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Recommended Citation: Robert Greene Sterne et al., *Patent Enforcement Under Section 337 Before the United States International Trade Commission: Evolution of the Forum to Address a Non-Manufacturing Marketplace*, 12 SEDONA CONF. J. 211 (2011).

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PATENT ENFORCEMENT UNDER SECTION 337 BEFORE THE UNITED STATES INTERNATIONAL TRADE COMMISSION: EVOLUTION OF THE FORUM TO ADDRESS A NON-MANUFACTURING MARKETPLACE

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I. INTRODUCTION

In this global economy of free trade, jobs go to the region of the world where the cost of operation is lowest, assuming other commercial and international trade factors are met. Enterprises, large and small, understand this global economy and often structure their companies to spread job functions, such as manufacturing, between the United States and overseas locations. Their backers, including shareholders and venture capitalists, increasingly insist on this multinational model to maximize profitability.

These multinational enterprises continue to protect the fruits of their innovation in the traditional manner, through patents and other forms of intellectual property. But while innovators obtain protection for their intellectual property domestically, the products that embody innovation, from computer components to pharmaceuticals, increasingly arrive in this country from overseas.

Patent owners, therefore, require a forum for protecting their innovations that effectively addresses foreign sources of infringing products. Investigations under 19 U.S.C. Section 1337 (“Section 337”) before the United States International Trade Commission (“Commission”), which provide, *inter alia*, fast-track adjudication and national exclusionary remedies, are particularly well-suited to resolve acts of unfair foreign competition. It is the view of the authors that a confluence of events will lead to Section 337 becoming one of the most important developing areas in United States patent law in the next decade, and this paper is focused on why that is the case.

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II. HISTORY OF SECTION 337

Before 1922, patent owners had limited causes of action available to police against the importation of articles that infringed United States patent rights.² Without an adequate remedy, infringing articles were imported, often in large quantities, and subsequently distributed throughout the country for sale. Although a patent owner could bring infringement lawsuits directly against the retailers who sold those infringing articles, the location of the retailers limited the availability of forums. As a result, patent owners typically had to file multiple, duplicative lawsuits for the same products, in a variety of domestic forums. *In re Amtorg Trading Corp.*, 75 F.2d 826, 835 (C.C.P.A. 1935).³

Congress acknowledged this imposed a heavy burden on patent owners and recognized that the “[s]toppage of importation of infringing articles through an order of exclusion from entry [into the United States] is the only effectual remedy [to prevent against multiple duplicative patent lawsuits].” *Id.* In turn, Congress enacted Section 316 of the Tariff Act of 1922, and provided the remedy of *exclusion* against articles that were found to infringe a valid and enforceable United States patent. Tariff Act of 1922 Section 316(a), Pub. L. No. 67-318, 42 Stat. 858 (1922). As a result, for the first time in United States history, domestic patent owners could seek extraterritorial protection against the unlawful importation and sale of infringing articles within the United States.⁴ *Id.*

Since 1922, the Tariff Act has been amended over ten times. *See* 1930, 1958, 1974, 1979, 1980, 1982, 1984, 1988, 1992, 1994, 1996, 1999, and 2004 Amendments. 19 U.S.C. Section 1337 (2006). At the onset of the Great Depression, for example, Congress enacted Section 337 in the Smoot-Hawley Tariff Act of 1930, Ch. 497, 46 Stat. 590 (1930) (codified as amended at 19 U.S.C. Sections 1330-1341 (2006)). Although Section 337, as it is commonly referred to today, was slightly revised from its predecessor Section 316, the statutory changes did not alter the intended goal of protecting the United States economy from increasingly unfair acts of competition in the import trade.⁵ Over eighty years later, and with the current version of 19 U.S.C. Section 1337, as amended, Congress’s original intent remains largely protectionist of domestic patent owners,⁶ who are essential to the long term economic growth of the United States.

a. The Commission

Congress vested implementation of the Tariff Act of 1922 and the subsequent 1930 and 1958 iterations of Section 337 in the Commission’s predecessor, the United States Tariff Commission (“Tariff Commission”).⁷ The original Congressional mandate for the

² Although this article is focused on enforcement of “patent” rights, Section 337 provides broad relief against unfair acts of competition in the import trade, which include, *inter alia*, trademark and copyright infringement, trade dress violations, trade secret and antitrust disputes.

³ These duplicative lawsuits often resulted in inconsistent judgments that depended on the forum. Also, a unitary court of appeals to preside exclusively over patent appeals did not exist, leaving dissatisfied plaintiffs subject to the precedent of the regional circuit in which the district court resided. *See* H.R. Rep. No. 97-312, at 20 (1981) (noting the problems of forum-shopping and regional inconsistencies in patent jurisprudence as factors in the decision to create a unitary court of appeals with national jurisdiction—the United States Court of Appeals for the Federal Circuit).

⁴ The remedy of exclusion was enforced directly at United States borders and points of entry. *Id.*

⁵ The Smoot-Hawley Tariff Act of 1930 provided an important addition to its earlier predecessor act—full investigations of unfair trading. *See* Peter S. Menell, *The International Trade Commission’s Section 337 Authority*, 2010 PATENTLY-O PAT. L.J. 79, 80 (2010). However, as discussed *infra*, the 1930 Act lacked any procedural framework for conducting such investigations.

⁶ The protection afforded to domestic patent owners includes multinational and foreign corporations that choose to pursue United States patent rights and to develop a domestic industry, which as discussed below, is an important jurisdictional requirement for instituting a Section 337 investigation.

⁷ The Tariff Commission was organized by Congress at the request of President Woodrow Wilson to create an administrative body “capable of looking at the whole economic situation of the country with a dispassionate and disinterested scrutiny.” William E. Perry, *Administration of Import Trade Laws by the United States International Trade Commission*, 3 B.U. INT’L L.J. 345, 346 (1985).

Tariff Commission was to investigate administrative, fiscal, and economic effects of United States customs laws and to study tariff relationships between the United States and foreign countries.⁸ Despite this grant of investigative authority, the Tariff Commission could only serve in an advisory capacity to the President.⁹ This left patent owners with the onerous task of first proving their cases before the Tariff Commission and then persuading the President to block importation. When combined with the lack of any formal hearing process on the merits, administrative review, or procedures to enforce the remedy of exclusion, patentees became frustrated and rarely used the forum.¹⁰

This changed, however, as tariffs became less important in protecting domestic markets. To remove many of the trade constraints that emerged in the late 1960s and early 1970s, and to balance free-trade with domestic interests as a result of a growing global economy, Congress passed the 1974 Trade Act.¹¹ The 1974 Trade Act addressed the earlier due process shortcomings of the Tariff Commission and transformed it into an independent,¹² non-partisan,¹³ quasi-judicial Federal agency¹⁴ that, *inter alia*, adjudicates investigations involving unfair acts of competition under Section 337.¹⁵ As a result, the “Commission” became—for the first time in its history—a viable forum to enforce patent rights.

III. WHY SECTION 337 INVESTIGATIONS ARE ATTRACTIVE TO DOMESTIC PATENT OWNERS

Today, the Commission offers patent owners the following unique advantages for enforcement of patent rights.

First, time is a constraint in any Commission fast-track investigation, a factor that is routinely used to a patentee’s advantage. For example, the Administrative Law Judges (“ALJs”) that preside over Section 337 investigations set a target date for completion at approximately sixteen months from the time of institution. This means that a full adversarial hearing on the merits, comporting with due process, usually takes place within nine months after institution.¹⁶ Even in comparison to the fastest district court jurisdictions, this pace puts Section 337 investigations at among the fastest forums in the country for resolution of patent disputes, guaranteeing patent owners a quick adjudication of their rights.¹⁷

8 See Perry, *supra* note 7, at 346.

9 These Acts only empowered the Tariff Commission to make recommendations to the President, who would then take appropriate action (if any) based upon those recommendations. Richard G. Allison, Note, *Section 337 Proceedings Before the International Trade Commission: Antiquated Legislative Compromise or Model Forum for Patent Dispute Resolution?*, 5 N.Y.U. J. L. & BUS. 873, 874-75 (2009). For example, the 1922 Tariff Act “empowered the President to prevent . . . unfair competition by imposing duties on imports or altogether excluding them from the domestic market.” *Id.* at 874.

10 See Menell, *supra* note 5, at 80.

11 Trade Act of 1974, Pub. L. No. 93-618, 88 Stat. 1978 (1975); see also Allison, *supra* note 9, at 875-76.

12 The 1974 Trade Act provided the Commission with final decision-making authority subject only to Presidential veto for policy reasons and gave the Commission full agency autonomy by formalizing its procedures under the Administrative Procedures Act. Allison, *supra* note 9, at 875.

13 Six Commissioners, nominated by the President and confirmed by the Senate for nine year terms, lead the Commission. *Commissioner Bios*, USITC.ORG, http://www.usitc.gov/press_room/bios.htm (last visited June 10, 2011). To maintain its non-partisan role, no more than three Commissioners from the Republican or Democratic Party may be appointed at any one time.

14 The Commission had approximately 367 permanent employees and a budget of \$83 million for FY 2010. For FY 2012, the Commission has requested \$87 million. The FY 2012 request provides for no increase over the FY 2011 requested funding level and was revised downward from an original request of \$90.6 million made prior to the announcement of federal salary freezes.

15 The Commission’s other responsibilities include investigating dumping and the impact of subsidized imports on domestic industries. The Commission also serves as a central source to gather and analyze international trade data.

16 An ALJ’s initial determination on violation must be issued no later than four months before the target date, and an ALJ typically requires three months after the hearing to issue an initial determination. 19 C.F.R. Section 210.42(a)(1).

17 Compare time to trial in the W.D. Wisconsin (8 months); E.D. Virginia (12 months); S.D. Florida (20 months); and the E.D. Tex. (26 months). Mark A. Lemley, *Where to File Your Patent Case* 38(4) AIPLA Q. J. 1 (Fall 2010), Stanford Public Law Working Paper No. 1597919, available at <http://ssrn.com/abstract=1597919>.

Second, given the speed at which Section 337 investigations proceed, combined with other nuances unique to Commission proceedings (such as *in rem* jurisdiction), patent owners have a distinct tactical advantage as the party initiating the investigation. For example, in contrast to traditional district court notice-pleading requirements, patent owners are required to develop fully the merits of any cause of action pled in their complaint to meet the strict fact-pleading requirements of Section 337. 19 C.F.R. Section 210.12 (2010). As a result, a patent owner must identify, in detail, at the time of filing the complaint:

- a. All accused entities;
- b. All accused products;
- c. A description of how the accused products enter into the United States along with specific instances evidencing actual entry;
- d. A description of how the accused products function or are intended to be used, along with infringement claim charts for every independent claim asserted;
- e. The ownership chain of the patent(s) that are asserted; and
- f. A description of the patent owner's business and specific facts that support the relevant domestic industry.

Id. Moreover, as part of the pre-filing process, patent owners begin collecting relevant documents, drafting discovery requests, identifying and interviewing likely client fact witnesses, retaining key industry experts and consultants, and drafting “shell” motions that will be filed later in the investigation (motions for summary determination of importation, infringement, etc.). Patent owners therefore begin investigations extremely focused and well prepared, which allows them to maintain pressure on the accused entities, making it difficult for them to develop the merits of their positions sufficiently before a hearing is held.¹⁸

Third, the powerful remedies afforded to a patent owner against infringing importers can be fatal to an infringer's business operations. Although monetary damages are not available in a Section 337 investigation, the Commission has the authority to issue limited exclusion orders (“LEO”) and/or general exclusion orders (“GEO”) along with cease and desist orders (“CDO”). As discussed below in more detail, LEOs and GEOs exclude infringing articles from entry into the United States via ports of entry, while CDOs direct an infringing party to cease its unfair acts, including selling previously imported infringing articles from its United States inventory. The enforcement of these remedies can sever an infringing party's ties to the world's largest consumer market, which often forces a monetary settlement favorable to a patent owner.

Fourth, Section 337 investigations before the Commission, as compared to district court actions, are specialized intellectual property proceedings that involve highly-trained ALJs. The vast majority of Section 337 investigations involve patent infringement disputes. See Figure 1. Although most of the ALJs do not have technical degrees, they generally become experts in the complex technology of a particular investigation. Further, ALJs also rely on experienced attorney advisors to assist them, in order to comply with the demanding investigation time limits set forth by the Commission. There are currently six ALJs at the Commission who preside over Section 337 disputes: ALJ Luckern,¹⁹ ALJ

¹⁸ Each ALJ issues ground rules which govern the investigation and dictate timing on certain discovery procedures (*e.g.*, ten day period to respond to discovery requests as opposed to thirty days in district courts).

¹⁹ Chief ALJ Paul J. Luckern has served as an ALJ at the Commission since 1984 and has presided over 171 investigations. ALJ Luckern holds an LL.B (J.D.) degree and an LL.M degree from Georgetown University, and received a Bachelor of Science degree in chemistry, *cum laude*, from Georgetown University and a Master of Science degree in organic chemistry from Cornell University. Press Release, U.S. Int'l Trade Comm'n, Luckern Named Chief Administrative Law Judge at U.S. International Trade Commission (July 3, 1998), http://www.usitc.gov/press_room/news_release/2008/er0703ff1.htm.

Bullock,²⁰ ALJ Charneski,²¹ ALJ Essex,²² ALJ Rogers,²³ and ALJ Gildea.²⁴ This is the largest number of Section 337 ALJs ever serving at the Commission, and this increase was in response to the higher volume of investigations filed by patent owners over the past six years. Having recognized the effectiveness of these ALJs, patent owners have made adjudication of patent rights, especially those relating to inventions in the electrical (computer) and mechanical disciplines, a more common occurrence. See Figure 1.

Number of 337 Investigations by ALJ and Subject Matter Since Fiscal Year 2001

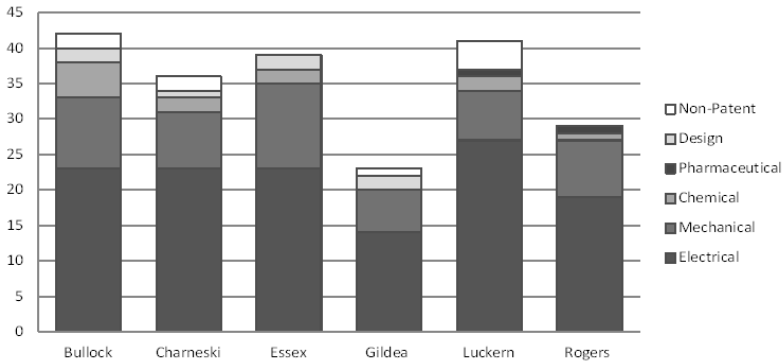


Figure 1: Number of Section 337 Investigations Presided over by Each ALJ Since Fiscal Year 2007 Organized by Technology

Fifth, unlike in district court, reexamination of a patent being enforced in a Section 337 investigation has little impact on a patents owner's ability to achieve the desired relief. Motions to suspend or stay Section 337 investigations pending reexamination were once commonly granted. See David D. Scannell, *Motions to Stay: The Impact of Reexamination Proceedings on ITC Investigations After Semiconductor Chips*, 337 Reporter, Vol. XXIV, ITC Trial Law. Ass'n, 6th Ann. Summer Associate Ed. 125 (2008). However, the trend in more recent years has been to deny stays. *Id.*; see also *Certain Course Management Systems Software Products*, Inv. No. 337-TA-677, Order No. 5 (July 23,

20 ALJ Charles E. Bullock has served as an ALJ at the Commission since May 2002 and has presided over 78 investigations. ALJ Bullock holds a juris doctor degree from George Washington University and a Bachelor of Arts degree from Bucknell University. Press Release, U.S. Int'l Trade Comm'n, Bullock Named New Administrative Law Judge at U.S. International Trade Commission (Apr. 19, 2002), http://www.usitc.gov/press_room/news_release/2002/er0419z1.htm.

21 ALJ Carl C. Charneski has served as an ALJ at the Commission since April 2007 and has presided over 41 investigations. ALJ Charneski holds a juris doctor degree from St. John's University School of Law and a Bachelor of Arts degree from St. Francis College. Press Release, U.S. Int'l Trade Comm'n, Charneski Named New Administrative Law Judge at U.S. International Trade Commission (Apr. 16, 2007), http://www.usitc.gov/press_room/news_release/2007/er0416ce1.htm. ALJ Charneski will step down this year to return to private practice.

22 ALJ Theodore R. Essex has served as an ALJ at the Commission since October 2007 and has presided over 41 investigations. ALJ Essex holds a juris doctor degree from The Ohio State University and a Bachelor of Arts degree from Miami University. Press Release, U.S. Int'l Trade Comm'n, Essex Named New Administrative Law Judge at U.S. International Trade Commission (Oct. 17, 2007), http://www.usitc.gov/press_room/news_release/2007/er1017ee1.htm.

23 ALJ Robert K. Rogers has served as an ALJ at the Commission since July 2008 and has presided over 30 investigations. ALJ Rogers holds a juris doctor degree from Brigham Young University's Clark Law School and a bachelor degree from San Diego State University. Press Release, U.S. Int'l Trade Comm'n, Rogers Named New Administrative Law Judge at U.S. International Trade Commission (July 7, 2008), http://www.usitc.gov/press_room/news_release/2008/er0707ff1.htm.

24 ALJ Edward J. Gildea has served as an ALJ at the Commission since December 2008 and has presided over 23 investigations. ALJ Gildea attended De Paul University, College of Commerce as an undergraduate and holds a juris doctor degree from De Paul University, College of Law; a masters degree in management from Northwestern University, J.L. Kellogg Graduate School of Management; and an LL.M. degree from De Paul University, College of Law. Press Release, U.S. Int'l Trade Comm'n, Gildea Named New Administrative Law Judge at U.S. International Trade Commission (Dec. 8, 2008), http://www.usitc.gov/press_room/news_release/2008/er1208ff1.htm.

2009). In fact, a decision in *Certain Semiconductor Chips with Minimized Chip Package Size and Products Containing Same*, Inv. No. 337-TA-605, USITC Pub. 2640 (May 27, 2008), strongly indicates that a patent reexamination pending before the PTO will almost always be insufficient to support a stay of a patent-based Section 337 investigation. Accordingly, even if there is a great likelihood that a patent is invalid and will be rejected by the PTO on reexamination, an investigated party must continue to defend itself in the Commission investigation.²⁵

Based upon these advantages, patent owners would be expected to increasingly rely on the Commission and Section 337 for routine enforcement of patent rights. An analysis into the number of Section 337 investigations instituted since 1976 confirms this trend.

IV. SECTION 337 INVESTIGATION TRENDS

After the 1974 Trade Act was passed, and after the Commission was given its present-day adjudication responsibilities,²⁶ two periods of heightened enforcement under Section 337 emerged. The first occurred in the mid-1980s,²⁷ and the other is occurring today. See Figure 2. At least three reasons explain this most recent period of increased activity before the Commission.²⁸

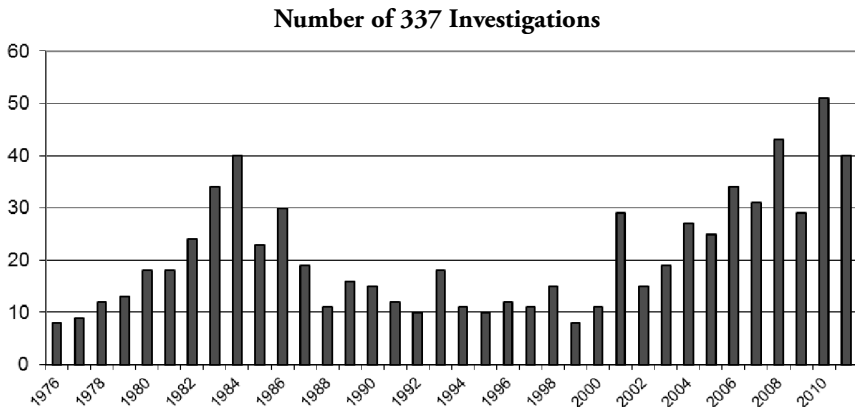


Figure 2: Number of New Section 337 Investigations Instituted Per Fiscal Year Between 1976-2011²⁹

25 Moving to set aside an exclusion order on the basis of canceled/amended claims has not been addressed by the Commission, typically because investigations usually settle before a reexamination has been completed. This is because of the extremely fast nature by which investigations must be completed, i.e., within 16 months after institution as compared to a reexamination which takes on average between 2-3 years. See *Reexaminations FY 2011*, USPTO.GOV, [http://www.uspto.gov/patents/Reexamination_operational_statistic_through_FY2011Q2_\(2\).pdf](http://www.uspto.gov/patents/Reexamination_operational_statistic_through_FY2011Q2_(2).pdf) (2011).

26 As noted above, patent-based investigations prior to 1976 were relatively uncommon, in part because formal procedures were lacking at the Tariff Commission. See 133 Cong. Rec. H 2548 (Apr. 28, 1997); Allison, *supra* note 9, at 875. The 1974 Act also made, e.g., the forum more accessible to patent owners, added many legal and equitable defenses such as invalidity and unenforceability, empowered the Commission with final decision-making authority, and imposed statutory deadlines of 12-months for completion of investigations (or 18-months for more complicated investigations). Trade Act of 1974, Pub. L. No. 93-618, 88 Stat. 1978 (1975).

27 In the mid-1980's, the United States economy was under siege from Asian manufacturers of both low-cost (Taiwan) and high-tech (Japan) electronic goods, and patent owners turned to the Commission to enforce their intellectual property rights. See H.R. Rep. No. 100-40, at 3-5 (1987). The elimination of the injury requirement to Section 337 in 1988, and the added option of showing a domestic industry through licensing activities with the patent(s) in suit, have made it easier to establish a domestic industry. Omnibus Trade and Competitiveness Act of 1988, Pub. L. No. 100-418, 102 Stat. 1107 (1988); see also H.R. Rep. No. 100-40, at 156-57.

28 Although the total number of Section 337 investigations instituted reflect only a fraction of the total number of intellectual property disputes filed in federal district courts, it is important to note that by the end of fiscal year 2010, the number of investigations instituted was the largest ever—at 51—with fiscal year 2011 on pace to set a new record. Compare a total of 8,382 intellectual property cases commenced in federal district courts for the period ending March 31, 2010. See USCOURTS.GOV, <http://www.uscourts.gov/Viewer.aspx?doc=/uscourts/Statistics/FederalJudicialCaseloadStatistics/2010/tables/C02Mar10.pdf>.

29 Data for fiscal year 2011 current through June 17, 2011.

First, in *eBay Inc. v. MercExchange L.L.C.*, the Supreme Court held permanent injunctions no longer issue, *ipso facto*, after a finding of patent infringement in district court litigation. 547 U.S. 388, 390 (2006). The Court's adoption of an equitable four-part test for determining whether a permanent injunction is appropriate, and further suggestion that direct competition between the parties is needed, *id.* at 396, left patent owners seeking to enforce their exclusionary rights in district courts with a new found uncertainty. Before the Commission, however, the Federal Circuit has held that the four *eBay* factors do not apply to injunctive remedy determinations in a Section 337 investigation, which has its own statutory framework for such relief, as discussed *infra*. *Spanson, Inc. v. Int'l Trade Comm'n*, 629 F.3d 1331, 1359 (Fed. Cir. 2010).

Parties most affected by this ruling include Non-Manufacturing Entities (“NMEs”), who have started to look more to the Commission to enforce their intellectual property rights. As evidence, after *eBay* was decided in 2006, the number of new investigations instituted under Section 337 increased significantly for all patent owners (Figure 2 above)—as well as for NMEs (Figure 3 below). Thus, because injunctions have become more difficult to obtain from district courts, the number of Section 337 investigations instituted in the years to come will likely remain high, as patent owners seek to preclude harmful infringing activity through the Commission. See Post-*eBay* Permanent Injunction Rulings in Patent Cases to 4-11-11, PATSTATS.ORG, <http://www.patstats.org/Patstats2.html> (follow “post-*eBay* Injunction rulings to 4-11-11” hyperlink) (last visited May 26, 2011).

Number of NME Investigations

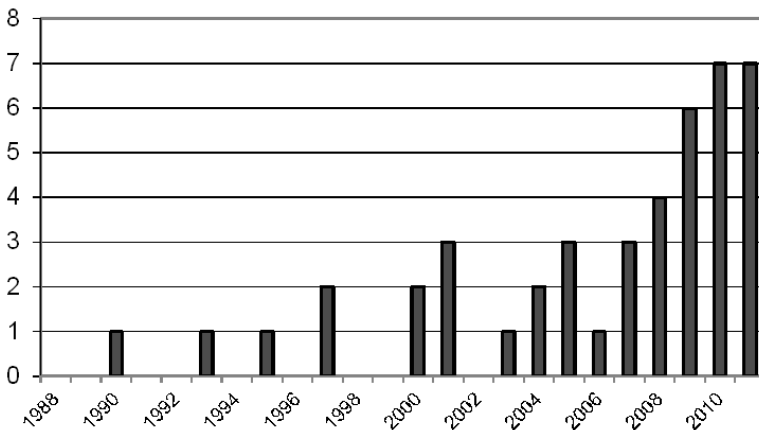


Figure 3: Number of New Section 337 Investigations Instituted by NMEs per Fiscal Year Between 1988-2011³⁰

Second, as discussed in more detail *infra*, the addition of a licensing provision to the Section 337 domestic industry requirement in 1988 has made satisfying this element easier for patent owners—both manufacturing entities and NMEs.³¹ As a result, the future

³⁰ Data for fiscal year 2011 current through June 17, 2011.

³¹ As discussed below, prior to changes to the domestic industry requirement implemented as part of the Omnibus Trade and Competitiveness Act, Pub. L. 100-418, 102 Stat. 1107 (Aug. 23, 1988), requirements to prove manufacturing in, and injury to, a domestic industry limited NME access to the forum.

would seem to hold a very friendly setting for NMEs that can meet the domestic industry requirements through their licensing activities. Figure 3 above, which shows that NMEs have filed an increasing number of investigations since 1988, illustrates this trend.

Third, around the same time *eBay* was decided, *In the Matter of Certain Baseband Processor Chips and Chipsets, et. al.*, Inv. No. 337-TA-543 (June 7, 2007) (“*Baseband Processor Chips*”), was pending at the Commission. In that investigation, the Commission found a violation and issued an exclusion order that prevented the respondent, Qualcomm, from importing infringing chip-sets. See *Baseband Processor Chips*, Comm’n Op. at 24. Significantly, the Commission extended that remedy to handset makers, such as Samsung, Sprint, and Verizon, whose products included the infringing Qualcomm chip-sets. *Id.* at 25. Although the holding of the Commission was subsequently reversed in part, and clarified by the Court of Appeals for the Federal Circuit, the power of exclusion was highlighted to the legal community. *Kyocera Wireless Corp. v. Int’l Trade Comm’n*, 545 F.3d 1340, 1355 (Fed. Cir. 2008). This activity, also discussed in more detail below, has raised awareness among both practitioners and clients alike—that Section 337 and the Commission offer an attractive venue for enforcement of patent owners’ rights and that the remedial power of exclusion has powerful and potentially far reaching effects.

With the popularity of the Commission at an all-time high, it would appear that Section 337 proceedings have finally captured the attention of all patent owners, including NMEs. The analysis that follows examines in more detail the domestic industry requirement and “what it takes” for NMEs to meet this necessary threshold. This is followed by a closing analysis of the Commission’s remedial orders, with an emphasis on their availability to NMEs.

V. THE “DOMESTIC INDUSTRY” REQUIREMENT AND HOW IT IS MET BY NMEs IN THE UNITED STATES

Section 337 has a jurisdictional requirement of a “domestic industry” that must be satisfied by the complainant in order for the Commission to institute a Section 337 action. 19 U.S.C. Section 1337(a)(2). This requirement has been a part of the statute since its incarnation in the Tariff Act of 1922. That Act excluded importations “the effect or tendency of which is to destroy or substantially injure an industry, efficiently and economically operated, in the United States, or to prevent the establishment of such an industry.” Tariff Act of 1922, Section 316(a). As the United States maintained a significant manufacturing based economy, the requirement went untouched for nearly 65 years.

The domestic industry requirement was intended to be protectionist and to prevent patent holders with little to no connection to the United States (other than mere ownership of intellectual property), from availing themselves of the benefits of Section 337 and the Commission’s powerful remedies, i.e., exclusion. See Act Relating to Trade, Tariff, and Customs Matters, 132 Cong. Rec. H9965-02, 1986 WL 788376 (Oct. 14, 1986) (statement of Rep. Rostenkowski). In practice, the requirement was quite burdensome and costly for U.S. companies to satisfy.³² Typically the requirement included a showing that an article, embodied by the claims of the patent(s) in suit, was manufactured³³ within the

32 For example, as part of its findings made during consideration of the Omnibus Trade and Competitiveness Act of 1988, Congress stated that the requirements were cumbersome, making access to the Commission costly, and failed to provide “United States owners of intellectual property rights with adequate protection against foreign companies violating such rights.” Pub. L. No. 100-418, 1341, 102 Stat. 1107, 1212 (1988).

33 The statute does not require that a domestic industry be established if a complainant can show that an industry is in the “process” of being established.

United States.³⁴ And, the requirement included a showing that significant resources, i.e., investment and employment, were spent in furtherance of that manufacturing activity.³⁵ The complainant also needed to prove an “injury” to its domestic activity which resulted from the respondent(s) unlawful importation of infringing articles.

In 1988, as part of the Omnibus Trade and Competitiveness Act, 102 Stat. 1107, Pub. L. 100-418 (Aug. 23, 1988), Congress amended the requirement to provide domestic patent holders with better access to the Commission and its remedies. The 1988 Act changed the statute to allow a complainant to satisfy the domestic industry requirement *exclusively* through its licensing activities as to the patent(s) in suit. 19 U.S.C. Section 1337(a)(3)(C). In addition, the 1988 Act removed the requirement that a complainant show injury. 19 U.S.C. Section 1337(a)(2) and (a)(3).

More closely examined, Section 1337(a)(3) of the current statute provides:

- (3) For the purposes of paragraph (2), an industry in the United States shall be considered to exist if there is in the United States, with respect to the articles protected by the patent ... concerned –
 - (A) significant investment in plant and equipment;
 - (B) significant employment of labor or capital; or
 - (C) *substantial investment in its exploitation, including engineering, research and development, or licensing.*

19 U.S.C. Section 1337(a)(3) (emphasis added).

Prior to the amendments, licensing activities alone could *not* be used to satisfy the requirement to show a domestic industry. *Certain Products with Gremlin Character Depictions*, Inv. No. 337-TA-201, USITC Pub. 1815, Comm’n Op. at 9-11 (March 1986), *aff’d sub nom. Warner Brothers, Inc. v. U.S.I.T.C.*, 787 F.2d 562 (Fed. Cir. 1986). The amended statute, as described in the various relevant passages of its legislative history, now allows for intellectual property owners who engage in extensive licensing of their rights, without any manufacturing, to take advantage of Section 337’s protections. H.R. Rep. No. 100-40, at 157-58 (1987) (remarks by Rep. Kastenmeier) (stating that, for example, protection should be available to a start-up biotech firm that licenses its patents). The result of the amendments in the 1988 Act is that the Commission is now open to hearing and resolving disputes initiated by NMEs that can show a substantial investment in licensing. Such a result is a boon to NMEs, who—by definition—have no manufacturing capacity or resources dedicated to the development of articles embodied by patents in their licensing portfolios.

- a. What Is a “Substantial Investment” in the Exploitation of a Patent Through Licensing?

³⁴ This is commonly known as the “technical” requirement for a domestic industry showing. See *Certain Variable Speed Wind Turbines and Components Thereof*, Inv. No. 337-TA-376 (“*Wind Turbines*”), USITC Pub. 3003, Comm’n Op. at 14-17 (Nov. 1996).

³⁵ This is commonly known as the “economic” requirement for a domestic industry showing. See *Wind Turbines*, *supra* note 34, at 14-17.

There is no universal definition for what qualifies as “substantial investment,” as this issue is analyzed in view of the complainant’s activities. *Certain Stringed Musical Instruments and Components Thereof*, Inv. No. 337-TA-586 (“*Stringed Musical Instruments*”), Comm’n Op. at 25-26 (May 16, 2009). However, examining arguments made in prior Section 337 investigations reveals a pattern, and the following six types of activities, *inter alia*, will generally be considered to show substantial investment in exploitation of a patent:

1. Any revenue paid to purchase rights to the patent(s) asserted in the investigation—licenses generated outside of litigation are entitled to the greatest evidentiary weight, licenses generated as a result of district court litigation are also entitled to weight, and licenses generated after an investigation has been instituted are not favorably weighed;³⁶
2. The scope and nature of the licenses that were granted to licensees to make, use and sell under the patent(s) in the investigation, and significantly, royalty amounts paid and/or revenue received in exchange for those rights;³⁷
3. The amount of revenue spent by prior licensees of the patent(s) in the investigation used to support any articles that are embodied by the patent(s) in the investigation, e.g., manufacturing, research, and development costs for those articles—if made in the United States;³⁸
4. The number of employees who are involved in complainant’s licensing activities related to the patent(s) in the investigation, which includes those who actively identify, solicit, and market potential licensees, those who monitor compliance with the licenses, and the salaries being paid to these employees;³⁹
5. The amount invested by complainant in any overhead used to support its licensing activities related to the patent(s) in the investigation, including amounts paid by complainant for rent, building leases, the amount of square footage in which the complainant conducts these operations, etc.;⁴⁰ and
6. Any fees incurred by complainant, as a result of litigation activities *directly traceable* to the patent(s) in the investigation, which include e.g., fees spent on drafting and sending cease and desist letters for the patent(s), conducting settlement negotiations, negotiating, drafting and executing a license to the patent(s), etc.⁴¹

The greater the number of these activities an NME can demonstrate, and the greater amount of revenue and fees spent in support of them as a percentage of

³⁶ See *Stringed Musical Instruments*, Comm’n Op. at 26.

³⁷ *Certain Semiconductor Chips Having Synchronous Dynamic Random Access Memory Controllers and Products Containing Same, including Graphics Cards and Motherboards*, 337-TA-661 (“*Chips Having sDRAM*”), Initial Determ’n at 4-8 (unreviewed).

³⁸ *Certain Electronic Devices Including Handheld, Wireless Communications Devices*, 337-TA-667 (“*Electronic Devices*”), Notice at 2 (March 8, 2010).

³⁹ *Certain Semiconductor Chips with Minimized Chip Package Size and Products Containing Same*, 337-TA-432 (“*Semiconductor Chips*”), Initial Determ’n (Order No. 13) at 8.

⁴⁰ *Chips Having sDRAM*, Initial Determ’n at 4-8 (unreviewed).

⁴¹ *Certain Coaxial Cable Connectors and Components Thereof and Products Containing Same*, 337-TA-650 (“*Coaxial Cable Connectors*”), Comm’n Op. at 50-51 (Apr. 14, 2010). *Coaxial Cable Connectors*, currently on appeal to the Federal Circuit, deals with whether the Appellant patent holder’s (PPC’s) litigation-related licensing activities qualify as a substantial investment in the licensing of one of the asserted patents. PPC has argued that all of its litigation-related licensing activities, not just its attorneys’ fees in negotiating and preparing a settlement that led to the sole license for the asserted patent, should be considered in the substantial investment calculus. The Commission has argued that the facts do not support consideration of other litigation-related licensing activities because they were not directed to exploiting the asserted patent.

complainant's overall activity with regard to the patent(s) in the investigation, the greater the chance that the NME will satisfy the domestic industry licensing requirement. However, one telling fact remains clear—the Commission has not found a domestic industry for an NME that has not licensed the patent(s) in the investigation before that investigation was instituted. *See, e.g., Certain Digital Processors and Digital Processing Systems, Components Thereof and Products Containing Same*, Inv. No. 337-TA-559 (“*Digital Processors*”), Initial Determ’n at 93-95 (May 11, 2007). Therefore, if any of the above factors would be required, Nos. 1 and 2 are the most relevant to alleging that a domestic industry exists or is in the process of being established by the patent owner.

b. “Substantial Investment” Updates

The increased number of investigations before the Commission in recent years, including those involving NMEs, has provided more opportunities for consideration of what qualifies as a substantial investment in licensing. Recent actions by the Commission⁴² provide new insight on the types of activities that may be considered to show substantial investment in exploitation of a patent:

1. Litigation activity that resembles a “production-driven licensing model”⁴³ and results from lost “licensing and/or product development” opportunities due to a competitor’s launch of a competing product on the market;⁴⁴
2. Pre-issuance activities related to the asserted patent, including patent prosecution fees, when considered with other evidence;⁴⁵ and
3. Investment in licensing a patent portfolio, which includes the asserted patent(s) among the licensed portfolio.⁴⁶

These recent developments warrant close monitoring by stakeholders on both sides of the manufacturing spectrum. Such stakeholders should also monitor the appeal at the Federal Circuit in *Coaxial Cable Connectors*, which will address the extent to which litigation-related licensing activities and attorneys’ fees can qualify as a substantial investment in licensing an asserted patent.⁴⁷ *John Mezzalingua Assocs. v. Int’l Trade Comm’n*, Docket No. 2010-1536 (Fed. Cir. appeal filed Sept. 10, 2010).

VI. THE TYPES OF REMEDIAL ORDERS AND THEIR AVAILABILITY TO NMEs

As discussed above, in the event of a violation under Section 337, the Commission is authorized to issue two types of remedial orders. The first remedy is an exclusion order, either as a limited exclusion order or a general exclusion order, and the second is a cease and desist order.

⁴² *See Certain Video Game Systems and Controllers*, 337-TA-743 (“*Video Game Systems*”), Comm’n Op. (Apr. 14, 2011); *Certain Multimedia Display and Navigation Devices and Systems, Components Thereof, and Products Containing Same*, 337-TA-694 (“*Multimedia Display*”), Not. Comm’n Determ’n to Extend Target Date; Req. Suppl. Briefing (Apr. 18, 2011).

⁴³ In *Video Game Systems*, the Commission referred to its discussion in *Coaxial Cable Connectors* related to different types of licensing activities that could qualify as a substantial investment under Section 1337(a)(3)(C). *Video Game Systems*, Comm’n Op. at 9. One type of such licensing is a “productive use” in which the patent is used to “encourage adoption and development of the technology by bringing a product to market, i.e., production-driven licensing.” *Id.* (citing *Coaxial Cable Connectors*, Comm’n Op. at 49-50.) A second type “involves ‘taking advantage of’ the patent right solely to derive revenue from existing production, i.e., revenue-driven licensing.” *Id.*

⁴⁴ *Video Game Systems*, Comm’n Op. at 8.

⁴⁵ *Video Game Systems*, Comm’n Op. at 8.

⁴⁶ In *Multimedia Display*, the Commission extended the target date to allow for supplemental briefing on what constitutes substantial investment in the context of “a complainant that invests in licensing a patent portfolio, which includes the asserted patent among the licensed patents.” *Multimedia Display*, Not. Comm’n Determ’n to Extend Target Date; Req. Suppl. Briefing at 2.

⁴⁷ Oral argument for this appeal will take place in July 2011.

In simplest terms, an exclusion order is directed against a respondent found to be importing articles that are in violation of a United States patent. The U.S. Customs and Border Protection (“Customs”) enforces the exclusion order by excluding any infringing articles from entry into the United States.⁴⁸ In addition, these exclusion orders cover the accused products themselves, or may be crafted to include “downstream products” that incorporate the accused products, depending on the allegations and evidence before the Commission.⁴⁹ *Certain Erasable Programmable Read-Only Memories, Components Thereof, Products Containing Such Memories, and Processes for Making Such Memories*, USITC Pub. 2196, Inv. No. 337-TA-276 (“EPROMs”), at 124-25 (May 1989), *aff’d sub nom. Hyundai Elec. Indus. Co. v. U.S. Int’l Trade Comm’n*, 899 F.2d 1204 (Fed. Cir. 1990).

The differences between an LEO and a GEO are significant. An LEO, for example, directs Customs to exclude infringing articles that originate from a specified entity that was named as a respondent in the investigation. In contrast, a GEO directs Customs to exclude *all* infringing articles, without regard to source. That is, a GEO is needed in order to “prevent circumvention” of an exclusion order, or if there “is a pattern of violation” and it is difficult to identify the source of origination of the infringing articles. 19 U.S.C. Section 1337(d)(2).⁵⁰

The Commission has entered GEOs and LEOs for manufacturing entities and NMEs alike, demonstrating the Commission’s interest in preventing continued violations of intellectual property rights. For example, in *Certain Semiconductor Chips Having Synchronous Dynamic Random Access Memory Controllers and Products Containing Same, including Graphics Cards and Motherboards*, 337-TA-661 (“*Chips Having sDRAM*”), (Aug. 10, 2010), complainant Rambus obtained an LEO against the goods of those respondents found to infringe the asserted patents, including the infringing manufacturer NVIDIA. *Chips Having sDRAM*, Comm’n Op. at 11-12. The Commission granted an LEO, rather than a GEO, based on the lack of evidence showing that the respondents intended to circumvent an LEO. *Id.* at 12. The Commission also pointed to Rambus’s relative ease of identifying the source of infringing goods as a reason not to grant a GEO. *Id.*

In *Coaxial Cable Connectors*, complainant PPC, Inc., succeeded in obtaining a GEO for two of the asserted patents against certain defaulting respondents based on the ALJ’s finding that the defaulting respondents were all alter egos and could readily form new entities to circumvent an LEO. *Coaxial Cable Connectors*, Comm’n Op. at 57. In order to obtain the GEO against the defaulting respondents, PPC had to establish that “a violation has occurred by ‘substantial, reliable, and probative evidence.’” *Id.* (quoting 19 U.S.C. Section 1337(g)(2)(B)). The Commission found such evidence existed, which showed that it was difficult to identify the source of the infringing products and that there was a pattern of violation based on numerous sources of infringing goods. *Id.* at 59.

48 Although not part of the Commission, Customs plays an essential role in Section 337 investigations. When the Commission issues an exclusion order, Customs is responsible for the enforcement of the order. Customs’ role is both extremely critical, and somewhat daunting. Typically, within weeks of a Commission exclusion order, Customs instructs its officers located at 327 ports of entry how to enforce the Commission’s order.

49 As discussed *infra*, any determination of whether to issue a remedial order also requires consideration of the public interest, which the Commission weighs by assessing four statutory factors: 1) public health and welfare; 2) competitive conditions in the U.S. economy; 3) production of like or directly competitive articles in the U.S.; and 4) U.S. consumers. 19 U.S.C. Sections 1337(d)(1) and (f)(1); *see also Coaxial Cable Connectors*, Comm’n Op. at 61 (Apr. 14, 2010).

50 The Commission has held that a GEO is appropriate in instances where there is a “widespread pattern” of unauthorized use and importation of infringing articles, and certain business conditions exist from which one might reasonably infer that foreign manufacturers, other than respondents to the investigation, may attempt to enter the U.S. market with infringing articles. *See Certain Airless Spray Pumps and Components Thereof*, 337-TA-90, USITC Pub. 1199, at 18 (Nov. 1981). Other factors relevant to demonstrating a widespread pattern of unauthorized use include the importation into the United States of infringing articles by multiple foreign manufacturers, as well as other evidence that demonstrates a history of unauthorized foreign uses of the infringing articles. *Id.* at 8-19. Because GEOs are broad in their scope, they may disrupt international trade significantly and, therefore, require a higher evidentiary standard to obtain than LEOs.

The other available remedy is a cease and desist order. A CDO directs a respondent in the investigation to cease its unfair acts, including selling infringing imported articles from U.S. inventory. Unlike exclusion orders, cease and desist orders are enforced by the Commission, not by Customs. *See* 19 U.S.C. Section 1337(f)(2) (providing for civil penalties for violation of cease and desist orders).

As with exclusion orders, NMEs have successfully obtained CDOs. In *Chips Having sDRAM*, complainant Rambus successfully obtained a CDO against certain respondents based on evidence that a significant inventory of products containing the infringing manufacturer's controllers existed and that the public interest would not be harmed by issuing the CDO. *Chips Having sDRAM*, Comm'n Op. at 12-15. The Commission rejected the respondents' arguments that because Rambus did not manufacture any memory products, there was no direct competition, and that U.S. consumers would be harmed by a CDO without showing that Rambus's licensees compete in the same markets. *Id.* at 13. The Commission found that a CDO would not harm U.S. consumers because there was ample evidence that Rambus's licensees sold licensed products in competition with the accused products. *Id.* at 14-15. The Commission also stated that "enforcement of valid United State[s] intellectual property rights advances, rather than harms, competitive conditions in the United States Economy." *Id.* at 15. Thus, a CDO is an available remedy to NMEs if they can show evidence that its licensees sell products that compete with the accused products, so that U.S. consumers are not harmed.

Overall, Section 337 currently does not distinguish between manufacturing or non-manufacturing entities for purposes of remedial enforcement, provided these entities each meet the required jurisdictional requirements at the Commission, i.e., proving a viable domestic industry through licensing efforts or otherwise. There remains, however, a mechanism by which entities not involved in the manufacture, research, or development of articles embodied by domestic intellectual property could face restrictions in their requests for relief before the Commission. This aspect of the law is currently in development, and relates to the "public interest" aspects inherent in every Section 337 investigation.

a. Public Interest

Each remedial order requires consideration of the public interest in determining whether to issue a remedy. In particular, the Commission weighs four statutory factors: 1) public health and welfare; 2) competitive conditions in the U.S. economy; 3) production of like or directly competitive articles in the U.S.; and 4) U.S. consumers. 19 U.S.C. Sections 1337(d)(1) and (f)(1); *see also Coaxial Cable Connectors*, Comm'n Op. at 61. While these factors have typically not been considered until the Commission determines a violation of Section 337 has occurred, the recent changes discussed below have put considerations of public interest at the forefront of an investigation.

First, the Commission instituted a practice of soliciting comments in the notice of investigation published after receipt of a complaint that address the effect of an exclusion order or a CDO on the public interest. Notice of Delegation of Authority to Secretary to the Commission to Publish Notice of the Receipt of Complaints Under Section 337 of the Tariff Act of 1930 and To Solicit Comments Relating to the Public Interest, 75 Fed. Reg. 39971 (July 13, 2010). Such opportunity for comments has already been used by manufacturers to prospectively argue that public interest weighs against the issuance of a remedy to an NME, where such a remedy would harm U.S. consumers and competitive

conditions in the U.S. economy. See, e.g., *Certain Motion-Sensitive Sound Effects Devices and Image Display Devices and Components and Products Containing Same*, 337-TA-773, Comments of Proposed Resp. Kyocera Commc'ns, Inc. (Apr. 14, 2011).

Second, in a Notice of Proposed Rulemaking, the Commission proposed rules that would continue this pre-institution practice and further require that a complainant and a respondent address the effect of these remedial orders on the public interest in the complaint and answer, respectively. 19 C.F.R. 201: Rules of Adjudication and Enforcement, 75 Fed. Reg. 60671 (Oct. 1, 2010). The proposed rules are designed to help the Commission in identifying investigations that require further development of public interest issues in the record, and to identify and develop information regarding the public interest at each stage of the investigation. *Id.*

To aid the Commission in identifying and developing such information, the following four new factors would need to be addressed in initial pleadings and pre-institution correspondence to the Commission:

- Explain how the articles potentially subject to the orders are used in the United States;
- Identify any public health, safety, or welfare concerns in the United States relating to the potential orders;
- Indicate the extent to which like or directly competitive articles are produced in the United States or are otherwise available in the United States, with respect to the articles potentially subject to the orders; and
- Indicate whether complainant, complainant's licensees, and/or third party suppliers have the capacity to replace the volume of articles potentially subject to an exclusion order and a cease and desist order within a commercially reasonable time.

Id. at 60672.

Whether the practice of soliciting public interest comments prior to institution of an investigation becomes a mainstay at the Commission has yet to be decided. However, it appears at least for now that public interest, as opposed to the domestic industry requirement,⁵¹ may become the new vehicle for regulating access to the Commission. As this area develops, the potential to prospectively affect the ability of a complainant, such as an NME, to obtain a GEO, LEO or CDO from the Commission remains. Thus, potential complainants need to consider the public interest factors and strategize arguments that demonstrate how the factors can be used to their benefit while protecting domestic interests.

⁵¹ As discussed *supra*, changes to the domestic industry requirement since the 1988 Act have made the Commission more accessible to patent-holders, a trend that appears likely to continue given the number of investigations over the past few years. See Figure 2 *supra*.

VII. CONCLUSION

There is no question that patents are essential to innovation and any obstacle to the enforcement of patents impedes, *inter alia*, the ability to grow businesses, attract capital, and foster innovation. Research and development are quickly superseding manufacturing as the high tech output of innovation in this country and the collateral effect is that infringing products embodying the domestic innovation increasingly enter the United States market from abroad. This shift in the situs of infringement reflects the realities of the global economy and exposes the shortcomings of traditional methods of enforcing patent rights.

For the past 80 years, Section 337 investigations have been an important tool to help domestic manufacturers develop and maintain a domestic industry. As the United States and the global economy continue to evolve, Section 337 will become an ever more vital tool to domestic patent owners seeking to protect their research and development activity in the face of economic policies promoting free trade and international exchange of goods and services.

