

ITC Gets Creative To Limit NPE Access Under Section 337

Law360, New York (April 02, 2013, 2:42 PM ET) -- The United States International Trade Commission is the administrative agency tasked with administering 19 U.S.C. § 1337, commonly known as Section 337. That statute 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.

As an international trade statute, Section 337 requires a complainant to prove it has a "domestic industry" related to the intellectual property being asserted, making it an essential element of a Section 337 violation. Historically, complainants satisfied that test by proving they manufactured a product in the United States utilizing the asserted intellectual property.

The statute was amended in 1988 to allow intellectual property holders that do not manufacture products, in other words, nonpracticing entities, to obtain remedies at the ITC. In amending the statute, Congress specifically noted that inventors, universities startups, and other entities that conduct research and development, engineering, or licensing activities are equally entitled to Section 337 relief as manufacturing industries. Thus, a domestic industry can be established based on "substantial investment in [the asserted patent's] exploitation, including engineering, research and development, or licensing."^[1]

Critics claim that the current domestic industry requirement is easily met by licensing investments of questionable value to the U.S. economy. The commission has now responded with a creative solution to any perceived problems the ITC may have with NPEs. In *Certain Products Having Laminated Packaging, Laminated Packaging, and Components Thereof ("Laminated Packaging")*, Lamina Packaging Innovations LLC, a patent assertion entity^[2] that does not produce any product, filed a complaint at the ITC accusing 15 respondents of patent infringement. The commission's notice of institution, for the first time, ordered the administrative law judge to "hold an early evidentiary hearing, find facts, and issue an early decision, as to whether the complainant has satisfied the economic prong of the domestic industry requirement."^[3]

Significantly, the commission has given the ALJ 100 days from institution to issue an initial determination relating to the economic prong of the domestic industry requirement.[4] A finding that the economic prong of the domestic industry requirement is not satisfied will effectively end any further litigation while the commission makes a final determination or orders otherwise.[5]

The commission is using Laminated Packaging to send a message to NPEs — be prepared to prove your domestic industry before addressing the remaining merits of the case. This puts significant pressure on the NPE and reduces its leverage to extract settlement. The expense to the respondents is reduced because they are potentially in a position to dispose of the case on domestic industry in the first 100 days and not be forced to litigate the remaining issues. This is noteworthy because, since the three-part threshold of a licensing based domestic industry was established in Certain Multimedia Display and Navigation Devices and Systems[6] in August 2011, only a single complainant has established a domestic industry through licensing.[7] Multiple complainants have failed to meet this standard, including, in 2012, two NPEs that had met the requirement in previous investigations.[8]

The motivation for NPEs to come to the ITC is speculative. Many commentators suggest it is because the U.S. Supreme Court's decision in eBay vs. MercExchange makes it more difficult to obtain injunctions for patent infringement. Other commentators suggest NPEs began using the ITC in late 2010 and 2011 to avoid Federal Circuit decisions on damages or the America Invents Act reform on joinder rules. However critics want to frame the perceived problem, the commission's solution shows its sensitivity toward respondents forced to bear the expense and business uncertainty of defending an ITC complaint filed by an NPE.

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. Since the statute was amended, the commission has consistently ruled that a domestic industry can be found based on licensing activities alone. In Coaxial Cable Connectors, however, the commission adopted a case-by-case approach on whether a nonmanufacturing complainant's licensing activities constitute "exploitation" of the patent as intended by Congress.[9] Despite what critics may claim, in reality, the ITC has been vigorous and thorough in applying the statute's "substantial investment" requirement when complainants seek to establish domestic industry based on licensing activities.[10]

Section 337 requires careful consideration of the effect on public health and welfare, U.S. competitive conditions, domestic production of similar or competing articles, and U.S. consumers before any remedial measures can be adopted.[11] The commission has shown that it has the ability and willingness to tailor a remedy to accommodate public interest concerns.[12] Laminated Packaging is another example of the commission recognizing the importance of the public interest. The commission recently issued new public interest rules to improve the record created on the public interest aspects of investigations.[13] The new rules enable the commission to assess if development of public interest information early in the investigation would be helpful.[14] The commission's new approach in Laminated Packaging and special attention to the public interest will limit the extent to which an NPE can access Section 337.

--By Tom M. Schaumberg and Evan H. Langdon, Adduci Mastriani & Schaumberg LLP

Tom Schaumberg is a partner and Evan Langdon is an associate in the Washington, D.C., office of Adduci Mastriani & Schaumberg. The authors are contributors to the second edition of the firm's American Bar Association book, titled "A Lawyer's Guide to Section 337 Investigations Before the U.S. International Trade Commission."

Adduci Mastriani & Schaumberg LLP is co-counsel for two of the named respondents in the matter of Certain Products Having Laminated Packaging, Laminated Packaging, and Components Thereof, Inv. No. 337-TA-874.

The opinions expressed are those of the author and do not necessarily reflect the views of the firm, its clients, or Portfolio Media Inc., or any of its or their respective affiliates. This article is for general information purposes and is not intended to be and should not be taken as legal advice.

[1] 19 U.S.C. § 1337(a)(3)(C).

[2] NPEs that do not manufacture products that practice the asserted patents, and whose business model primarily focuses on purchasing and asserting patents, are referred to here as PAEs. See U.S. Int'l Trade Comm'n, Facts and Trends Regarding USITC Section 337 Investigations, at 2-3 (June 18, 2012), available at http://www.usitc.gov/press_room/documents/featured_news/337facts.pdf.

[3] Certain Prods. Having Laminated Packaging, Laminated Packaging, & Components Thereof, Inv. No. 337-TA-874, Notice of Institution of Investigation, at 2 (Mar. 22, 2013).

[4] *Id.*

[5] *Id.*

[6] Certain Multimedia Display & Navigation Devices and Sys., Inv. No. 337-TA-694, Comm'n Op. (Corrected Pub. Version), at 7-8 (Aug. 8, 2011). (The Commission has held that complainants whose domestic industry allegations rest on investment in licensing must meet three threshold requirements: (1) the investments must constitute an exploitation of the individual asserted patent(s); (2) the investments must relate to licensing; and (3) the investments must be domestic, i.e., 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.

[7] Certain Liquid Crystal Display Devices, Including Monitors, Televisions, Modules, & Components Thereof ("Liquid Crystal Displays"), Inv. No. 337-TA-741/749, Comm'n Op. (Pub. Version), at 108-125 (July 6, 2012).

[8] See Certain Semiconductor Chips & Prods. Containing Same, Inv. No. 337-TA-753, Comm'n Op. (Pub.

Version), at 44, 50-51 (Aug. 17, 2012); Integrated Circuits, Chipsets, & Prods. Containing Same Including Televisions, Inv. No. 337-TA-786, Final ID/RD (Pub. Version), at 176 (July 12, 2012); Inv. No. 337-TA-786, Comm'n Op. (Corrected Pub. Version), at 28-30 (Oct 10, 2012).

[9] Certain Coaxial Cable Connectors, Inv. No. 337-TA-650, Comm'n Op., (Mar. 31, 2010).

[10] See supra endnote 4.

[11] 19 U.S.C. 1337(d)(1).

[12] See Certain Personal Data & Mobile Communications Devices, Inv. No. 337-TA-710, Comm'n Op. (Pub. Version), at 68 (Dec. 29, 2011) (created a tailored, narrower exclusion order by extending the effective date of the order by four months due to the likely negative effect of immediate and complete exclusion on the public interest); see also Certain Baseband Processor Chips & Chipsets, Transmitter & Receiver (Radio) Chips, Power Control Chips, & Prods. Containing Same, Including Cellular Telephone Handsets, Inv. No. 337-TA-543, Comm'n Op. (Pub. Version), at 136-154 (June 19, 2007) (issuing a tailored exclusion order that allowed for the continued importation into the U.S. market of those models of the devices that had been imported into the United States for sale to the general public on or before the date of the order).

[13] The new public interest rules became effective on November 18, 2011. See U.S. Int'l Trade Comm'n, Section 337: Building the Record on the Public Interest, available at http://www.usitc.gov/press_room/documents/featured_news/publicinterest_article.htm.

[14] Id. The new rules do not change the substantive practice of the Commission but are intended to increase efficiency and improve procedures for ensuring a complete record.

All Content © 2003-2013, Portfolio Media, Inc.