

**Section 337 Investigations before the  
US International Trade Commission:  
The Evolving Domestic Industry  
Requirement and its Implications for  
Global Intellectual Property  
Litigation**

**By**

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## Section 337 Investigations before the US International Trade Commission: The Evolving Domestic Industry Requirement and its Implications for Global Intellectual Property Litigation

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### Introduction

#### *Background on section 337 and the US International Trade Commission*

A major and continuously growing priority of intellectual property rights (IPR) owners is protection from unfair foreign competition. Faced with entrenched and increasing competition from overseas competitors, IPR owners must have a comprehensive strategy that protects their IPR against foreign activities that lead to the importation of an infringing product. Stated differently, globalisation has inextricably tied intellectual property protection to international trade. That is an irreversible reality.

In the United States, owners of US IPR have increasingly used s.337 of the Tariff Act of 1930 to protect themselves against infringing products imported from abroad.<sup>1</sup> This powerful trade statute makes it unlawful, among other unfair acts, to import any article that infringes a patent, trade mark or copyright that is

valid and enforceable in the United States. Originally intended to protect domestic manufacturing activities,<sup>2</sup> s.337 allows an entity that owns US IPR and has a “domestic industry” connected to that right to bring suit at the US International Trade Commission (ITC or Commission). Rather than obtaining monetary damages (which are not available), a successful complainant is typically awarded a limited exclusion order, which directs US Customs and Border Protection (Customs) to block the importation of goods manufactured or distributed by a named respondent. Complainants on occasion obtain the more comprehensive general exclusion order, which directs Customs to deny the importation of all infringing goods, regardless of their source or manufacturer. In addition to these permanent exclusion orders, a temporary exclusion order—analogueous to a preliminary injunction in district court—may be issued. Finally, a successful complainant may be awarded a cease and desist order. A cease and desist order is enforced by the Commission directly and prohibits respondents from distributing or selling infringing goods imported into the United States prior to the issuance of the exclusion order.

The ITC has the sole authority to investigate and adjudicate alleged violations of s.337. The ITC is an independent, quasi-judicial federal agency that, among other things, administers US trade laws. Specific examples of matters handled by the ITC include the investigation of anti-dumping and subsidy claims, the administration of the tariff system and the performance of industry and macroeconomic analyses.<sup>3</sup> The ITC is headed by six commissioners who are appointed by the President and confirmed by Congress. Three offices support the commissioners in administering s.337 investigations: the Office of the Administrative Law Judges, the Office of Unfair Import Investigations (OUII) and the Office of the General Counsel.

#### *The mechanics, and advantages, of litigating under section 337*

The lifecycle of a s.337 case generally proceeds as follows. After a complaint is filed, the commissioners will vote on whether to institute an investigation. If they vote in favour of institution (which they almost always do), the case will be assigned to an administrative law judge (ALJ) and proceed much like a trial in district court. Through the entire process, a staff attorney from the OUII actively participates as a third party representing the public interest. The ALJ may dispose of a case, in whole or part, by motion, but more typically conducts a trial. The ALJ’s final decision (called an initial determination)

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<sup>1</sup> See 19 USC §1337.

<sup>2</sup> See *Frischer & Co v Bakelite Corp* 39 F. 2d 247, 253 (C.C.P.A. 1930) (stating that s.316 of the Tariff Act of 1922, the predecessor to s.337, “is likewise intended to protect American industries and to further and promote the protection of domestic goods”).

<sup>3</sup> 19 USC § 1332; see also US Int’l Trade Comm’n, “What the USITC Is ... and Isn’t”, at [http://www.usitc.gov/press\\_room/gen\\_info.htm](http://www.usitc.gov/press_room/gen_info.htm) [Accessed February 18, 2011].

of whether or not there has been a violation of s.337 can be appealed to the six commissioners. If the Commission finds a violation, its decision is reviewed on policy grounds by the President.<sup>4</sup> Finally, any party adversely affected by the Commission's decision can appeal to the US Court of Appeals for the Federal Circuit.

Although not widely used at its inception, s.337 has become an enormously popular trade remedy in the last three decades (since the amendments in the Trade Act of 1974), and for good reason. The distinctive features of the statute afford several advantages to complainants.<sup>5</sup> To start with, because the ITC exercises in rem jurisdiction over the accused products, it may grant relief related to those products as long as they have been imported into the United States. Such broad jurisdiction is advantageous when seeking to join multiple infringers in one proceeding, especially where the infringers are foreign entities with limited contacts with the United States. That jurisdiction is also beneficial in discovery. By virtue of the Commission's in rem jurisdiction, and pursuant to the Hague Convention,<sup>6</sup> a complainant need not wait to perfect service on foreign parties as it would in a district court matter. Rather, discovery can begin as soon as the investigation is instituted. Notably, the burdensome requirements of the Hague Convention for the Taking of Evidence Abroad do not apply to s.337 investigations.

Another advantage is the remarkable speed at which the ITC will resolve a s.337 investigation. The Commission assiduously adheres to the statute's requirement that each investigation be resolved "at the earliest practicable time".<sup>7</sup> A typical case is completed in 12 to 16 months, whereas a similar district court action usually takes at least two years. In addition, the unique power of the Commission's remedies—total exclusion of respondents' infringing products from the US market—is an important tactical asset for s.337 complainants. These are just a few of the advantages s.337 affords to those seeking to enforce their US IPR against infringing imported articles.

Once an obscure and underutilised international trade statute, s.337 has become a mainstream tool in the arsenal of sophisticated IPR holders to curtail unfair foreign competition. As imports have come to play an ever more important role in the US economy, an increasing number of entities have turned to s.337 to protect their intellectual property. The ITC's s.337 docket is quite literally a who's who of major global players.<sup>8</sup> Apple, Rolls-Royce,

Microsoft, General Electric, Samsung, Pfizer, Mitsubishi and Ford are but a sample of the high profile companies that frequently litigate under s.337.

## The purpose and evolution of the domestic industry requirement

### Background and pre-1988 amendments

A complainant seeking relief under s.337 must prove it has a "domestic industry" related to the IPR being asserted. This requirement reflects the nature of s.337 as a trade statute designed to protect US industry from unfair foreign competition, as opposed to an enforcement statute for IPR. The requirement is imposed "to prevent the ITC from becoming a forum for resolving disputes brought by foreign complainants whose only connection with the United States is ownership of a U.S. patent".<sup>9</sup> The domestic industry analysis is typically divided into two separate tests: an "economic prong" and a "technical prong". The economic prong measures the complainant's investments in the United States toward exploiting the asserted IPR, while the technical prong examines whether the complainant's US activities are linked to its utilisation of the asserted IPR.<sup>10</sup> (The economic prong will be the focus of this article.)

Under the economic prong, the complainant may establish the existence of a domestic industry through:

- “(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.”<sup>11</sup>

Because the statute is written in the disjunctive, satisfaction of any of these subsections meets the domestic industry requirement.<sup>12</sup> Prior to 1988 (before Congress added subs.(C)), manufacturing-type activity was required to demonstrate the existence of a domestic industry.<sup>13</sup> In Commission opinions finding a significant investment in plant, equipment, labor or capital pursuant to subs.(A) and (B), complainants have typically demonstrated multi-million dollar expenditures in the United States on things such as manufacturing operations and employee salaries. When analysing whether domestic investments meet the "significant" standard of those subsections, the Commission may consider the complainant's domestic activities compared with any foreign activities. If the

<sup>4</sup> Pursuant to 19 USC § 1337(j)(1)–(2), the President has 60 days to review a Commission determination of violation and approve or disapprove of the remedy for policy reasons. The President has disapproved of a Commission remedy in only five instances, the last time being 24 years ago.

<sup>5</sup> See Tom M. Schaumberg (ed.), *A Lawyer's Guide to Section 337 Investigations Before the U.S. International Trade Commission* (2010), Ch.2.

<sup>6</sup> The Hague Convention on the Service Abroad of Judicial and Extrajudicial Documents in Civil or Commercial Matters (20 U.S.T. 361; 658 U.N.T.S. 163, T.I.A.S. No.6638; 28 U.S.C.A. (Appendix following Fed. R. Civ. P. 4).

<sup>7</sup> 19 USC §1337(b)(1).

<sup>8</sup> See V. James Adduci II and William C. Sjoberg, "Everybody Comes to the ITC", *LegalTimes* (July 11, 2005).

<sup>9</sup> *Certain Battery-Powered Ride-On Toy Vehicles & Components Thereof*, USITC Pub. 2420, Inv. No.337-TA-314, Initial Determination at 21 (August 1991).

<sup>10</sup> See *Certain Video Graphics Display Controllers & Prods Containing Same*, USITC Pub. 3224, Inv. No.337-TA-412, Initial Determination at 9 (August 1999).

<sup>11</sup> 19 USC §1337(a)(3)(A)–(C).

<sup>12</sup> *Certain Semiconductor Chips with Minimized Chip Package Size & Prods Containing Same*, Inv. No.337-TA-432, Order No.13: Initial Determination Granting Complainant Tesser's Motion for Summary Determination of Domestic Industry; Denying TI's Cross-Motion for Summary Determination and for Sanctions, at 5 (January 24, 2001).

<sup>13</sup> See *Certain Products with Gremlins Character Depictions*, USITC Pub. 1815, Inv. No.337-TA-201, Views of Comm'n at 5 (March 1986) ("In accordance with [the] legislative history of [s.337], the Commission has consistently defined the industry in section 337 cases to be the domestic production of the products covered by the intellectual property rights in question.")

amount of foreign activity is much larger than the domestic activity, the domestic industry requirement will likely not be satisfied.<sup>14</sup>

### Significance of the 1988 amendments

The Omnibus Trade and Competitiveness Act of 1988 (the 1988 Act) amended a number of trade remedy statutes.<sup>15</sup> As to s.337, the 1988 Act eliminated the requirement that a complainant prove “injury” from unfair importations,<sup>16</sup> and added subs.(C) to the domestic industry requirement. Subsection (C)—which permits the Commission to consider engineering, research and development, and licensing activities in the domestic industry analysis—essentially abolished the requirement that a complainant engage in some aspect of domestic manufacturing. The change was intended to grant protection under s.337 to entities, such as universities and small businesses, that make substantial domestic investments but do not manufacture products in the United States.<sup>17</sup>

The addition of subs.(C) greatly liberalised the domestic industry requirement. In fact, the Commission has since adopted the view that “[t]he 1988 amendment ... and its legislative history support a *liberal and flexible interpretation* of the requirement”.<sup>18</sup> Not surprisingly, subs.(C) stimulated an increase in activity under s.337, owing primarily to two factors. First, the requirements of subs.(C) are easier to satisfy than those of (A) or (B). Subsection (C) does not require that a complainant domestically produce an article, it does not require satisfaction of the technical prong<sup>19</sup> and its use of the term “substantial” (rather than “significant”) connotes a lower threshold of requisite domestic activity.<sup>20</sup> Secondly, subs.(C) has been attractive to complainants from the high technology industry (e.g. makers of smartphones, cameras, software, etc.), for whom design, development, engineering, or licensing—and not manufacturing—is the core component of US business activities.

Owing to subs.(C) and increased foreign investment in the United States, the number of foreign entities bringing suit under s.337 has increased considerably in

the past 15 years.<sup>21</sup> Every possible assortment of complainant-respondent combination can be found on the Commission’s s.337 docket: domestic-foreign, domestic-domestic, foreign-foreign, and even foreign-domestic.<sup>22</sup> The increase in foreign firms’ use of s.337 raises a deceptively complicated and important question: just how much US activity is necessary to satisfy the domestic industry requirement under subs.(C)?

### Analysis of case law under subsection (C) of the statute

Subsection (C) has enabled entities with substantial US investments in patent exploitation, yet little or no domestic manufacturing activity, to successfully utilise s.337. While the enumerated “exploitation” activities include engineering, research and development and licensing, the latter activity has been by far the most consistently used as the basis of a domestic industry, especially in the past few years. Importantly, the Commission has held that licensing activities *alone* can establish a domestic industry.<sup>23</sup> The critical questions are (1) whether the complainant has made a substantial investment in the United States via licensing, and (2) whether there is a sufficient nexus between the asserted patent and the licensing-related investments.<sup>24</sup>

One of the first cases to analyse domestic industry allegations based solely on licensing was *Certain Digital Satellite Systems (DSS) Receivers*.<sup>25</sup> There, the complainant employed only five individuals, but those persons were responsible for implementing a system of identifying, approaching and negotiating with prospective licensees. The complainant had made large monetary investments in its licensing programme and had entered into agreements with four licensees. In addition, the complainant was generating considerable revenue from those agreements. Notably, the judge stated that a complainant is not required to show that either it or its licensees manufacture a product covered by the asserted patents. In finding the domestic industry requirement

<sup>14</sup> *Certain Microlithographic Machines & Components Thereof*, Inv. No.337-TA-468, Initial Determination at 341–361 (April 1, 2003) (stating that it has “long been the Commission’s view” that when the product in question was partially produced outside the US and partly within the US, an assessment of the relative activities must be conducted; in this case, under such a comparative analysis, the complainant’s investments in plant and equipment and employment of labour or capital were not found significant in “any way”).

<sup>15</sup> The 1988 Act became US Public Law No.100-418.

<sup>16</sup> The injury requirement was eliminated only for cases involving statutory intellectual property, i.e. cases involving registered patents, trade marks, copyrights, semiconductor mask works or vessel hull designs. As a practical matter, since the vast majority of s.337 investigations are based on alleged patent infringement, elimination of the injury requirement was a major development.

<sup>17</sup> See H.R. Rep. No.100-40, at 155–159, and S. Rep. No.100-71, at 127–130 (1987).

<sup>18</sup> *Certain Video Graphics Display Controllers*, USITC Pub. 3224, Inv. No.337-TA-412, Initial Determination at 13 (August 1999) (not reviewed by the Commission, July 19, 1999) (emphasis added).

<sup>19</sup> See *Certain Semiconductor Chips with Minimized Chip Package Size*, Inv. No.337-TA-432, Initial Determination at 11 (January 24, 2001) (“[A] complainant is not required to show that it or one of its licensees practices a patent-in-suit in order to find that a domestic industry exists pursuant to 19 U.S.C. § 1337(a)(3)(C), which pertains to licensing.”).

<sup>20</sup> When analysing domestic activities under subs.(C)’s “substantial” standard, the Commission considers the absolute amount of domestic investment in activities related to exploiting the IPR. Unlike the “significant” standard of subss.(A) and (B), a comparative analysis with foreign activity is inappropriate.

<sup>21</sup> See Robert W. Hahn and Hal J. Singer, “Assessing Bias in Patent Infringement Cases: A Review of International Trade Commission Decisions” (2008) 21 Harv. J.L. & Tech. 457.

<sup>22</sup> Thomas A. Broughan III, “Modernizing § 337’s Domestic Industry Requirement for the Global Economy” (2009) 19 Fed. Cir. B.J. 41, 50.

<sup>23</sup> *Certain DSS Receivers*, Inv. No.337-TA-392, Initial and Recommended Determinations at 10–11 (October 20, 1997).

<sup>24</sup> *Certain DSS Receivers*, Inv. No.337-TA-392, Initial and Recommended Determinations at 10–11 (October 20, 1997). See also *Certain Digital Processors*, Inv. No.337-TA-559, Initial Determination at 85 (June 21, 2007).

<sup>25</sup> *Certain Digital Satellite Systems Receivers and Components Thereof*, Inv. No.337-TA-392, Initial and Recommended Determinations (October 20, 1997).

satisfied, the judge emphasised the size of the patent portfolio, the number of licensees and the fact that the complainant had received significant royalty payments.

In *Certain Semiconductor Chips*, the complainant sought to handle the domestic industry requirement on a motion for summary determination.<sup>26</sup> In opposition, the respondent argued that because the complainant's licence agreements did not always include the asserted patents, and since the complainant had failed to link its alleged investments to the asserted patents, the motion should be denied. The judge rejected those arguments. Specifically, the judge concluded that, in view of the complainant's vast overall investments in licensing, there was no need for a specific allocation of licensing expenditures directly related to the asserted patents. In other words, because the complainant had spent so much money, and the asserted patents were sufficiently prominent among the licence agreements, a specific accounting was unnecessary. This case demonstrates a basic principle: the greater the amount of money a complainant can *prove* it invested on licensing, the more likely it will satisfy the domestic industry requirement—even if the expenditures are not directly tied to the asserted patents.

By contrast, in *Certain Plastic Encapsulated Integrated Circuits*, the “nexus requirement” was given greater weight. As a consequence, the complainant's licensing activities were deemed inadequate to satisfy the domestic industry requirement.<sup>27</sup> The complainant had an extensive licensing programme that included many patents in the applicable portfolio. However, it did not produce evidence demonstrating “the extent of its licensing investment” in the asserted patent individually.<sup>28</sup> The judge thus concluded it was impossible to isolate the licensing activities relating to the asserted patent from the complainant's overall licensing programme. This case demonstrates the importance of the nexus requirement—i.e. the need to link the purported licensing investments to the asserted patent itself.

Licensing investments were also inadequate to satisfy the domestic industry requirement in *Certain Stringed Musical Instruments*, but for a different reason.<sup>29</sup> There, the complainant had spent approximately \$8,500 over a multi-year period in an attempt to license his invention (a component for fine tuning guitar strings). The complainant's only licensees were respondents who settled early in the ITC investigation. The Commission stated there is “no minimum monetary expenditure that a complainant must demonstrate to qualify as a domestic

industry”, and added that the analysis varies based upon the industry in question and the size of the complainant.<sup>30</sup> Nevertheless, the Commission held that the complainant's licensing efforts fell short of establishing a domestic industry. First, the pre-complaint licensing investments did not meet the “substantial” standard. Secondly, the licences obtained from the respondents who settled were irrelevant, since such action occurred after the complaint was filed.<sup>31</sup> Notably, the Commission stated that the existence of a pre-complaint licence agreement was not required, but that the absence of such a licence is a factor to be considered.

In the more recent case of *Certain Digital Processors*, a complainant whose licensing programme consisted of just one employee was found to have satisfied the domestic industry requirement.<sup>32</sup> The judge noted that the:

“Licensing provision of subs.(a)(3)(C) was intended to cover businesses ranging from large Hollywood movie studios, to research and development programs at universities, to small start-up companies that are too small to manufacture any products for themselves.”<sup>33</sup>

Thus the small size of the complainant's licensing programme could not be held against it. The critical factor was the fact that the complainant had “received millions of dollars in royalty payments due to the successful licensing of its patent portfolio, including the [asserted patent]”.<sup>34</sup> This case further solidified the importance of royalty payments in the analysis.

The above cases demonstrate that, in order for a complainant to establish a domestic industry based solely on US investments in licensing, certain elements should be met. Specifically, such a complainant should: (1) have one or more licensees to the asserted patent; (2) receive royalty payments; (3) establish a clear nexus between the licence agreement(s) and the asserted patent; and (4) demonstrate “substantial” licensing expenditures incurred prior to filing the ITC complaint. Even operating within this framework, the Commission has not always been consistent in its analysis. For example, greater weight was given to the nexus requirement in *Certain Plastic Encapsulated Integrated Circuits* (where the complainant's licensing activities were found inadequate) than in *Certain Semiconductor Chips* (where the licensing activities were sufficient). Regardless, the bottom line is

<sup>26</sup> *Certain Semiconductor Chips with Minimized Chip Package Size and Prods. Containing Same*, Inv. No.337-TA-432, Order No.13 (January 24, 2001).

<sup>27</sup> *Certain Plastic Encapsulated Integrated Circuits*, Inv. No.337-TA-315, Initial Determination (October 15, 1991) (note that the complainant did successfully establish a domestic industry under subs.(C), but through research and development investments, rather than through its licensing programme).

<sup>28</sup> *Certain Plastic Encapsulated Integrated Circuits*, Inv. No.337-TA-315, Initial Determination at 86–87 (October 15, 1991).

<sup>29</sup> *Certain Stringed Musical Instruments and Components Thereof*, Inv. No.337-TA-586, Comm'n Op. (May 16, 2008).

<sup>30</sup> *Certain Stringed Musical Instruments and Components Thereof*, Inv. No.337-TA-586, Comm'n Op. at 25–26 (May 16, 2008).

<sup>31</sup> As a general practice, a complainant's alleged domestic industry is measured at the time the complaint is filed. See, e.g., *Certain Coaxial Cable Connectors & Components Thereof & Prods Containing Same*, Inv. No.337-TA-650, Comm'n Op. at fn.17 (April 14, 2010); *Certain CD-Rom Controllers & Prods Containing the Same-II*, Inv. No.337-TA-409, Comm'n Op. at 37 (October 18, 1999) (citing *Texas Instruments v U.S. Int'l Trade Comm'n* 988 F. 2d 1165, 1181 (Fed. Cir. 1993)). However, “the domestic industry determination is not made by application of a rigid formula”.

<sup>32</sup> *Certain Digital Processors*, Inv. No.337-TA-559, Initial Determination (June 21, 2007).

<sup>33</sup> *Certain Digital Processors*, Inv. No.337-TA-559, Initial Determination at 97 (June 21, 2007). (quoting 132 Cong. Rec. H1783 (daily edn, April 10, 1986) (statement of Rep. Kastenmeier)).

<sup>34</sup> *Certain Digital Processors*, Inv. No.337-TA-559, Initial Determination at 98 (June 21, 2007).

that the required level of US activity has been steadily decreasing, and many foreign companies have little trouble establishing a domestic industry under subs.(C).<sup>35</sup>

## Recent major developments: litigation as licensing

### *Certain Short-Wavelength Light Emitting Diodes*

In 2009, an investigation entitled *Certain Short-Wavelength Light Emitting Diodes* pushed the limits of a licensing-based domestic industry. The complainant, a university professor, was an individual inventor with no employees, manufacturing facilities, or even a bona fide licensing programme. However, she had asserted the patents-in-suit in previous district court litigations, resulting in licence agreements and royalty payments. Importantly, she spent many thousands of dollars in legal fees on those patent enforcement actions. The central question at the ITC was whether those legal expenditures qualified as a form of substantial investment in “exploiting” the asserted patents under subs.(C).

The respondents noted that all of the complainant’s licence agreements were obtained through litigation settlement, as opposed to more traditional licensing activities and negotiations. They argued that “legal and litigation expenses together with royalty income cannot, in and of themselves, satisfy the domestic industry standard”.<sup>36</sup> The judge disagreed. He stated that there is no bright-line test to determine what constitutes a “substantial investment” in licensing of the asserted patent. Rather, he reasoned, the scope of the analysis must be determined on a case-by-case basis. The judge concluded that, because the complainant’s legal fees were not defensive in nature (i.e. defending herself against infringement litigation), such expenses could be considered “exploitation” of the asserted patent within the meaning of subs.(C). Using that methodology, he concluded that the complainant’s patent litigation expenses were sufficient to meet the standard.

The Commission quickly determined to review the judge’s decision. In doing so, it issued questions for the parties to answer.<sup>37</sup> One question asked whether s.337, its legislative history, and applicable case law support the notion that payments made to outside counsel for patent litigation and licensing qualify as “investment” under

subs.(C).<sup>38</sup> The parties settled the case soon thereafter, however, so the Commission did not ultimately weigh in on the matter.

### *Certain Coaxial Cable Connectors*

The seminal licensing case to date is *Certain Coaxial Cable Connectors*, decided in 2010.<sup>39</sup> The Commission’s landmark decision in that investigation provides key insight into the future of the domestic industry requirement. Like the complainant in *Short-Wavelength Light Emitting Diodes*, the complainant in *Coaxial Cable Connectors* not only sought to establish a domestic industry based solely on licensing activities, but also argued that its litigation expenses were properly part of the equation. The Commission agreed.

The complainant was a non-practising entity (NPE) that produced no products in the United States and conducted minimal “licensing activities” in the traditional sense of that term. Instead, the complainant’s business model focused on litigation as a means of fostering licence agreements and thus monetising its patents. The complainant’s expenditures on those litigation activities constituted the backbone of its “substantial investment in [the] exploitation” of the asserted patents. The fundamental legal question was whether such expenditures—aimed solely at deriving revenue—could be used to establish a domestic industry.

The Commission determined that ordinary usage of the term “exploitation” supports an expansive reading of that term. Accordingly, the Commission stated that:

“Litigation activities (including patent infringement lawsuits) may satisfy [the domestic industry] requirements if a complainant can prove that [those] activities are related to licensing and pertain to the patent at issue, and can document the associated costs.”<sup>40</sup>

The Commission qualified that statement, however, making it clear that “patent infringement litigation activities alone do not constitute ‘exploitation’ under [subs.(C)]”.<sup>41</sup> Thus the Commission will not recognise litigation *itself* as sufficient to satisfy the test, but will value it as contributing to a domestic industry if the complainant can prove that the litigation was related to its licensing efforts. Significantly, the Commission “will also consider licensing activities for which the sole

<sup>35</sup> See Donald Knox Duvall et al., *Unfair Competition and the ITC: Actions Before the International Trade Commission Under Section 337 of the Tariff Act of 1930* (2008), pp.2–3.

<sup>36</sup> *Certain Short-Wavelength Light Emitting Diodes, Laser Diodes & Prods Containing Same*, Inv. No.337-TA-640, Order No.72: Initial Determination Granting Complainant’s Motion No.640-141, Regarding Domestic Industry Requirement, at 11 (May 8, 2009).

<sup>37</sup> See Scott M. Kelly, “The Evolution of Licensing as a Basis for Establishing Domestic Industry: Testing the Outer Limits” (2009) 26 *ITC Trial Lawyers Association Section 337 Reporter* 113, 118–123.

<sup>38</sup> Kelly, “The Evolution of Licensing as a Basis for Establishing Domestic Industry” (2009) 26 *ITC Trial Lawyers Association Section 337 Reporter* 113, 118–123. In its responses, the OUII staff attorney argued that the complainant’s reliance on her “pattern of licensing activities” ran counter to legislative intent because she did not consummate any licence outside the context of litigation. The OUII attorney noted that the judge’s decision went beyond precedent because, in prior subs.(C) cases, complainants had engaged in additional domestic activities such as investments in employees, customer service and engineering. The OUII attorney contended that adoption of the judge’s decision would render the domestic industry requirement almost meaningless because the complainant’s activities were not much different from mere ownership of a US patent. See Inv. No.337-TA-640, Reply Brief of the OUII on the Issues under Review at 12–13 (June 26, 2009); Petition of the OUII for Review of Initial Determination at 10, 16 (May 19, 2009).

<sup>39</sup> *Certain Coaxial Cable Connectors & Components Thereof & Prods Containing Same*, Inv. No.337-TA-650, Comm’n Op. (April 14, 2010).

<sup>40</sup> *Certain Coaxial Cable Connectors*, Inv. No.337-TA-650, Comm’n Op. at 44 (April 14, 2010).

<sup>41</sup> *Certain Coaxial Cable Connectors*, Inv. No.337-TA-650, Comm’n Op. at 46 (April 14, 2010).

purpose is to derive revenue from existing production”.<sup>42</sup> With that statement, the Commission made it clear that the business model of NPEs is not a bar to establishing a domestic industry under s.337.

The Commission remanded the decision to the judge, instructing him to determine the extent to which the complainant’s litigation activities and costs were related to licensing of the asserted patent. Ultimately, the judge determined the complainant had not met its burden. His decision was largely based on evidentiary inadequacies. For example, many of the legal bills proffered by the complainant to show litigation expenditures were heavily redacted. Consequently, it was impossible for the judge to ascertain how much of the costs were actually connected to the asserted patent. In addition, the judge noted that the complainant had obtained only one licence agreement for the asserted patent (of which only a portion related to that patent) and that the complainant had no genuine licensing programme. Calling his decision a “close one”, the judge concluded the evidence did not demonstrate a substantial investment in exploitation of the asserted patent through licensing.<sup>43</sup> The judge’s remand decision shows that, in spite of the Commission’s

opening the door to litigation as a cognisable “licensing” investment under subs.(C), complainants must carry their burden of (1) showing the substantiality of such licensing investments, and (2) linking those investments—with credible evidence—to the asserted patents.

## Conclusion

Section 337 cases sit at the centre of global intellectual property litigation. The combination of the ITC’s expansive jurisdiction, unique remedies and expeditious proceedings makes s.337 an attractive enforcement option for owners of US IPR. The evolution of the domestic industry requirement has opened the Commission’s doors to foreign entities with limited physical contact with the United States, small entities lacking the capital for domestic manufacturing and even NPEs whose primary US activities are patent enforcement litigation. This trend has stimulated an additional increase in s.337 cases. As global trade and supply chain patterns continue to evolve, and as intellectual property protection becomes an even greater priority, the ITC should become one of the most active and highest profile venues for international business disputes.

<sup>42</sup> *Certain Coaxial Cable Connectors*, Inv. No.337-TA-650, Comm’n Op. at 50 (April 14, 2010).

<sup>43</sup> Inv. No.337-TA-650, Remand Initial Determination on Violation of Section 337, at 25 (May 27, 2010).