung, a South Korean company.

While Section 337 was enacted as a measure to protect domestic industries, it increasingly has been used by foreign companies that own US intellectual property rights. President Trump could use his disapproval power over exclusion orders in a similar way to favor US markets.

Indeed, President Trump has already signaled a willingness to get involved in this arena. In March of this year, the President issued an executive order blocking Singapore-based Broadcom Ltd. from pursuing its hostile takeover of Qualcomm Inc., scuttling a $117 billion deal that had been scrutinized by the secretive Committee on Foreign Investment in the United States. At that time, the President said "[t]here is credible evidence that leads me to believe that Broadcom Ltd.," by acquiring Qualcomm, "might take action that threatens to impair the national security of the United States."

The Next Steps

The dispute between Apple and Qualcomm is not going away anytime soon. In addition to this dispute before the ITC, there are legal proceedings between the two companies all around the world, including patent challenges at the US Patent and Trademark Office and lawsuits in China and Germany. Qualcomm also is facing an antitrust lawsuit filed by the US Federal Trade Commission, and an antitrust suit brought by a class of consumers in the United States District Court for the Northern District of California.

While the disputes between Apple and Qualcomm are driven largely by each company's desire to obtain negotiating advantage in licensing discussions, Judge Pender made it clear that the implications of his rulings affect domestic and foreign companies alike and protect those companies that import and sell products that are woven inextricably into the US market.

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