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ITC's Domestic Industry Requirement Evolves Again

Law360, New York (July 26, 2011) -- In a highly anticipated decision, the U.S. International Trade Commission again clarified what constitutes a "domestic industry" under Section 337 of the Tariff Act of 1930.

In Multimedia Display and Navigation Devices and Systems (ITC Inv. No. 337-TA-694) — an action brought by Pioneer Corporation and Pioneer Electronics (USA) Inc. (collectively, "Pioneer") alleging infringement by Garmin International Inc. and Garmin Corporation (collectively, "Garmin") of Pioneer's GPS navigation patents — the ITC determined that Pioneer's U.S. licensing activities were insufficient to establish a domestic industry. The commission therefore terminated the investigation with a finding of no violation by Garmin.

Background

Section 337 makes it unlawful, among other unfair acts, to import any article into the United States that infringes a valid and enforceable U.S. intellectual property right. A successful complainant is typically awarded an exclusion order blocking the importation of infringing goods.

The commission may also prohibit respondents from distributing or selling infringing articles in their U.S. inventory. These robust remedies — which, notably, are not restricted by application of the eBay Inc. injunction factors — along with numerous other advantages of litigating at the ITC, have made Section 337 a powerful tool for holders of U.S. IPR seeking to curtail unfair foreign competition.

As a trade statute, however, Section 337 requires a complainant to prove it has a "domestic industry" related to the IPR being asserted. Historically, complainants satisfied that test by proving they manufactured a product in the United States utilizing the asserted IPR.

As manufacturing has increasingly moved offshore, more complainants have sought to establish a domestic industry based on a provision added to the statute in 1988: "substantial investment in [the asserted patent's] exploitation, including engineering, research and development, or licensing."

The extent to which a complainant can establish a domestic industry based solely on U.S. investments in licensing has become a highly contentious issue. This is especially the case given the increasing use of Section 337 by nonpracticing entities (NPEs).

In Coaxial Cable Connectors (ITC Inv. No. 337-TA-650), the commission held that an NPE's litigation activities that are "related to licensing and pertain to the patent at issue" can be attributed to its alleged domestic industry. In that case and others, the commission has adopted a case-by-case approach on whether a nonmanufacturing complainant's licensing activities constitute "exploitation" of the patent as intended by Congress.

The Multimedia Display Decision

The critical question in Multimedia Display was whether, given Pioneer's portfolio-based licensing model, there had been a substantial investment in exploiting the asserted patents. At the start of its analysis, the commission stated that complainants whose domestic industry allegations rest on investment in licensing must meet three threshold requirements.

First, the investment must constitute an "exploitation" of the asserted patent; second, the investment must relate to licensing; and third, the investment "must be domestic, i.e., it must occur in the United States." Only after determining the extent to which the complainant's investments fall within these parameters will the ITC evaluate whether the qualifying investments are "substantial" as required by the statute.

Because Pioneer's licensing activities were associated both with the asserted patents and unasserted patents, a key issue under the first requirement was "the strength of the nexus between the activities and the asserted patents." The commission established factors to consider in determining the strength of such a nexus, including "(1) the number of patents in the portfolio, (2) the relative value contributed by the asserted patent to the portfolio, [and] (3) the prominence of the asserted patent in licensing discussions, negotiations, and any resulting license agreement."

The commission recognized that ascertaining a particular patent's importance or value may, in some instances, be difficult to establish. Nevertheless, the commission concluded, where that type of evidence is in the record, it is "useful in determining the focus of [a] complainant's licensing activity."

Interestingly, the commission stated that "a potentially important consideration is whether the licensee's efforts relate to 'an article protected by' the asserted patent" under 19 U.S.C. § 1337(a)(2)-(3). Evidence that the asserted patent is practiced in the United States, the commission remarked, "may suggest a high value relative" to other patents in the portfolio, and thus indicate a strong nexus between the licensing activities and the asserted patent. Showing that a licensee's product practices the asserted patent will therefore be viewed favorably.

Numerous nonparties submitted comments in response to the ITC's request for supplemental briefing on the domestic industry issue. Several of those comments argued that the commission should adopt a policy whereby any investment in licensing a patent portfolio should *ipso facto* be allocated in its entirety to the asserted patents. In support of that position, they noted there are cost efficiencies associated with portfolio licensing.

The commission declined to adopt that policy, stating that neither the statute nor the legislative history indicates that Congress intended for the commission to credit all portfolio-related licensing investments. Instead, the commission explained, the analysis must focus on the complainant's investments in exploiting the asserted patent, not the portfolio.

On the question of whether a licensing investment is "substantial," the commission did not alter existing precedent. It did, however, provide some notable remarks. The commission stated that "the resources of the complainant" are relevant to the analysis; thus, a major company will be held to a higher monetary standard than an individual patent owner.

The commission also set forth factors relevant to determining whether a licensing investment is substantial. Those include "(1) the existence of other types of 'exploitation' such as research, development, or engineering, (2) the existence of license-related ancillary activities such as ensuring compliance with license agreements and providing training or technical support to its licensees, (3) whether the complainant's licensing activities are continuing, and (4) whether the complainant's licensing activities are those that are referenced favorably in the legislative history" of the statute.

Within this paradigm, Pioneer fell short of establishing a domestic industry for a number of reasons. First, there was "attenuation" between its in-house licensing activities and the asserted patents, primarily due to a lack of evidence concerning the value or importance of the asserted patents within a much larger portfolio.

Second, Pioneer's principal license agreement was of a global nature, thus indicating a weak nexus between the asserted patents and Pioneer's efforts to obtain the agreement. Third, the commission gave reduced weight to Pioneer's expenditures on outside counsel, in part because such work was related to litigation. Fourth, as a "large international company," Pioneer's activities and expenditures were "too limited in light of its resources" to constitute a substantial investment.

Fifth, Pioneer presented no evidence of having performed licensing-related "ancillary activities" in the United States, such as license compliance or design assistance. Finally, because Pioneer's licensing activities were "revenue-driven" and not the "industry-creating, production-driven licensing activity that Congress meant to encourage," they were given reduced weight.

Future Outlook for ITC Licensing Cases

The commission's opinion in Multimedia Display is notable in many respects. The opinion establishes that generalized portfolio licensing expenditures are insufficient to establish a domestic industry. The opinion also suggests that the commission may disfavor revenue-driven licensing, which could be seen as limiting access to Section 337 for so-called "trolls."

However, the commission has not created an unduly restrictive domestic industry standard. The opinion rejects any distinction between in-house licensing employees and outside counsel, reiterates the commission's "flexible approach" on whether an investment is to be deemed substantial, and recognizes that revenue-driven licensing is covered by the statute.

Rather than simply raising the bar on what is necessary to establish a domestic industry, the commission has brought new clarity to this complex area of Section 337 practice. Future complainants whose domestic industry allegations rely upon licensing activities would be wise to use this opinion as an instructive roadmap.

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