

Litigation Strategies at the International Trade Commission

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International Trade Commission

- Independent, quasi-judicial federal agency
- Located in Washington, D.C.
- Headed by six Commissioners
- Relatively small agency—in 2012, \$80 million budget and 390 employees
- Under 19 U.S.C. § 1337 (“Section 337”), investigates and adjudicates cases involving imports that infringe intellectual property rights



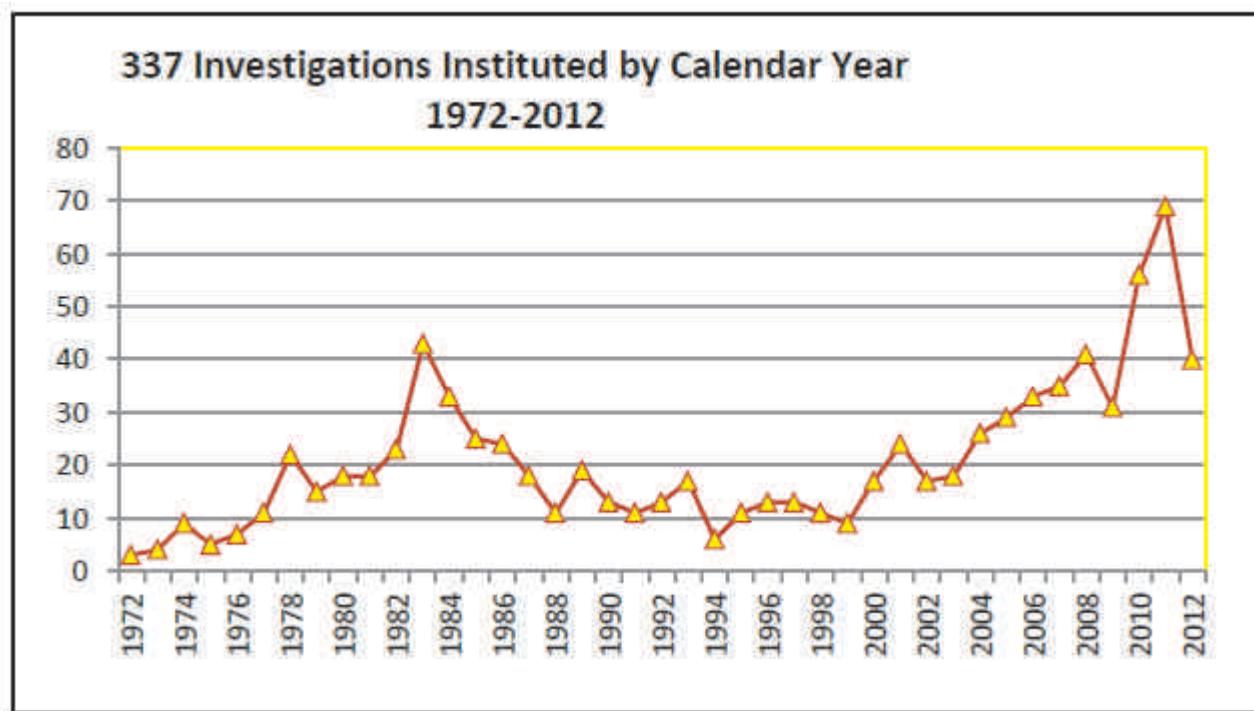
Section 337 Investigations



- Section 337 declares unlawful unfair methods of competition and unfair acts in the importation of articles into the U.S.
- Provides relief against patent, trademark, and other forms of unfair competition
- Investigations include trial proceedings before Administrative Law Judges (“ALJ”) and review by the Commission
- Provides equitable relief upon determination of violation

Recent Statistics

Elevated levels of Section 337 filings at the ITC



Source: U.S. International Trade Commission, "Facts and Trends Regarding USITC Section 337 Litigations," published Apr. 15, 2013

Recent Statistics (continued)

- Nearly half of all Section 337 investigations result in settlement
 - Number of completed inv. from 5/16/2006 to Q1 2013: 256
 - Number of settled inv. from 5/16/2006 to Q1 2013: 124
 - Settlement rate: 48.44%
- Win rates of Section 337 investigations remain higher than district court patent litigation—in 2012, 6 of 10 investigations that led to ALJ adjudications were in favor of the complainant



Why Section 337?



- Fast Pace of Investigations
- Receptivity to Technical Arguments
- Commission's Broad Jurisdiction and Authority
- Tight Protective Order
- Lower Standard for Issuing Equitable Relief
- Enforcement of ITC Orders by Customs

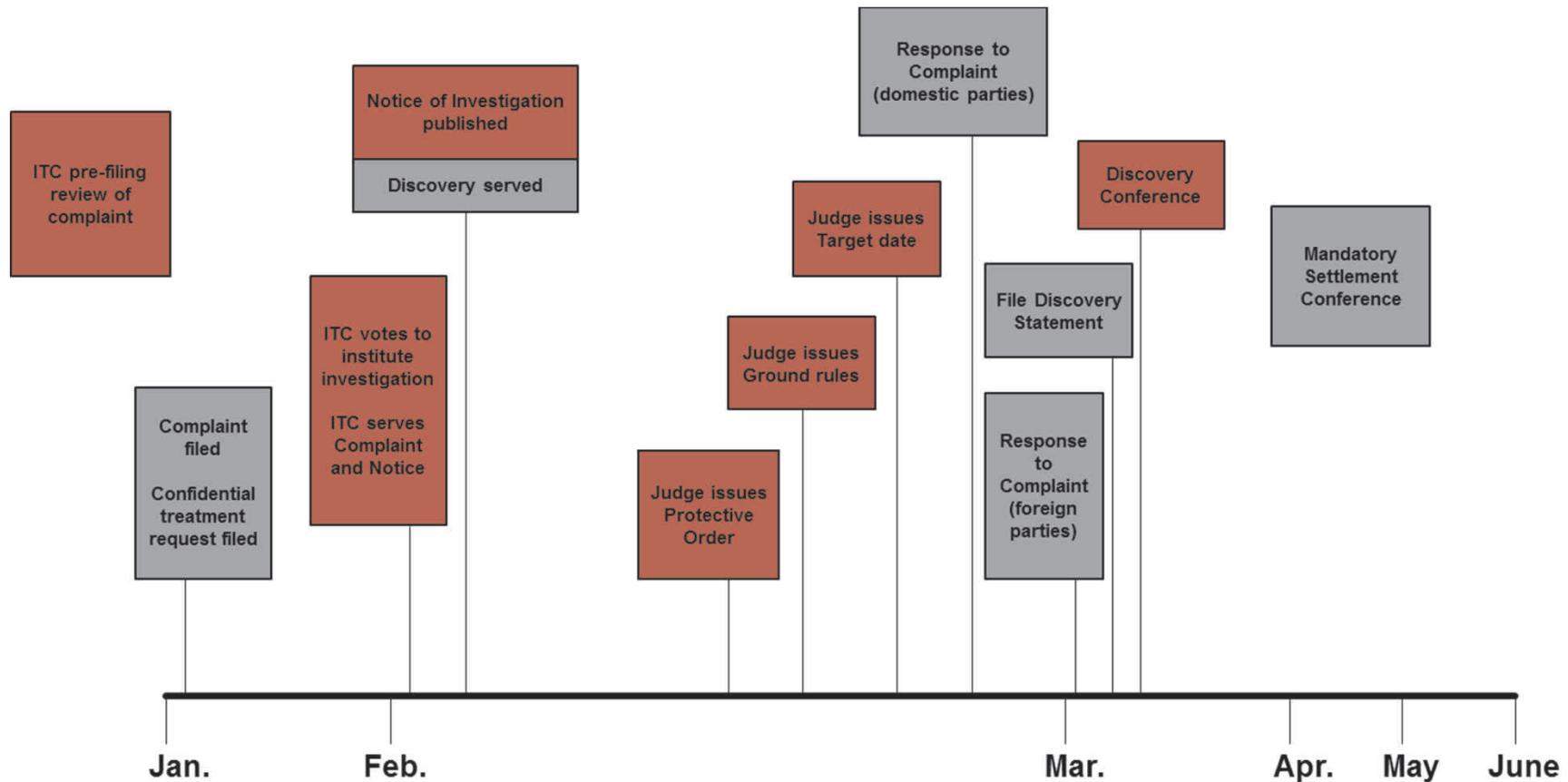
Fast Pace of Investigations

- Investigations move quickly—15-18 months from filing to final decision
 - Investigations commence within 30 days after filing of Complaint
 - Nearly all 12(b) issues resolved by ITC's 30-day preliminary investigation
 - Protective Order issues immediately
 - Discovery commences immediately
 - Discovery/motions proceed on short deadlines
- Compare: Litigating in district court usually takes 24 - 33 months or longer

Fast Pace of Investigations (continued)

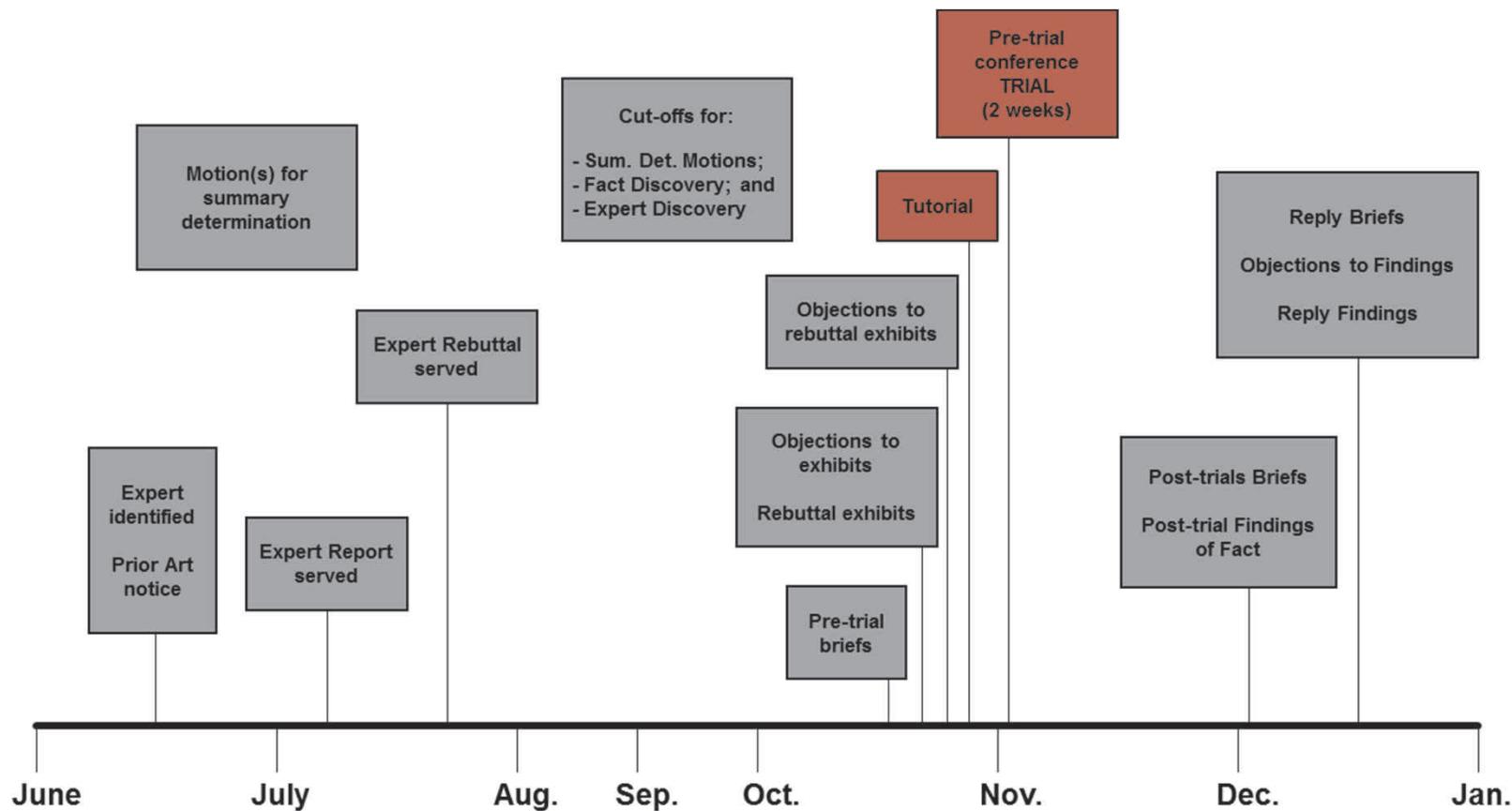
- Investigations are rarely delayed
 - ITC serves Complaint and Notice of Investigation (no delays)
 - Investigation not stayed pending resolution of PTO reexamination, Certain Blu-Ray Disc Players (Inv. No. 337-TA-824)
 - Counterclaims are not considered and must be removed to a district court
- What this means
 - ITC provides quick forum for complainants to enforce their rights
 - Complainants may be able to catch respondents by surprise

Chronology of a Section 337 Case



Chronology of a Section 337 case

(continued)

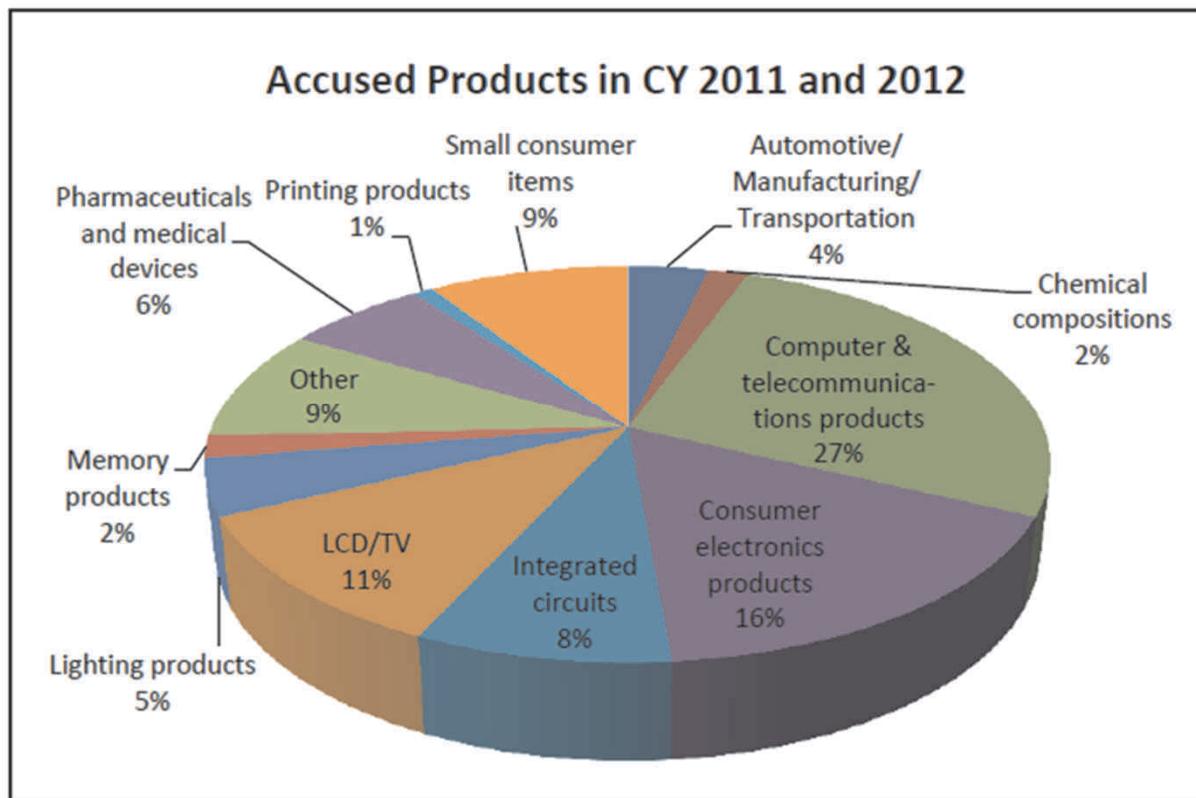


Receptivity to Technical Arguments

- Investigations overseen by experienced ITC judges
 - Judges are experienced with technical subject matter and dealing with IP disputes
- Commission Investigative Staff involved in many investigations
 - Staff attorneys are experienced with technical subject matter
 - Many are patent attorneys
- No juries
- What this means
 - Parties can avoid trial by jury and the need to make "jury arguments" at the ITC

Breakdown of Technical Subject Matter at ITC

Substantial number of investigations involve high tech products



Source: U.S. International Trade Commission, "Facts and Trends Regarding USITC Section 337 Litigations," published Apr. 15, 2013

Broad Jurisdiction and Authority

- Commission's *in rem* jurisdictional powers have broad reach
 - *Certain Cast Railway Wheels* (Inv. No. 337-TA-655): Commission adjudicated case and ordered relief even though most of the violations occurred in China
 - Allows complainant to bring single action against multiple respondents
 - **Compare:** FRCP 20(a) puts in place "same transaction [or] occurrence" limitation for joining multiple defendants in district court
- Commission has authority to issue subpoenas that cover the entire U.S. and its territories

Broad Jurisdiction and Authority

(continued)

- What this means
 - Complainants can target many respondents at once
 - No need to establish personal jurisdiction over respondents at the ITC
 - Parties can conduct extensive discovery during investigation
 - Judges are familiar with foreign discovery



Tight Protective Order



- ALJ issues Protective Order shortly after investigation is instituted
- Protective Order protects confidential information of parties and nonparties
- Protective Order limits access to confidential information to outside counsel who have agreed to be bound by the terms of the Protective Order
- Protective Order is more stringent than those typically issued by district courts



Lower Standard for Issuing Equitable Relief

- Commission is directed to issue an exclusion order upon a determination of violation, 19 U.S.C. § 1337(d)
 - Commission can issue limited exclusion order (limited to the respondents involved in investigation) or general exclusion order (applies to all infringing imports)
 - Commission can decline to issue an exclusion order due to public interest factors
- Compare: *eBay v. MercExchange*, 547 U.S. 388 (2006)
 - To obtain injunctive relief in district court, plaintiff must demonstrate: (1) irreparable injury, (2) remedies available at law are inadequate, (3) balance of hardships tips in plaintiffs favor, and (4) public interest not disserved
 - Tougher standard to meet

Broader Equitable Relief

- General exclusion orders allow complainants to exclude all infringing imports, whether associated with a party in the investigation or not
- Standard for obtaining general exclusion order, 19 U.S.C. § 1337(d)(2)

**" . . . the Commission determines that—
(A) a general exclusion from entry of articles is necessary to prevent circumvention of an exclusion order limited to products of named persons; or
(B) there is a pattern of violation of this section and it is difficult to identify the source of infringing products."**

- What this means
- Complainants can avoid later litigation with a new party
- Respondents cannot shirk exclusion order by reappearing under a different name

Exclusion Order Enforced by Customs

- Exclusion orders are enforced at all U.S. ports of entry
- Language of exclusion orders are drafted by the Commission in consultation with Customs
- What this means
 - Complainants do not have to initiate additional proceedings in district court to enforce ITC orders



Why *not* Section 337?



- More Upfront Investments
- Venue Limited to Washington, D.C.
- Standard for Federal Circuit Review Unclear
- Limited Collateral Benefit

More Upfront Requirements

- Substantive Elements Pleaded Specifically
 - Substantive elements:
 - Importation
 - Infringement
 - Domestic Industry
 - Fact pleading rather than notice pleading (19 CFR § 210.12)
- Pleading rules require other details
 - *E.g.*, claim charts, description of related litigation, copies of prior art, copies of infringed patent and license agreements
- Respondent must also plead certain matters in detail
 - *E.g.*, identity of manufacturer, manufacturing capacity

More Upfront Requirements (continued)

- Separate Statement of Public Interest (19 C.F.R. § 210.8(b))
 - Must address how request relief affects public interest factors (19 C.F.R. § 210.8(b))
 - Public health and welfare in the United States
 - Competitive conditions in the United States economy
 - Production of like or directly competitive articles in the United States
 - United States consumers



Substantive Element: Importation

“The following are unlawful] – “The importation into the United States, the sale for importation, or the sale within the United States after importation” [infringing products]. 19 U.S.C. §1337(a)(1)(B)



U.S. Port of entry
Source: Customs Website

- Accused product must be:
 - Imported into the U.S.,
 - Sold off-shore for importation into the U.S., or
 - Sold in the U.S. after importation into the U.S.
- Complaint must contain solid evidence of importation

Substantive Element: Importation

(continued)

- Broad leeway in satisfying "importation" element:
 - Importation does not have to actually occur—there can be an imminent importation without a sale (*Certain Variable Speed Wind Turbines and Components Thereof* (Inv. No. 337-TA-376))
 - Importation of a small quantity satisfies importation requirement, such as samples for a trade show (*Acesulfame Potassium and Blends* (Inv. No. 337-TA-403))
 - Products such as software can be imported electronically (*Hardware Logic Emulation Systems* (Inv. No. 337-TA-383))
 - Act of infringement can occur in U.S. if accused article is exported and later reimported (*Sputtered Carbon Coated Computer Disks* (Inv. No. 337-TA-350))
- But recent Fed. Cir. case *Suprema v. International Trade Commission* limits ITC's jurisdiction to those articles that already infringe at the time of importation

Substantive Element: Infringement

- Standard patent infringement proof
 - Direct infringement
 - Induced infringement
 - Contributory infringement
 - Doctrine of equivalents
 - Product of patented process—
but no § 271(g) defense



Substantive Element: Domestic Industry

- Two elements:
- (1) Technical prong

“. . .only if an industry in the United States, relating to the articles protected by the patent, copyright, trademark, mask work or design concerned, exists or is in the process of being established.”
- 19 U.S.C. § 1337(a)(2) (emphasis added)

- Asks: Is the technology "protected by" the asserted IP right being "exploited" in the U.S.?
- “The test for satisfying the ‘technical prong’ of the [domestic] industry requirement is essentially the same as that for infringement.” Alloc v. Int’l Trade Comm’n, 342 F.3d 1361, 1375 (Fed. Cir. 2003)

Substantive Element: Domestic Industry (continued)

- (2) Economic prong

“. . . an industry in the United States shall be considered to exist if there is . . .
(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. § 1337(a)(3) (emphasis added)

- Asks: Are the activities associated with exploiting that technology "significant" or "substantial"?
 - Under subsections (A) and (B), there must be "significant" value added by a complainant's domestic activities
 - Under subsection (C), there must be a nexus between a complainant's "substantial" investment and exploitation

Substantive Element: Domestic Industry (continued)

- "Significant" Value Added
 - The value-added analysis evaluates the relative importance of a complainant's domestic activities to the total activities conducted in connection with the product to determine whether the domestic activities are "significant" (*Certain Microlithographic Machines and Components Thereof* (Inv. No. 337-TA-468))
 - What is considered "significant"?
 - No bright-line rule
 - 24% has been held to not be sufficient
(*Certain Feathered Fur Coats and Pelts, and Process for the Manufacture Thereof*, Inv. No. 337-TA-260)
 - 34% has been held to be sufficient
(*Certain Male Prophylactic Devices*, Inv. No. 337-TA-546)

Substantive Element: Domestic Industry (continued)

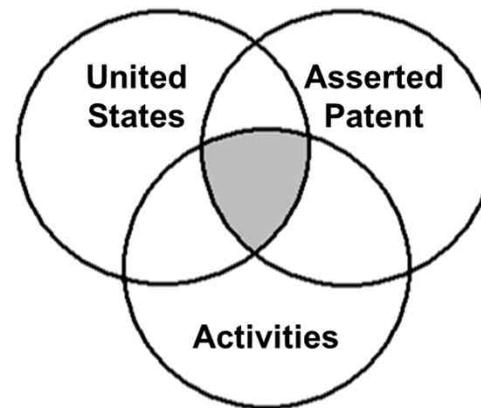
- "Significant" Value Added (cont.)
 - Factors used to support investment and/or employment:
 - Underlying expenditures on buildings and land attributable to supporting complainant's protected products
 - Total expenditures for salaries and benefits associated with supporting complainant's protected products
 - Total value of warranty claims made on complainant's protected products
 - Total hours spent and/or equivalent days of full-time employment associated with supporting complainant's protected products
 - Total number of occurrences of each activity performed association with each of complainant's protected products

Substantive Element: Domestic Industry (continued)

- Nexus With "Substantial" Investment
- Strength of the Nexus
 - Only investments with a connection to the asserted patents qualify toward the determination of whether those investments are sufficiently substantial
- Magnitude of the Investment
 - The complainant's qualifying investments must be sufficiently large in view of the relevant market and the complainant's other investments
- Flexible approach—The weaker the nexus, the greater the magnitude of investment must be (*Certain Multimedia Display* (Inv. No. 337-TA-694))

Substantive Element: Domestic Industry (continued)

- Nexus With "Substantial" Investment (cont.)
 - Strength of the Nexus
 - Three-way nexus



- Nexus requirement is satisfied by establishing a three-way nexus between 1) the complainant's investment activities, 2) the asserted patent, and 3) the United States (*Certain Multimedia Display* (Inv. No. 337-TA-694))

Substantive Element: Domestic Industry (continued)

- Nexus With "Substantial" Investment (cont.)
 - Magnitude of the Investment Factors (*Certain Multimedia Display* (Inv. No. 337-TA-694))
 1. Relative size of complainant in the industry;
 2. Nature of the industry and the resources of the complainant;
 3. Existence of related ancillary activities, such as ensuring compliance with license agreements and providing training or technical support;
 4. Whether complainant's qualifying activities are continuing;
 5. Complainant's return on its investments (or lack thereof);
 6. Whether complainant's activities are those that are referenced favorably in the legislative history of section 337(a)(3)(C).

Substantive Element: Domestic Industry (continued)

- Non-Practicing Entities ("NPEs")
 - Types of NPEs
 - Biggest player—Patent assertion entities ("PAEs")
 - Research and development entities or “idea shops”
 - Independent inventors
 - Startups
 - Practicing companies with an offensive patenting strategy
 - NPEs typically satisfy the technical prong by relying on the activities of their licensees
 - NPEs typically satisfy the economic prong under subsection 337(a)(3)(C) based on their licensing activities

Substantive Element: Domestic Industry (continued)

- Types of licensing activity:
 - Pure licensing activity
 - Enforcement or litigation activity used to compel royalty payments from accused infringers
 - Portfolio licensing activity
 - Royalty payments



Substantive Element: Domestic Industry (continued)

- Pure Licensing Activity
 - NPEs can rely on licensing activity that is specific to the asserted patent(s) to establish domestic industry
 - *Certain Semiconductor Chips* (Inv. No. 337-TA-432)
 - Complainant did not practice the patents but was successful at licensing its patents
 - Complainant had negotiated licenses with most of the companies in the patented technology's target industry
 - ALJ held that "licensing activity alone could constitute 'substantial investment'"

Substantive Element: Domestic Industry (continued)

- Enforcement or litigation activity used to compel royalty payments from accused infringers
 - NPEs can only rely on litigation activities that are "directed toward" licensing to establish domestic industry
 - *Certain Coaxial Cable Connectors* (Inv. No. 337-TA-650):

" . . . litigation activities (including patent infringement lawsuits) may satisfy [the domestic industry requirement] if a complainant can prove that these activities are *related to licensing* and pertain to the patent at issue, and can document the associated costs."

- Commission Opinion, Apr. 14, 2010

Substantive Element: Domestic Industry (continued)

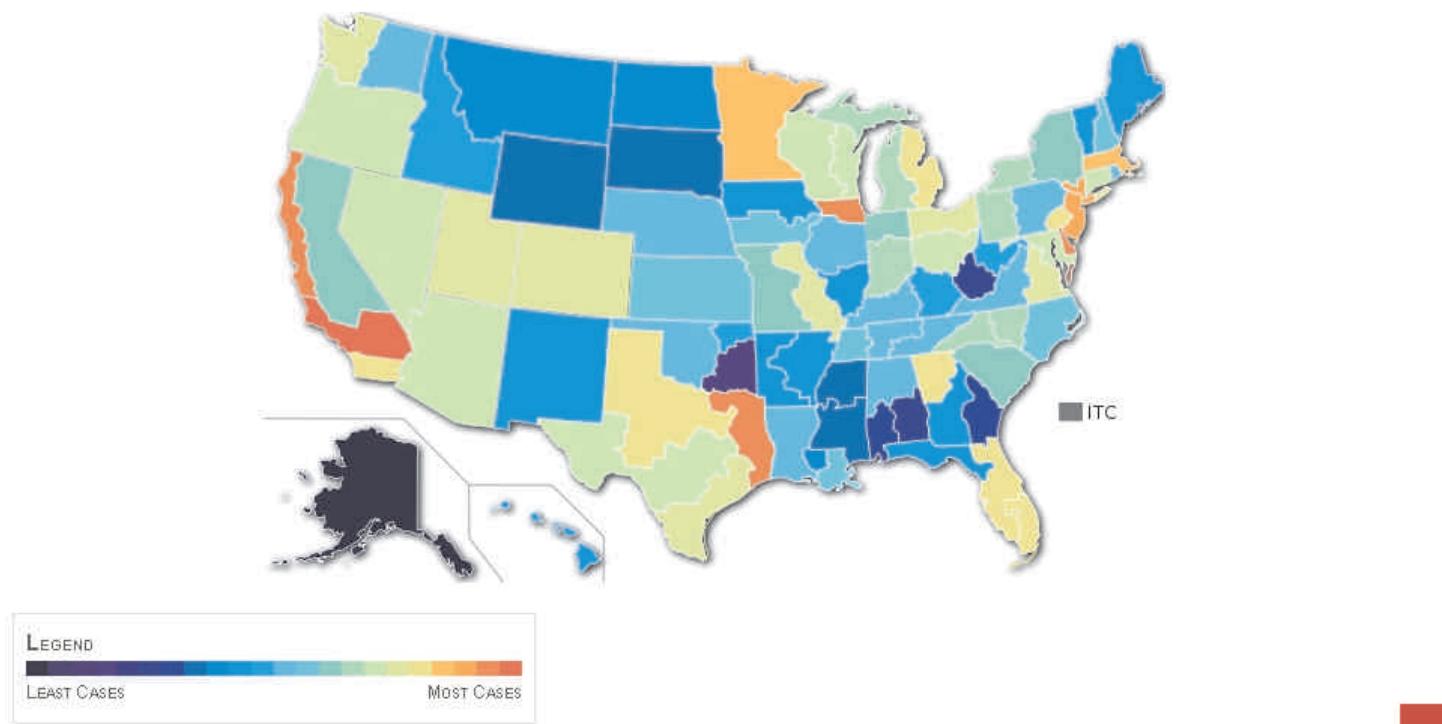
- Portfolio licensing activity
 - NPEs that engage in portfolio licensing activities must establish a “strong nexus” between their portfolio licensing activity and the asserted patent
 - Patent portfolio nexus factors (*Certain Multimedia Display* (Inv. No. 337-TA-694))
 - Number of patents in the portfolio;
 - Relative value of the asserted patent to the portfolio;
 - Prominence of the asserted patent in licensing discussions, negotiations and any resulting license agreement;
 - Scope of technology covered by the portfolio compared to the scope of the asserted patent; and
 - Congruence asserted patent with the patents contained in the portfolio

Substantive Element: Domestic Industry (continued)

- Royalty Payments
 - Difficult, if not impossible, for NPEs to establish a domestic industry based solely on royalty payments
 - *Certain Multimedia Display* (Inv. No. 337-TA-694)
 - Commission held that royalty payments can only be “circumstantial evidence” that shows that an investment was made but cannot constitute the investment itself
 - Moreover, for NPEs that license patent portfolios, royalty payments “must be evaluated in the context of the broad geographical and technological scope of the license”

Venue Limited to Washington, D.C.

- No opportunity to choose a venue
 - Compare: forum shopping in district court
 - Heat Map of Patent Litigation Filings in 2009
(Source: Stanford IP Litigation Clearinghouse)



Standard for Federal Circuit Review Unclear

- *General Proiectht Group, Inc. v. Int'l Trade Comm'n*, 619 F.3d 1303, 1306 (Fed. Cir. 2010)
 - Commission found violation
 - Federal Circuit reversed based on claim construction that differed from that adopted by Commission
 - Judge Newman (dissent): the majority “disregard[ed] the rulings and findings of the Commission, and render[ed] *de novo* rules and findings on new theories to which the parties have had no opportunity to respond”
 - Petition for Rehearing *en banc* denied

Standard for Federal Circuit Review

Unclear (continued)

- *Vizio, Inc. v. Int'l Trade Comm'n*, No. 2009-1386 (Fed. Cir. 2010)
 - Commission found violation
 - Federal Circuit construed claim terms that were not disputed by any of the parties on appeal
 - Judge Clevenger (dissent) argued that the terms should not have been construed by the majority because the issue was not properly before the court
 - Petition for rehearing *en banc* denied
- What this means
 - Federal Circuit has not developed a clear standard for reviewing ITC determinations

Limited Collateral Effect

- Commission determinations are not binding and have no *res judicata* or collateral estoppel effect
- Under 28 U.S.C. § 1659, complainant can transfer an investigation's evidentiary record to a district court
 - Requirements:
 - District court action is parallel proceeding that was stayed pending the outcome of the investigation
 - Involves same parties as investigation



Recent Case Developments

- Articles Requirement for Subsection 337(a)(3)(C)
 - Previously, Commission did not require a complainant to demonstrate for the purposes of a licensing-based domestic industry the existence of articles that practiced the asserted patents. See, e.g., *Certain Semiconductor Chips and Products Containing Same* (Inv. No. 337-TA-753).
 - Recent Federal Circuit cases held differently:
 - *InterDigital v. ITC*, 707 F.3d 1295 (Fed. Cir. 2013)—"research and development or licensing activities referred to in subparagraph (C) must also exist with respect to articles protected by the patent"
 - *Microsoft Corp. v. ITC*, 731 F.3d 1354 (Fed. Cir. 2013)—"A company seeking section 337 protection must therefore provide evidence that its substantial domestic investment—e.g., in research and development—relates to an actual article that practices the patent"

Recent Case Developments (continued)

- Articles Requirement for Subsection 337(a)(3)(C) (cont.)
 - *Certain Computers and Computer Peripheral Devices*, Commission Opinion (Inv. No. 337-TA-841)—
 - Commission adopts position taken in recent Fed. Cir. decisions, holding that there is an articles requirement under subsection 337(a)(3)(C)
 - However, Commission noted that the practicing articles need not be produced in the U.S.
 - Respondents attempted to have Commission impose an additional production-driven requirement on licensing-based domestic industries
 - Commission noted that it had previously expressed a preference for production-driven licensing in *Certain Multimedia Display and Navigation Devices and Systems* (Inv. No. 337-TA-694)
 - But Commission declined to impose the additional requirement due to its subjective and burdensome nature

Recent Case Developments (continued)

- ITC jurisdiction does not extend to articles that induce infringement.
Suprema v. International Trade Commission, Case No. 2012-1170 (Fed. Cir. 2013), appeal from *Certain Biometric Scanning Devices*, Commission Opinion (Inv. No. 337-TA-720).
 - Previously, in *Certain Electronic Devices* (Inv. No. 337-TA-724), the Commission held that it had authority to investigate indirect infringement claims
 - In *Certain Biometric Scanning Devices*, the Commission found violation and issued an exclusion order
 - On appeal, the Fed. Cir. vacated the Commission's exclusion order
 - Basing its holding on the statutory language of Section 337, the Fed. Cir. held that the Commission only has authority to exclude articles that are "already in an infringing state at the time of importation"
 - Dissent criticized majority for opening up loophole at the ITC and fundamentally misapplying the Tariff Act

Recent Case Developments (continued)

- Standards Essential Patents ("SEPs") at the ITC
 - *Certain Electronic Devices*, Commission Opinion (Inv. No. 337-TA-794)
 - Commission determined that it has jurisdiction to conduct investigations and to find violations in cases involving SEPs, noting that Section 337 does not make a distinction between patents that have or have not been declared to be essential to a standard
 - Commission further rejected notion that whether a patent has been declared essential to a standard should factor into its public interest analysis



Recent Case Developments (continued)

- Standards Essential Patents ("SEPs") at the ITC (cont.)
 - Commissioner Dean Pinkert's Dissent to *Certain Electronic Devices*, Commission Opinion (Inv. No. 337-TA-794)
 - Complainant had obligation to license its SEPs on a FRAND basis
 - Complainant had failed to make a FRAND licensing offer to respondent
 - Absence of FRAND licensing offer should have bearing on Commission's public interest analysis
 - Presidential Veto of Exclusion Order issued in *Certain Electronic Devices*, Commission Opinion (Inv. No. 337-TA-794)—USTR vetoed import ban due to concern "about the potential harms that can result from owners of standards-essential patents ("SEPs") . . . gaining undue leverage and engaging in "patent hold-up"

Questions?

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