The US International Trade Commission and intellectual property litigation

The International Trade Commission has seen a significant increase in intellectual property litigation investigations, particularly concerning cases involving infringing goods being imported into the US.

The International Trade Commission (ITC) has rapidly become a preferred forum for intellectual property owners to enforce their rights against infringing goods imported into the US. Section 337 cases (so-called because they are authorised by Section 1337 of the Tariff Act of 1930) have doubled since 2005 and more than tripled since 2000. In 2011, a record 69 new Section 337 investigations were instituted by the ITC - more than a 23% increase from 2010. US patent holders are increasingly using this forum for several reasons.

First, the US Supreme Court's 2006 decision in eBay Inc v. MercExchange, LLC has made it more difficult for patent owners to obtain injunctive relief in district court cases. The eBay decision does not apply to the ITC, however, where injunctive relief is mandatory once liability is established.

Second, a growing number of non-US companies have established operations in the US, making it easier for them to satisfy the 'domestic industry' requirement of Section 337 and thus utilise the ITC offensively. Additionally, the US Congress amended Section 337 in 1988 to expand the types of activities that may establish a domestic industry beyond traditional manufacturing and allow complainants to satisfy this requirement through engineering, research and development, and licensing activities.

Yet another reason for the ITC's increased popularity is the proliferation of foreign imports into the US, which has increased the number of products subject to ITC jurisdiction.

Given the ITC's emergence as a favoured venue for intellectual property dispute resolution, and more specifically patent litigation, non-US companies should be aware of the unique aspects of investigations conducted by the ITC. This article provides an overview of five things every non-US company should know about ITC practice.

1. The ITC provides a powerful remedy to patent infringement

Unlike US district court litigation, monetary damages are not available at the ITC. If a violation of Section 337 is found against an accused infringer, the ITC may issue a cease-and-desist order barring the sale of infringing articles that are presently in US inventory. The ITC may also issue a limited exclusion order directing US Customs to block the importation of additional infringing articles by the accused infringer. In addition, the ITC may issue a general exclusion order barring entry of all infringing articles irrespective of their source. Downstream products that contain the infringing articles can also be covered by the ITC's exclusion orders.

Exclusion orders are a potent weapon that patent owners can wield against accused infringers. Even if an intellectual property owner's primary objective is a monetary settlement, the threat of an ITC remedial order can effectively compel an accused infringer toward that end.

2. ITC investigations are fast

Litigation at the ITC proceeds at an extraordinarily rapid pace. After the ITC institutes an investigation, it is assigned to an administrative law judge (ALJ) who typically sets a target date of 12 to 16 months for completion of the investigation. The evidentiary hearing (trial) usually occurs within six to nine months after institution of the investigation. By contrast, it is not uncommon for district court trials to take place several years after a complaint is filed. Moreover, parties at the ITC must respond to discovery requests within 10 days of service, as opposed to the 30 days permitted in a district court action.

The expedited schedule of ITC proceedings may make some non-US companies uneasy; however, such companies may find other aspects of the proceedings appealing. For example, the trial proceeds before an ALJ instead of a jury. ALJs deal almost exclusively with patent cases and thus tend to be more patent savvy than district court judges, which can be helpful to non-US companies that have had the distaste of dealing with creative claim interpretations asserted by aggressive patent owners.

3. More companies are pursuing investigations in the ITC

A growing number of companies, especially non-US companies, are taking advantage of the ITC to enforce their US intellectual property rights. In 2008, nearly 20% of Section 337 complaints were brought by non-US companies (with approximately 6% initiated by Japanese companies). In both 2009 and 2010, one-third of the Section 337 investigations instituted by the ITC involved at least one complainant (usually the parent) that was a non-US company.

Among the biggest reasons that non-US companies are pursuing investigations in the ITC is a less stringent domestic industry requirement than existed previously. This requirement has two prongs that a patent owner must satisfy: (1) a technical prong, meaning that the complainant must prove that it or its licensee is practicing at least one claim of the

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asserted patent(s); and (2) an economic prong that is met by demonstrating in the US with respect to the complainant's patented products (i) significant investment in plant and equipment; (ii) significant employment of labor or capital; or (iii) substantial investment in its exploitation, including engineering, research and development, or licensing. The domestic industry requirement was included in the Tariff Act of 1930 as a means of ensuring that the protections afforded by the Act were enjoyed only by companies providing jobs to US workers. However, the realities of an evolving economy led Congress to amend the statute in 1988 to allow economic activities involving the 'exploitation' of an intellectual property right (such as engineering, research and development, and licensing) to satisfy this requirement if those activities reached the requisite level. As a result, non-US companies that conduct these economic activities but do not engage in traditional domestic manufacturing are increasingly filing complaints in the ITC.

4. Non-practicing entities have begun pursuing investigations in the ITC

In 2010, the domestic industry requirement was impacted when the ITC handed down a decision holding that litigation expenses may be considered part of a complainant's licensing activities for purposes of meeting the economic prong. See Certain Coaxial Cable Connectors. Further, the Certain Coaxial Cable Connectors decision stated that non-litigation activities related to licensing - such as preparing cease-and-desist letters, settlement negotiations, and drafting and executing a license - could also satisfy the economic prong if they were 'substantial' enough and were actually related to the patent(s) at issue. In the wake of this decision, and the US Court of Appeals for the Federal Circuit's 2011 affirmance in John Mezzalingua Associates, Inc. (d/b/a PPC, Inc.) v. Int'l Trade Comm'n, non-practicing entities whose sole activity consists of filing suit against alleged infringers have attempted to take advantage of the enforcement mechanisms in the ITC.

Another ITC decision, however, may have curtailed the use of investigations by non-practicing entities. In Certain Multimedia Display and Navigation Device, the ITC held that the complainant's licensing activities 'reflecting a revenue-driven licensing model targeting existing production rather than industry-creating, production driven licensing activity that Congress meant to encourage' was insufficient to establish a domestic industry. Hence, a business whose only goal is to accumulate and license patents cannot meet the domestic industry standard based on such activities alone.

It remains unclear whether non-practicing entities will be entirely barred from ITC proceedings in the future, particularly since such entities may still rely on the domestic activities of any US-based licensee.

5. It is difficult to obtain a stay in the ITC based on concurrent reexamination proceedings

If a patent asserted in an ITC investigation is undergoing concurrent patent reexamination proceedings at the USPTO, respondents may seek to stay the investigation pending the outcome of reexamination. In deciding whether to grant such a stay, the ITC typically considers (1) the state of discovery and the hearing date, (2) whether a stay will simplify the issues of the case, (3) the undue prejudice or disadvantage to any party, (4) the stage of the USPTO proceedings, and (5) the efficient use of ITC resources. The third factor distinguishes the stay analysis in ITC investigations from the analysis in district court litigation and almost always weighs against granting a stay. That is because the ITC cannot award monetary damages for past infringement, but can only prospectively exclude infringing products from entering the US. Any delay in the investigation negatively impacts the complainant because it means that any potential remedy will be in effect for a shorter period of time (because exclusion orders expire when the asserted patents expire). Hence, stays pending concurrent reexamination are granted less frequently in the ITC than in federal district court due to the statutorily mandated rapid pace of Section 337 investigations coupled with the consistent and unavoidable prejudice suffered by complainants from the lack of any retrospective remedies at the ITC.

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