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The authors, including a former ITC chairman, argue that calls by the White House and Congress for tougher rules on exclusion order requests by patent assertion entities are unwarranted.

Does the ITC need eBay?



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The White House recently proposed that the U.S. International Trade Commission's requirements for the imposition of exclusion orders become aligned with the district court standard articulated by the Supreme Court in *eBay v. MercExchange*. Such an alignment is improper legally, ignoring fundamental differences between relief available at the ITC and in district court. In fact, the rules applied by the ITC are already

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more stringent, in important ways, than the *eBay* standard.

The White House and Congress should avoid steps that would weaken one of the few effective border enforcement remedies available to protect U.S. intellectual property and U.S. industries.

The White House Task Force on High-Tech Patent Issues made seven legislative recommendations designed to "protect innovators from frivolous litigation and ensure the highest-quality patents in our system" and address "challenges from Patent Assertion Entities (PAEs),"¹ including a proposal to "[c]hange the ITC standard for obtaining an injunction to better align it with the traditional four-factor test in *eBay Inc. v. MercExchange*, to enhance consistency in the standards applied at the ITC and district courts."² Critics of the ITC have suggested such a change over the last few years.

Congress, however, should continue to resist such an unwise and illogical amendment to Section 337 of the Tariff Act of 1930. The facts do not support that there is a PAE problem at the ITC. Moreover, to make every domestic industry—manufacturing companies and non-practicing entities (NPEs) alike—prove "irreparable harm" as part of the *eBay* test in order to obtain relief from infringing imports is not a solution. Changing the statute is also unnecessary because the ITC is already effectively "gatekeeping" Section 337 investigations

¹ Non-practicing entities (NPEs) are entities that do not manufacture products that practice the asserted patents, such as inventors, research institutions, universities, and start-ups. Patent assertion entities (PAEs) are NPEs whose business model primarily focuses on purchasing and asserting patents.

² The White House, Office of the Press Secretary, *Fact Sheet: White House Task Force on High-Tech Patent Issues* (June 4, 2013), available at <http://www.whitehouse.gov/the-press-office/2013/06/04/fact-sheet-white-house-task-force-high-tech-patent-issues> (86 PTCJ 274, 6/7/13).

through rigorous application of the “domestic industry” requirement and thorough consideration of the statutory “public interest” factors.

A. The ITC Does Not “Automatically” Apply Injunctive Relief

The 2006 Supreme Court decision in *eBay* overturned the district courts’ general practice of mechanically granting permanent injunctions on a finding of infringement. The *eBay* decision interpreted Section 283 of the Patent Act, 35 U.S.C. § 283, which states that injunctions “may” issue “in accordance with the principles of equity,” to require patent holders to satisfy the traditional four-part test for equitable relief before being granted a permanent injunction against an infringer. In that test, a plaintiff must demonstrate that: (1) it has suffered an irreparable injury; (2) remedies available at law are inadequate to compensate for that injury; (3) considering the balance of hardships between the plaintiff and defendant, a remedy in equity is warranted; and (4) the public interest would not be disserved by a permanent injunction.³

There is no “automatic” application of injunctive relief by the ITC. First, the Commission (through the application of the public interest factors) already has the authority and discretion to deny or limit the application of remedial orders. Second, ITC findings of violation and remedial orders, in contrast to district court decisions, are recommendations to the executive that cannot go into effect if the President disapproves.

To further remove or limit the authority of the Commission to recommend to the President the exclusion of infringing imports, however, would be inimical to Section 337 as a trade remedy. As the Federal Circuit has noted: “The difference between exclusion orders granted under Section 337 and injunctions granted under the Patent Act, 35 U.S.C. § 283, follows ‘the long-standing principle that importation is treated differently than domestic activity.’”⁴

Unlike the patent laws, Section 337 is a trade statute that does not provide monetary damages and whose effectiveness relies entirely on its power to exclude unfair imports. The *eBay* decision, in contrast, involved federal district courts operating under a different statute.

1. Aligning the ITC With *eBay* Ignores Fundamental Differences Between the ITC and District Court

Applying the *eBay* factors to an ITC investigation could leave domestic industries with a right, but no remedy, thus nullifying an effective trade remedy. Before Congress reintroduces any new injury requirement into Section 337, members should read the words of their late colleague, Sen. Frank R. Lautenberg:

Where trade affects the rights of patent, copyright, or trademark owners in the United States, there ought not be such obstacles to relief. To exclude certain imported goods, it should be enough that the articles infringe a patent, or are

made abroad by the unauthorized use of a process that is patented here.⁵

In sum, “proof of piracy should be enough. Infringement is injury.”⁶ Applying the first *eBay* factor, irreparable injury, would not only reintroduce an injury test that Congress specifically removed in 1988, it would introduce an even higher standard of *irreparable* harm. Moreover, reinserting an injury test will increase the burden and lengthen the time for all domestic industries trying to obtain expeditious and effective relief against infringing imports.

In addition, “irreparable” harm is generally defined by the district courts as harm that cannot be recompensed financially.⁷ But the Commission has no authority to order the payment of damages. The very purpose of Section 337 is to ensure that domestic industries have an exclusionary remedy against infringement when the infringing party is overseas and, often, beyond the reach of U.S. courts. It is irrelevant to make a determination that harm to the complainant is “irreparable” as a condition of relief when the Commission has no authority in the first place to order the infringer to pay damages in lieu of exclusion. The second and third *eBay* factors relating to remedies at law have no applicability to Section 337, because the purpose of Section 337 is to provide exclusionary relief when there may be no remedies available at law.

Regarding the fourth *eBay* factor, Section 337 already requires careful consideration of four enumerated public interest factors before any remedial measures can be adopted: the effect of any order on “the public health and welfare, competitive conditions in the United States economy, the production of like or directly competitive articles in the United States, and United States consumers.”⁸ Moreover, the Commission issued new public interest rules in November 2011 to increase efficiency and improve procedures for ensuring a complete record.⁹

District courts, by comparison, do not follow any specific public interest factors. Instead, district courts determine whether an injunction “strikes a workable balance between protecting the patentee’s rights and protecting the public from the injunction’s adverse effects.”¹⁰ The Commission’s careful examination of the statutory public interest factors, and the required presidential review on national economic and policy

⁵ 131 Cong. Rec. 23772 (1985).

⁶ 133 Cong. Rec. S1795 (1987).

⁷ *Winter v. Natural Resources Defense Council Inc.*, 555 U.S. 7 (2008) (citing *Amoco Production Co. v. Gambelli*, 480 U.S. 531, 545 (1987) (defining irreparable harm as something that can seldom be adequately remedied by money damages and is often permanent or at least of long duration)).

⁸ 19 U.S.C. 1337(d)(1) (2011).

⁹ See Notice of Final Rule, 76 Fed Reg. 64,803-64,810 (Oct. 19, 2011).

¹⁰ *i4i L.P. v. Microsoft Corp.*, 598 F.3d 831, 863, 93 U.S.P.Q.2d 1943 (Fed. Cir. 2010) (79 PTCJ 538, 3/12/10), *aff’d*, 131 S. Ct. 2238, 98 U.S.P.Q.2d 1857 (2011) (82 PTCJ 182, 6/10/11) (citing *Broadcom Corp. v. Qualcomm Inc.*, 543 F.3d 683, 704, 88 U.S.P.Q.2d 1641 (Fed. Cir. 2008) (76 PTCJ 733, 9/26/08)); see also *Douglas Dynamics L.L.C. v. Buyers Products Co.*, No. 2011-1291 at *7, 2013 BL 133566, 107 U.S.P.Q.2d 1024 (Fed. Cir. May 21, 2013) (86 PTCJ 225, 5/31/13) (stating that the public interest is served through competition); *Robert Bosch L.L.C. v. Pylon Manufacturing Corp.*, 659 F.3d 1142, 1156, 100 U.S.P.Q.2d 1656 (Fed. Cir. 2011) (82 PTCJ 854, 10/21/11) (comparing public safety to the public interest).

³ *eBay Inc. v. MercExchange L.L.C.*, 547 U.S. 388, 78 U.S.P.Q.2d 1577 (2006) (72 PTCJ 50, 5/19/06)

⁴ *Spanson Inc. v. International Trade Commission*, 629 F.3d 1331, 1359, 97 U.S.P.Q.2d 1417 (Fed. Cir. 2010) (81 PTCJ 283, 1/7/11).

grounds, already provide a safeguard greater than the public interest considerations afforded by *eBay*.

2. The Commission Has Great Flexibility in Issuing Its Remedies

The Commission, in weighing the public interest, already has great flexibility in issuing its remedies and does not need to choose between an immediate exclusion order and no exclusion order at all.¹¹ For example, in *Certain Personal Data and Mobile Communications Devices*, the Commission, after finding a violation of Section 337 by HTC smartphones, considered the likely negative effect of immediate and complete exclusion on the public interest and created a tailored, narrower exclusion order. Citing the effect on competitive conditions in the U.S. economy, the Commission implemented a four-month delay to its exclusion order and allowed HTC to import refurbished smartphones as replacements for approximately one and a half years after the exclusion order became effective.¹²

B. There Is No Evidence of a PAE Problem at the ITC

Before imposing new and burdensome hurdles for U.S. intellectual property owners trying to protect their rights against foreign infringers, there must first be evidence of a problem. Critics of the ITC base their call for reform on a number of misconceptions.

First, critics continue to claim that PAEs account for the increased Section 337 caseload. Specifically, they argue that, as a result of the *eBay* decision, PAEs are increasingly seeking relief at the ITC. There is no factual support for this claim. In a published fact sheet in April 2013, the ITC concluded that, since the *eBay* decision was issued, only 27 cases, or 9 percent of all Section 337 investigations, involved complaints filed by PAEs, and just 33 cases, or 11 percent of all investigations, involved the more broadly defined NPEs, such as research institutions, start-ups, and individual inventors.¹³

In contrast, a report published by the National Economic Council and the Council of Economic Advisers shows that, last year alone, 60 percent of all district court patent suits were brought by PAEs.¹⁴ Thus, the premise of the critics' principal complaint about the ITC is fundamentally wrong: the evidence shows that the *eBay* test is not funneling PAEs from the district courts

to the ITC and, in fact, PAEs are far less prevalent at the ITC than in district court.

Second, critics argue that PAEs are disproportionately benefiting from ITC remedial orders compared to manufacturing companies. Contrary to this misconception, almost all NPEs that have come to the ITC have been unsuccessful. The Commission has issued over 50 exclusion orders since 2006, with only four of them on behalf of NPEs (and each of those four NPEs, or their affiliated companies, actually developed the patented technology).¹⁵

1. The Domestic Industry Requirement Protects the ITC From PAEs

The Commission also has a very powerful mechanism to ensure that PAEs not obtain unwarranted relief at the ITC: the "domestic industry" requirement. As a trade statute, Section 337 requires a complainant to prove it has a "domestic industry" related to the intellectual property being asserted. Although the 1988 amendments to Section 337 allow intellectual property holders that do not manufacture products to obtain remedies at the ITC, the Commission has strictly enforced the statutory requirement that a domestic industry can only be established based on "substantial investment in [the asserted patent's] exploitation, including engineering, research and development, or licensing."¹⁶

Contrary to critics' claims that PAEs are obtaining unwarranted relief, since the Commission decision in *Certain Multimedia Display and Navigation Devices and Systems (Navigation Devices)*,¹⁷ in August 2011, only one NPE has proved the existence of a licensing-based domestic industry (and that complainant did not succeed in obtaining an exclusion order).¹⁸ Interestingly, in 2012, two NPEs that had, in investigations prior to *Navigation Devices*, satisfied the domestic industry requirement failed to prove that their licensing investments were sufficient to meet the Commission's more stringent test, then being applied.¹⁹ Already in 2013, another NPE has failed to establish a domestic industry based on its licensing investments.²⁰

¹⁵ *ITC Facts and Trends*, *supra* note 12, at 3.

¹⁶ 19 U.S.C. § 1337(a)(3)(C) (2011) (emphasis added).

¹⁷ Inv. No. 337-TA-694, Comm'n Op. (Pub. Version) (Aug. 8, 2011) (82 PTCJ 506, 8/12/11) (holding that a complainant attempting to establish a domestic industry based on licensing must meet three threshold requirements: (1) the investments must constitute an exploitation of the individual asserted patent; (2) the investments must relate to licensing; and (3) the investments must be domestic, i.e., occur in the United States).

¹⁸ *Certain Liquid Crystal Display Devices*, Inv. No. 337-TA-741/749, Comm'n Op. (Pub. Version) (Jul. 6, 2012).

¹⁹ *Certain Semiconductor Chips and Products Containing Same*, Inv. No. 337-TA-753, Comm'n Op. (Pub. Version) (Aug. 17, 2012); *Certain Integrated Circuits, Chipsets, and Products Containing Same Including Television*, Inv. No. 337-TA-786, Comm'n Op. (Pub. Version) (Oct. 10, 2012).

²⁰ *Certain Microprocessors, Components Thereof, and Products Containing Same*, Inv. No. 337-TA-781, Initial Determination (Pub. Version) (Mar. 4, 2013) (domestic industry finding vacated by the Commission in a Feb. 15, 2013, notice, without reaching the merits, because the finding was nondispositive in view of the Commission's adopted claim constructions).

¹¹ *Certain Personal Data and Mobile Communication Devices*, Inv. No. 337-TA-710, Comm'n Op. (Pub. Version), at 81 (Dec. 29, 2011) (83 PTCJ 263, 12/23/11).

¹² *Id.* at 83 (finding that an exclusion order would not be in the public interest "to the extent an immediate exclusion of HTC Android smartphones would have a substantial impact on T-Mobile's competitiveness").

¹³ U.S. International Trade Commission, *Facts and Trends Regarding USITC Section 337 Investigations*, at 2-3 (April 15, 2013) ("*ITC Facts and Trends*"), available at http://www.usitc.gov/press_room/documents/featured_news/337facts.pdf (85 PTCJ 927, 4/19/13).

¹⁴ National Economic Council and the Council of Economic Advisers, Executive Office of the President, *Patent Assertion and U.S. Innovation*, at 5 (June 2013) (86 PTCJ 274, 6/7/13) (showing a growth of patent suits brought by PAEs from 29 percent of all cases in 2010, 45 percent of all cases in 2011, to 60 percent of all cases in 2012).

2. Recent Commission Action Prevent PAEs From Abusing the ITC

Finally, critics argue that PAEs' aggressive litigation tactics are immune to the domestic industry requirement, because the cost of litigation forces respondents into unwarranted settlements.²¹

The Commission, however, has recently launched a pilot program to test whether earlier rulings on certain dispositive issues, such as domestic industry, could "limit unnecessary litigation."²² The Commission will identify, at institution, investigations that are likely to present a potential dispositive issue and direct the administrative law judge (ALJ) to conduct expedited fact finding, hold an abbreviated hearing, and issue an initial determination within 100 days. The Commission will then determine whether to review the early initial determination within 30 days after the ALJ issues it.

The Commission, in *Certain Products Having Laminated Packaging, Laminated Packaging, and Components Thereof (Laminated Packaging)*, employed the pilot program's approach and directed the ALJ to issue an early determination on whether the complainant, a PAE that does not produce any product, satisfies the domestic industry requirement.²³ A final determination by the Commission that the economic prong of the domestic industry requirement is not satisfied will effectively end the litigation.²⁴

The Commission's pilot program and action in *Laminated Packaging* has properly placed the burden on the PAE complainant to prove, at the outset of the litigation, whether it can meet the threshold domestic industry requirement. Significantly, in order to limit the burden on the respondents in the event that the ALJ finds no domestic industry, the Commission has ordered a stay of all further discovery while it reviews the ALJ's decision.

The Commission's pilot program and action in *Laminated Packaging* show that the agency is using its flexibility under the existing statutory framework to police its proceedings and to put PAEs on notice that, in appropriate cases, the ITC will require proof of the existence of a domestic industry before it will address the technical merits of the patent case. This new program will significantly undercut the ability of PAEs to pressure respondents into early settlements.

In addition to aggressive and proactive enforcement of the domestic industry requirement, the Commission

has also issued new rules governing discovery "to reduce expensive, inefficient, unjustified, or unnecessary discovery practices."²⁵ These new discovery rules, combined with the Commission's pilot program and action in *Laminated Packaging*, level the strategic playing field. Because PAEs do not make anything, they have fewer documents to produce and fewer witnesses, resulting in lower discovery costs than the manufacturing entities they are accusing of infringement. The new discovery rules prevent PAEs from engaging in excessive and abusive discovery tactics that have the goal of driving up cost to force settlements.

C. Conclusion

At a time when most policymakers rightly argue that China and other countries need to do more to clamp down on intellectual property infringement, introducing the four-factor *eBay* test into Section 337 would impose new hurdles that Congress expressly removed over two decades ago and, by weakening the statute, will incentivize foreign infringers to keep manufacturing facilities outside of the United States. The ITC continues to interpret Section 337 in a judicious manner and implement creative solutions. Contrary to the claims of some, it has become increasingly difficult for PAEs to establish a domestic industry, PAEs are rarely obtaining exclusion orders, the Commission is carefully policing the domestic industry requirement, and public interest concerns are being carefully addressed.

Supreme Court doctrine requires deference to the expertise of agencies in administering their enabling statutes.²⁶ As part of Section 337, "domestic industry," "substantial investment," and "public interest" are terms of art whose interpretation is squarely within the discretion and expertise of the ITC.

As the ITC continues to harness its expertise, Congressional action should be reserved for a time when there is clear evidence that the ITC is not meeting its statutory mandate or harming U.S. businesses. At present, that case cannot be made.

²⁵ 77 Fed. Reg. 60,952-60,956 (Oct. 5, 2012) (84 PTCJ 1007, 10/12/12).

²⁶ See *National Labor Relations Board v. Bell Aerospace Co. Div. of Textron Inc.*, 416 U.S. 267 (1974) (mandating deference to an administrative agency's interpretation of the term "employee" within its enabling statute); *Federal Trade Commission v. Cement Institute*, 333 U.S. 683 (1948) (giving significant weight to the FTC's interpretation of "unfair competition" within its enabling statute); *Chevron U.S.A. Inc. v. Natural Resources Defense Council Inc.*, 467 U.S. 837 (1984) (recognizing that the regulatory scheme is technical and complex and that those with expertise and charged with responsibility for administering the provision are in the best position to do so).

²¹ The data do not show a greater settlement rate for NPE investigations compared to non-NPE investigations. *ITC Facts and Trends*, *supra* note 12, at 3.

²² U.S. International Trade Commission, *Pilot Program Will Test Early Disposition of Certain Section 337 Investigations*, (June 24, 2013), available at http://www.usitc.gov/press_room/documents/featured_news/337pilot_article.htm.

²³ Inv. No. 337-TA-874, Notice of Institution of Investigation, at 2 (Mar. 22, 2013).

²⁴ *Id.*