

# WHAT NON-U.S. COMPANIES SHOULD KNOW ABOUT THE ITC

**Barry J. Herman and Eric W. Schweibenz<sup>1</sup> advise non-U.S. companies how to establish domestic industry at the US ITC**

For more than 30 years, the International Trade Commission (“ITC”) has been a place for owners of U.S. patents to enforce their rights against infringing goods imported into the U.S. Since the U.S. Supreme Court’s 2006 decision in *eBay Inc. v. MercExchange, L.L.C.*, which made it more difficult to obtain injunctive relief from U.S. district courts, new ITC investigations have skyrocketed. For example, in 2008, the ITC instituted approximately 50 new investigations – more than a 30% increase from the same time period in 2007.

Although money damages are not available at the ITC, more patent owners are using this forum to enforce their rights because the *eBay* decision does not apply. Patent owners concerned that they would not be able to obtain injunctive relief in a district court have no such concerns in the ITC, since injunctive relief is mandatory if liability is established. The threat of an injunction often places more pressure on accused infringers, which can also lead to an early and favorable settlement. ITC complainants can also exert more pressure, since the proceedings move much more quickly compared with most district court actions. Further, ITC trials are handled by administrative law judges (ALJs) who are generally recognized as more patent savvy than typical district court judges, since ALJs preside over patent cases much more frequently.

But the decision in *e-Bay* is likely not the only reason ITC complaints are on the rise. More foreign-based companies have begun to realize that the ITC’s domestic industry requirement does not prevent them from using this unique forum to enforce their U.S. intellectual property rights. In contrast to district court litigation, where any intellectual property owner can bring suit, the ITC requires that the complainant establish that an industry in the U.S. exists (or is in the process of being established) related to the intellectual property right. Over the last decade, an increased number of companies without traditional manufacturing facilities in the U.S. have filed ITC complaints. In fact, in 2008, nearly 20% of Section 337 complaints were brought by non-U.S. companies (with approximately 6% initiated by Japanese companies).

In 1988, the U.S. Congress amended Section 337 to make it easier to prove the existence of a domestic industry. As a result of these amendments, the amount of domestic activity necessary to satisfy this requirement has been reduced.

Potential ITC litigants should be cognizant of the various types of activities typically relied upon to meet the economic prong of the ITC’s domestic industry requirement – and the potential pitfalls that await the unwary.

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<sup>1</sup> Barry J. Herman is co-chair of the ITC Practice Group and Eric W. Schweibenz is a senior associate at Oblon, Spivak, McClelland, Maier and Neustadt, P.C. in Alexandria, Virginia.

## **ITC Crash Course**

Section 337 of the Tariff Act of 1930, 19 U.S.C. § 1337, prohibits the importation, sale for importation, or sale after importation of an article that infringes a valid U.S. intellectual property right. Patent infringement cases represent about 90% of the cases brought under this statute.

To initiate an ITC action, the complaining party must prove that (1) it owns the asserted patent; (2) the accused product was imported into the U.S.; and (3) that an industry in the U.S. relating to the articles protected by the patent exists or is in the process of being established.

After a complaint is filed, the ITC has 30 days to vote on whether to institute a Section 337 investigation. Upon institution, the investigation is assigned to an ALJ, who presides over the proceeding. Discovery in the ITC proceeds quickly. For example, responses to discovery requests are due within 10 days (as opposed to 30 days in district court). The ALJ oversees discovery, rules on discovery-related motions, and rules on summary determination motions (akin to summary judgment motions in district court).

In district court litigation, there are only two sides – the patent owner (and potentially exclusive licensees or other parties aligned with the patent owner), and the accused infringer(s). In the ITC, however, there is a third side – the Office of Unfair Import Investigations (“OUII”). The OUII represents the public interest and participates as an independent party. Thus, the OUII is free to participate in discovery and motion practice, question witnesses at the evidentiary hearing, and take positions on the issues in dispute.

The ALJ presides over the evidentiary hearing (there is no jury), which is much like a bench trial in a district court, and held at the ITC’s Washington D.C. headquarters. Hearings typically occur approximately 6-9 months after institution of the investigation. Within several weeks after conducting an evidentiary hearing, the ALJ issues an initial determination (“ID”) as to whether there is a violation of Section 337.

The ALJ’s ID is subject to review by the ITC commissioners upon petition by a party. If a petition for review is denied, the ALJ’s ID is adopted and becomes the ITC’s final determination. If a petition for review is granted, the parties will typically be given an opportunity to provide further briefs on the specific issues that are under review. The portions of the ALJ’s ID that are not under review are deemed adopted and become part of the ITC’s final determination. At its discretion, the commissioners can adopt, modify, or reverse the ALJ’s ID. In rare instances, the commissioners may put aside a finding of violation if such a determination would be contrary to the public interest. If the commissioners find a violation and issue either an exclusion and/or cease and desist order, it is forwarded to the U.S. President for review. The President has 60 days in which to approve or disapprove the ITC’s findings. The ITC’s final determination can be appealed to the U.S. Court of Appeals for the Federal Circuit.

## **Establishing Domestic Industry**

The domestic industry requirement is unique to ITC proceedings and is not a requirement of district court actions. The ITC applies a two-part test to determine whether the domestic industry requirement has been met. The first part of the test is referred to as the “technical prong,” and to satisfy this prong, the complainant must establish that it practices the asserted patent.

The second part of the test is the “economic prong.” Section 337 provides three different ways to establish the economic prong of the domestic industry requirement:

- significant investment in plant and equipment;
- significant employment of labor or capital; or
- substantial investment in its exploitation, including engineering, research and development, or licensing.

A patent owner can satisfy the domestic industry requirement in any one of these ways. The activity or investment is not determined by any rigid formula, but rather by an examination of the facts in each investigation, the article(s) of commerce, and the realities of the marketplace.

For many years, the economic aspect of the ITC’s domestic industry requirement was more difficult to establish because it required proof of economic injury. However, in 1988, Congress amended Section 337 to allow the patent owner to satisfy the domestic industry requirement via engineering, research and development, and licensing activities. Congress expanded the scope of the domestic industry to make Section 337 a more effective remedy for the protection of U.S. patent rights, as the prior definition excluded many activities in the U.S. from establishing a domestic industry and was cumbersome and costly to prove.

To the extent the patent owner manufactures products in the U.S. covered by that patent, the domestic industry requirement is easily satisfied. In these types of cases, the economic prong is typically not disputed and can oftentimes be resolved through a stipulation or motion for summary determination.

However, where other types of activities are relied upon for the economic prong, whether the domestic industry requirement has been satisfied is more complicated and frequently contested.

### **A. Significant Investment in Plant and Equipment**

To prove significant investment in plant and equipment, complainants typically point to large, multi-million dollar investments related to the technology practiced by the asserted patent(s). However, there is no minimum size or value that must be met, and smaller businesses are not excluded from seeking relief in the ITC simply because their financial investments may be much less than larger companies.

## **B. Significant Employment of Labor or Capital**

To establish significant employment of labor or capital, complainants typically rely on the number of individuals employed in the U.S. Again, the complainant must be able to show a link between the employees and the technology practiced by the asserted patent(s). However, there is no minimum number of employees required to constitute domestic industry.

## **C. Substantial Investment in Exploitation, Including Engineering, Research and Development, or Licensing**

Unlike the first two subsections discussed above, this subsection does not require actual production of an article in the U.S. if it can be shown that substantial investment and activities are taking place in the U.S. However, marketing and sales in the U.S. alone are not sufficient to satisfy the requirements of this subsection. *See, e.g., Certain Digital Processors and Digital Processing Systems, Components Thereof and Products Containing Same*, Inv. No. 337-TA-559 (2007).

In *Certain Stringed Musical Instruments and Components Thereof*, Inv. No. 337-TA-586 (2008), the ITC emphasized that there is no minimum monetary expenditure that a complainant must demonstrate to qualify as a domestic industry under the “substantial investment” requirement of this section. However, in this investigation, the ITC confirmed that \$8,500 worth of investments in prototypes over seventeen years by an independent inventor was insufficient to meet this standard since it was far less than the amounts received by other complainants that had relied on similar activities to establish domestic industry.

## **Other Options**

Beyond the activities specified above, the ITC has found, for example, that quality control, repair, packaging, installation, field engineering, and testing activities may be sufficient for purposes of establishing the economic prong of the domestic industry requirement.

Complainants may also establish domestic industry by providing evidence of additional processing in the U.S. for a product produced abroad. For instance, in *Certain Salinomycin Biomass and Preparations Containing Same*, Inv. No. 337-TA-370 (2000), the ITC found that the domestic blending of a pharmaceutical product for final sale was sufficient exploitation of the patent to satisfy the economic prong of the domestic industry requirement.

Indeed, even if a patent owner does not have any U.S. activities relating to the production of an article protected by the patent, the domestic industry requirement can still be satisfied through licensing activities in the U.S.. *See, e.g., Certain Semiconductor Chips with Minimized Chip Package Size and Products Containing Same*, Inv. No. 337-TA-432 (2002); *Certain Set-Top Boxes and Components Thereof*, Inv. No. 337-TA-432 (2002). While the economic prong of the domestic industry requirement can be established by investing a substantial amount of money in a licensing program to exploit the asserted patent(s), the complainant must receive revenue (*e.g.*, royalty payments) from its licensing activities. *See, e.g., Certain Stringed Musical Instruments and Components Thereof*, Inv. No. 337-TA-586 (2008).

## The eBay Effect

Patent owners that do not have any related U.S. production activities have typically avoided the ITC because it does not award monetary damages. This trend might change in the near future, however, because of the ability to obtain injunctive relief at the ITC. Indeed, these types of complainants may be attracted to the ITC in light of the *eBay* decision, which made it more difficult for patent owners who, for example, are not direct competitors with the accused infringer, to obtain injunctive relief in district court cases. Thus, even if a non-practicing complainant's primary goal is a monetary settlement, the threat of an injunction can often be an effective tool towards that goal.

Perhaps the most telling sign that non-traditional companies are availing themselves of the ITC is *Certain Electronic Devices, Including Handheld Wireless Communication Devices*, Inv. No. 337-TA-667, in which, on January 15, 2009, the ITC instituted an investigation based on a patent-holding company's complaint. According to the complaint, the domestic industry allegations in this investigation are based solely on activities relating to the acquisition, licensing, and enforcement of its patents. As of the time of this article, the ALJ has not determined whether the patent-holding company will be able to satisfy the domestic industry requirement through these activities alone. If it does so, it will further encourage non-traditional entities to file complaints at the ITC.

## Domestic Industry Practice Tips

A Section 337 action presents unique challenges. Because of the rapid pace and detailed requirements of the complaint, prospective complainants must plan their litigation strategy before filing a complaint. Advanced preparation is particularly important with respect to the domestic industry requirement.

At the outset, prospective complainants should decide which domestic industry theory (or theories) best fits their case. If the patent owner manufactures products covered by that patent in the U.S., it should gather detailed information about the total amount of U.S. investment relating to the domestic industry product(s) at issue, including, *e.g.*, real estate investments, facility improvements, and equipment costs. Complainants with manufacturing operations in the U.S. relating to the domestic industry article(s) should also gather detailed information about the work force, such as the nature of the work conducted, the number of employees, and salaries.

Where production of the domestic industry article does not take place in the U.S., prospective complainants should gather information about the types of non-manufacturing activities that do take place in the U.S. For example, research and development activities characterized as premanufacturing, field engineering, testing, quality control, repair, retro-fitting, and/or packaging have been sufficient to constitute domestic industry in prior investigations. *See, e.g., Certain Integrated Circuits, Processes for Making Same, and Products Containing Same*, Inv. No. 337-TA-450 (2002); *Certain Microlithographic Machines and Components Thereof*, Inv. No. 337-TA-468 (2003).

Another choice for prospective complainants with no U.S. production activities is to rely on licensing programs to establish domestic industry. A prospective complainant must only show its licensing activities exploit the asserted patent(s) and that there is a sufficient nexus between complainant's domestic activities and investments and the asserted patent(s). *See, e.g., Certain Recombinant Erythropoietin*, Inv. No. 337-TA-281 (1989). Indeed, one of the benefits of relying solely on domestic licensing activities to satisfy the domestic industry requirement is that an additional showing that the technical prong has been satisfied may be unnecessary.

Prospective complainants are encouraged to meet with ITC staff before filing the complaint since the staff will provide guidance regarding what additional domestic industry information should be collected for purposes of the investigation.

From the respondents' perspective, although the threshold for establishing the economic prong of the domestic industry requirement is low, they should not automatically concede this aspect of the investigation in every case. This is especially true in cases where actual production of the domestic industry article(s) does not entirely take place in the U.S. In these instances, it is important to closely examine the complainant's alleged proof of domestic industry to determine, *e.g.*, that there is a sufficient nexus between the activities and/or investments and the asserted patent(s). Also, respondents should utilize all available discovery tools to ensure the complainant's alleged domestic industry activities are sufficient.