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Protecting Domestic Industries at the ITC

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PROTECTING DOMESTIC INDUSTRIES AT THE ITC

Colleen V. Chien*

Abstract

The International Trade Commission (ITC) provides injunctive relief from imports that infringe intellectual property to “domestic industries.” Differences in opinion about what this term means have divided those who do and those who don’t practice their patents. Should they both have access to the ITC?

This article reviews the statute, its history, and its application to this question. It agrees with the Commission’s finding in *Coaxial Cable* that the design and history of the statute favor activity that furthers the development and commercialization of technology. It suggests two changes to more closely align ITC practice with the statute.

The ITC should consistently apply the technical prong, whether or not the complainant is practicing or non-practicing. The ITC’s selective application of this requirement is inconsistent with the plain language of the statute and disadvantages practicing complainants relative to their non-practicing counterparts. In applying the economic prong to 337(a)(3)(C) cases, the ITC should take into account the statute’s design and legislative history. In doing so, it should give greater weight to activities undertaken to transfer and commercialize technology, and less to activities that do not.

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Introduction

The International Trade Commission (ITC) provides injunctive relief against imports that infringe intellectual property.¹ One of the most pressing issues is who should have standing to initiate an ITC investigation. The statute specifies that only patentees that can prove a “domestic industry” are eligible.² Differences in opinion regarding what this term means have divided patentees who do and patentees who don’t practice their patents. Should they both have access to the ITC?

This question is important because of two trends: the increasing popularity of the ITC and the increasing divergence in patent law applied at the ITC and district court. Once a specialized venue with limited jurisdiction, the ITC’s reach has become broader, the number of patent cases at the ITC tripling over the past decade.³ Though only one of about 90 venues in which a patent infringement lawsuit can be initiated,⁴ the ITC heard over 10% of all patent trials in 2010.⁵ Around two-thirds of ITC cases have a district court counterpart.⁶ There are no juries, no counterclaims, few stays for reexamination,⁷ and no

* Assistant Professor of Law, Santa Clara University Law School. colleenchien@gmail.com The proposal here is based on remarks presented at the fall 2010 Georgetown/Stanford conference and testimony provided by the author at the May 2010 DOJ/FTC/PTO Hearings on Patent Remedies. Thanks to Michael Risch for his comments on an earlier draft, and to Roozbeh Gorgin, Sehyun Kim, and Lee-Ann Smith Freeman for excellent research assistance. A draft of this article was submitted to the ITC in May 2011 in response for its request for public comment in Case TA-337-694.

¹ 19 U.S.C. § 1337 (2006).

² *Id.*

³ Colleen V. Chien, *Patently Protectionist? An Empirical Analysis of Patent Cases at the International Trade Commission*, 50 WM. & MARY L. REV. 63, 68 (2008).

⁴ See *Frequently Asked Questions*, U.S. CT., <http://www.uscourts.gov/Common/FAQS.aspx> (last visited May 18, 2011) (There are 89 districts in the 50 states).

⁵ Charles H. Sanders & Adam R. Wichman, *Will ITC Staffing Changes Make Future Section 337 Litigation More Like Federal Court?*, GOODWIN PROCTER LLP, 2 (April 5, 2011), <http://www.goodwinprocter.com/Publications/Newsletters/IP-Advisor/2011/20110405.aspx?device=pdf>.

⁶ Chien, *supra* note 3, at 92. Accord, FTC, *EVOLVING IP MARKETPLACE infra* note 13, at 239.

⁷ See, e.g., *Certain Semiconductor Chips*, Inv. No. 337-TA-605, Comm’n Op. (May 27, 2008) (stay denied); *Certain Course Management Systems Software Products*,

damages.⁸ The case will likely be resolved within 18 months. This level of efficiency makes the ITC one of the world's premier venues for resolving patent disputes.

Yet the increasing popularity of the ITC highlights the divergence between the ITC and the district court, most notably in the standard for issuing injunctions.⁹ If the ITC “determines . . . that there is a violation [], it *shall* direct the articles concerned [][to] be excluded from entry into the United States” unless one of a variety of public interest factors dictates otherwise.¹⁰ In contrast, district courts “*may* grant injunctions in accordance with the principles of equity to prevent the violation of any right secured by patent.”¹¹ In *eBay*, the Supreme Court enumerated the factors a court must consider in deciding whether or not to award an injunction.¹²

As a result, patent holders can get injunctions from the ITC even when they may not be entitled to under *eBay*. The ITC awards injunctions more readily than do district courts: the FTC reports that district courts have awarded injunctions in 72-77% of cases where the patentee wins,¹³ versus the ITC's nearly

Inv. No. 337-TA-677, Order No. 5 (Jul. 24, 2009) (stay denied); Certain Bassinet Products, Inv. No. 337-TA-597, Order No. 11 (Sep. 10, 2007) (stay denied); Tom Fisher & Alex Englehart, *A Closer Look at Requests to Stay Section 337 Investigations Pending Reexamination at the U.S. Patent & Trademark Office*, ITC LAW BLOG (Nov. 6, 2009, 5:12 PM), <http://www.itcblog.com/20091106/a-closer-look-at-requests-to-stay-section-337-investigations-pending-reexamination-at-the-u-s-patent-trademark-office/> (describing stays for reexamination as generally hard to obtain).

⁸ Chien, *supra* note 3, at 102.

⁹ In addition, the ITC does not recognize certain defenses that are available to defendants in district court. *Kinik Co. v. Int'l Trade Comm'n*, 362 F.3d 1359, 1362-63 (Fed. Cir. 2004) (“[T]he defenses established in § 271(g) are not available in § 1337(a)(1)(B)(ii) actions.”).

¹⁰ 19 U.S.C. § 1337(d)(1) (emphasis added).

¹¹ 35 U.S.C. § 283 (2006) (emphasis added).

¹² *eBay Inc. v. MercExchange*, 547 U.S. 388, 391 (2006). A permanent injunction should only be awarded under this statute if a plaintiff can show (1) irreparable injury, (2) the inadequacy of remedies at law, such as money damages, (3) that the balance of hardships warrants an equitable remedy, and (4) that the public interest would not be disserved by a permanent injunction.

¹³ FED. TRADE COMM'N, *THE EVOLVING IP MARKETPLACE: ALIGNING PATENT NOTICE AND REMEDIES WITH COMPETITION* 217 (2011) [hereinafter *EVOLVING IP MARKETPLACE*], available at <http://www.ftc.gov/os/2011/03/110307patentreport.pdf>.

automatic grant. This difference is greater among patentees that do not practice their patents: post-*eBay*, district courts have granted about half of the requests for injunction they received from non-practicing entities (54%).¹⁴ When universities and research and development organizations are excluded,¹⁵ the injunction grant rate to prevailing plaintiffs drops even further,¹⁶ in contrast with the ITC's much better odds.

These differences in standards have drawn the intense scrutiny of the amici,¹⁷ academics,¹⁸ practitioners,¹⁹ and the Federal Trade Commission.²⁰ Two

¹⁴ Seven out of thirteen. *Id.* at 256, n.23. (“A longer term review of the post-*eBay* case law reveals that as of March 1, 2010, courts had heard thirteen requests for permanent injunctions where the opinion suggests that the patent owner is one of several types of non-practicing entities, including a university, research institute and independent inventor. Of those thirteen cases, district courts granted an injunction seven times.”)

¹⁵ That is, excluding cases brought by Johns Hopkins and Emory universities and research and development organizations CSIRO, Broadcom, and Rambus.

¹⁶ To 38%, or three out of eight cases. *EVOLVING IP MARKETPLACE*, at 256 & n. 23 (listing the following cases: *i4i Ltd. Partnership v. Microsoft Corp.*, 670 F. Supp. 2d 568 (E.D. Tex. 2009), *aff'd*, 598 F.3d 831 (Fed. Cir. 2010) (affirming the grant of an injunction while modifying its effective date), *aff'd*, *Microsoft v. i4i Slip Opinion* (___ US ___) decided June 9, 2011) (No. 10-29); *Creative Internet Advertising Corp. v. Yahoo! Inc.*, No. 6:07cv354, 2009 WL 4730622 (E.D. Tex. Dec. 9, 2009) (injunction denied); *Telcordia Tech., Inc. v. Cisco Systems, Inc.*, 592 F. Supp. 2d 727, (D. Del. 2009) (injunction denied), *aff'd in part and vacated in part*, 612 F.3d 1365 (Fed. Cir. 2010); *Kowalski v. Mommy Gina Tuna Resources*, Nos. 05-00679, 05-00787, 06-00182, 2009 WL 856006 (D. Haw. March 30, 2009) (injunction granted), *clarified by*, 2009 WL 1360695 (D. Haw. May 7, 2009); *Joyal Products, Inc. v. Johnson Electric North America, Inc.*, No. 04-5172, 2009 WL 512156 (D. N.J. Feb. 27, 2009) (injunction granted), *aff'd per curiam*, 335 Fed. Appx. 48 (Fed. Cir. 2009); *Voda v. Cordis Corp.*, No. CIV-03-1512, 2006 WL 2570614 (W.D. Okla. Sept. 5, 2006), *aff'd*, 536 F.3d 1311 (Fed. Cir. 2008) (injunction denied); *z4 Technologies, Inc. v. Microsoft Corp.*, 434 F. Supp. 2d 437, (E.D. Tex. 2006) (injunction denied); *Paice, LLC v. Toyota Motor Corp.*, No. 2:04-CV-211, 2006 WL 2385139 (E.D. Tex. Aug. 16, 2006) (injunction denied), *aff'd in part, vacated in part and remanded*, 504 F.3d 1293 (Fed. Cir. 2007), *on remand*, 2009 U.S. Dist. Lexis 32723 (E.D. Tex. April 17, 2009)). *Accord id.* at 30 (characterizing patent assertion entities – focused on the assertion rather than commercialization of patents – as the patentees “least likely to obtain an injunction under Ebay”).

¹⁷ Evidenced by the overwhelming number of responses to the ITC's requests for public briefing on questions regarding the domestic industry, which include four responses, by Samsung Electronics, Hewlett-Packard Co., Dell, Inc., Asus Computer International, and Transcend Information; Google, Cisco, and Verizon; Tessera, Inc.; and

methods of harmonization have been proposed. The first is to limit the access of patent owners most likely to be denied an injunction under *eBay* to the ITC, through interpretation of the domestic industry requirement.²¹ The second is to encourage the ITC to take a more proactive role in applying the public interest factors to potential exclusion orders, consistent with the Supreme Court's *eBay* analysis.²² The Federal Circuit has declined to require the ITC to follow *eBay*,²³

Hogan & Hartson, in response to questions regarding the ITC's interpretation of 337(a)(3)(C), requested in Coaxial Cables, Inv. No. 337-TA-650, Comm'n Notice (Dec. 14, 2009); and eight responses, by Qualcomm; Rovi; nVidia; Google, HP, and Cisco; Tessera; Greenberg Taurig; and the Washington Legal Foundation in response to the ITC's queries regarding same in the context of portfolio licensing, requested in Certain Multimedia Display and Navigation Devices and Systems, Components Thereof, and Products Containing Same, Inv. No. 337-TA-694 (April 18, 2011).

¹⁸ Including Chien, *supra* note 3, at 110 (discussing desirability of excluding pure licensing as sufficient to prove a domestic industry); Thomas A. Broughan, III, *Modernizing 337's Domestic Industry Requirement for the Global Economy*, 19 FED. CIR. B.J. 41, __ (2009) (thoughtfully analyzing and ultimately recommending abolishment of the domestic industry requirement); Taras M. Czebiniak, *When Congress Gives Two Hats, Which Do You Wear? Choosing Between Domestic Industry Protection and IP Enforcement in Section 337 Investigations*, 26 BERKELEY TECH. L.J. __ (forthcoming 2011) (arguing that the respondent, rather than the complainant, in an ITC case exhibits domestic industry traits).

¹⁹ Alex Lasher, *The Evolution of the Domestic Industry Requirement In Section 337 Investigations Before The United States International Trade Commission*, 18 U. BALT. INTELL. PROP. L.J. 157 (describing the history and current application of the domestic industry requirement); Robert D. Fram & Ashley Miller, *The Rise of Non-Practicing Entity Litigation at the ITC: The State of the Law and Litigation Strategy* (2010) (unpublished paper, on file with the author) (providing an excellent overview of the practical and policy issues behind the NPEs and the domestic industry requirement).

²⁰ Described *infra*, in paragraphs supported by fns. 46-47.

²¹ See, e.g., EVOLVING IP MARKETPLACE, *supra* note 13, at 242 ("The FTC recommends that the ITC consider whether only those licensing activities that promote technology transfer 'exploit' patented technology within the meaning of Section 337, and therefore satisfy the domestic industry requirement.").

²² See, e.g., *id.* at 242-43 ("The FTC also recommends that the ITC incorporate concerns about patent hold-up, especially of standards, into the decision of whether to grant an exclusion order in accordance with the public interest elements of Section 337.").

²³ *Spansion, Inc. v. Int'l Trade Comm'n*, 629 F.3d 1331, 1359 (Fed. Cir. 2010) (holding that the Commission is not required to apply the traditional four-factor test for injunctive relief used by district courts when deciding whether to issue the equitable remedy of a permanent injunction).

shifting attention to the domestic industry requirement, and the question of who is authorized to bring cases.

Substantive inconsistencies between the ITC and the district court have concerned Congress in the past.²⁴ However, Congress has not addressed them in its current patent reform bills.²⁵ That leaves the Commission to interpret and apply the current language of the statute, subject to appellate review.²⁶ This paper considers the domestic industry requirement and compares and contrasts application of its two prongs – the technical prong and the economic prong – to practicing and non-practicing entities.

While the ITC hears many patent cases, its mandate is to promote fair trade and competition in products, not to protect intellectual property rights outside of this context. The statute's domestic industry requirement provides an important safeguard in this regard, reserving the ITC's special procedures and remedies to cases that Congress has decided warrant them. However, the ITC's application of the domestic industry requirement has ironically made it easier in certain ways for non-practicing entities to prove a domestic industry than practicing entities. Non-practicing entities don't have to prove the technical prong and may point to a wide range of activities, including litigation, to prove the economic prong. Practicing entities, on the other hand, are subject to both the economic and the technical prong. Even if the practicing entity has significant US operations, it may still fail the domestic industry requirement if it does not meet the technical prong or have sufficient domestic, relative to foreign, activity.

²⁴ See, e.g., *Hearing on Process Patents Before the S. Judiciary Comm.*, 110th Cong. (2007) (concerning whether the exceptions contained in § 271(g) that apply in the district court should apply to proceedings under § 337). Described at *Senate Judiciary Committee Holds Hearing on Process Patents*, TECH L.J. (May 1, 2007), <http://www.techlawjournal.com/topstories/2007/20070501b.asp>. They continue not to apply in the ITC.

²⁵ See S.23 Patent Reform Act of 2011, *available at* <http://www.govtrack.us/congress/billtext.xpd?bill=s112-23>; HR. 1249 America Invents Act of 2011, *available at* <http://www.govtrack.us/congress/billtext.xpd?bill=h112-1249> (mentioning the ITC only in the context of the estoppels effect of post-grant review proceedings).

²⁶ *Chevron U.S.A. Inc. v. Natural Resources Defense Council, Inc.*, 467 U.S. 837 (1984) (describing a two-step test for deciding the standard of review that should be applied to agency interpretations of the statute it implements).

Two practices in particular should be reformed. First, the ITC should consistently apply the technical prong in cases regardless of whether or not the complainant is practicing or non-practicing. The ITC's selective application of this requirement is inconsistent with the plain language of the statute and disadvantages practicing complainants relative to their non-practicing counterparts. Second, in interpreting the domestic industry to 337(a)(3)(C) cases, the ITC should take into account the statute's design and legislative history. In doing so, it should give greater weight to activities undertaken to transfer and commercialize technology, and favor them over activities to merely enforce patents.

I. The ITC's Remedies Are Reserved for Domestic Industries

The purpose of the ITC is to prevent unfair competition in the importation of goods.²⁷ It does so by addressing some of the special problems historically presented by infringing imports. The ITC's *in rem* jurisdiction, over the goods themselves, attaches to foreign manufacturers that might otherwise evade district court.²⁸ Its general exclusion orders apply to infringing imports regardless of their source, protecting the patent holder against foreign operators that close shop and reappear under a different name.²⁹ The ITC takes about half as long to decide cases as do district courts,³⁰ making it suitable for addressing cases where infringing imports could distort the domestic market. In these ways, the ITC provides relief where the district court cannot.

The statutory history of the venue indicates that access to the ITC and its special features are only justified in cases where infringing imports may harm a domestic industry. As Congress explained when it amended the statute in 1988, "the purpose of the Commission is to adjudicate trade disputes between U.S. industries and those who seek to import goods from abroad. The retention of the requirement that the statute be utilized on behalf of an industry in the United

²⁷ See, e.g., 19 U.S.C. § 1337(a)(1)(A) (defining unfair methods of competition and unfair acts in the importation of articles); H.R. REP. NO. 100-40, at 156-57 (1987) ("The purpose of the Commission is to adjudicate trade disputes between U.S. industries and those who seek to import goods from abroad.").

²⁸ Described in, e.g., Chien, *supra* note 3, at 73.

²⁹ *Id.* at 73-74.

³⁰ *Id.* at Table 11 (adjudicated cases at the ITC take 14 months on average to resolve, vs. 26 months at the district court).

States retains that essential nexus.”³¹ The domestic industry requirement acts as a “gatekeeper,” preventing the “[transformation] of the ITC into an intellectual property court.”³² Patent holders who do not meet the domestic industry standard may bring their cases in district court, where they may pursue injunctive and legal relief.³³

A domestic industry exists when the patentee or its licensee is engaged in development of the patented technology. This engagement can take the form of “(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.”³⁴ This author shares the opinion of the Commission,³⁵ the FTC,³⁶ and commentators,³⁷ that commercialization and adoption of technology, rather than the protection of intellectual property, has been or should be the focus of these provisions, collectively, the “economic prong” of the statute.

³¹ H.R. REP. NO. 100-40, at 156-57.

³² 132 Cong. Rec. 30,816 & n.5 (1986) (statement of Rep. Kastenmeier).

³³ 35 U.S.C. § 281 (2006).

³⁴ 19 U.S.C. § 1337(a)(3).

³⁵ Certain Coaxial Cable Connectors and Components Thereof and Products Containing the Same, Inv. (Commission Decision) No. 337-TA-650, 47-49 (stating that the statutory design and legislative history emphasize “instances in which licensing activities encourage practical applications of the invention or bring the patented technology to the market” but declining to exclude other types of licensing from ITC consideration).

³⁶ EVOLVING IP MARKETPLACE, *supra* note 13, at 243 (recommending that the ITC consider “whether only those licensing activities that promote technology transfer ‘exploit’ patented technology within the meaning of Section 337, and therefore satisfy the domestic industry requirement,” and that “the ITC incorporate concerns about patent hold-up, especially of standards, into the decision of whether to grant an exclusion order in accordance with the public interest elements of Section 337”).

³⁷ *E.g.*, Taras M. Czebiniak, *When Congress Gives Two Hats, Which Do You Wear? Choosing Between Domestic Industry Protection and IP Enforcement in Section 337 Investigations*, 26 BERKELEY TECH. L.J. ___, 2 (forthcoming 2011) (finding problematic the availability of exclusion orders to NPEs); Alex Lasher, *The Evolution of the Domestic Industry Requirement In Section 337 Investigations Before The United States International Trade Commission*, 18 U. BALT. INTELL. PROP. L.J. 157, 176 (characterizing the ability of NPEs to bring their suits at the ITC as exceeding the historical purpose and language of the statute).

The statute and its history emphasize commercial, not legal, activities in several ways. First, the statute requires that the enumerated activities be undertaken, not in the abstract, but “with respect to the articles protected by the patent.” Where there are no articles yet, the statute permits the finding of a domestic industry when one is in the process of being established.³⁸ The repeated use of the term “articles” in the statute is crucial because it underscores Congress’ interest in preventing unfair competition between domestic and foreign suppliers of the specified article, as reflected in the record: “[a]ny sale of in the United States of an infringing product is a sale that rightfully belongs only to the holder or licensee of that property.”³⁹ Turning to the economic prong, the statute specifically lists “engineering” and “research and development,” and does not list “litigation” or “enforcement” as examples of the type of “exploitation” that satisfy the requirements of 337(a)(3)(C).⁴⁰ As the Commission has noted, this statutory design informs the interpretation of “licensing,” in a manner that reflects practical application of the patent.⁴¹

The Congressional history also makes clear that “mere ownership of a patent” is not sufficient to justify ITC adjudication;⁴² further investment in development of the patent is also required. The patentees that the 1988 amendments were passed to protect – universities, startups, and companies that license their patents to manufacturers – exploit their patents by transferring and commercializing their intellectual property.⁴³ As the ITC has pointed out, when Congress revised the statute to include “licensing,” it had in mind this type of *ex ante* licensing, not that which targets existing production.⁴⁴

³⁸ 19 U.S.C. § 1337(a)(2).

³⁹ H.R. REP. NO. 100-40, at 156.

⁴⁰ 19 U.S.C. § 1337(a)(3)(C).

⁴¹ Certain Coaxial Cable Connectors and Components Thereof and Products Containing the Same, Inv. (Commission Decision) No. 337-TA-650, at 47-49.

⁴² S. REP. NO. 100-71, at 130 (1987).

⁴³ See, e.g., MARSHA SUNDEEN ET AL., UNFAIR COMPETITION AND THE ITC (West 2010), 3.17, 84 (describing 337(a)(3)(C) as added to overturn two decisions: *Gremlins Character Depictions*, Inv. No. 337-TA-201 (1986) (copyright holder Warner had extensively promoted its design by licensing it for use on mass-market products); *Miniature Battery-Operated Vehicles*, Inv. No. 337-TA-122 (1982) (inventor had used licensing funds to invest in employees, plant, and equipment and to make toy vehicles designs and prototypes) (citing 132 Cong. Rec. H9965-02, 1986 WL 788376 at *110-11).

⁴⁴ Brief of Appellee International Trade Commission at 59, *John Mezzalingua Assoc., Inc. v. Int’l Trade Comm’n*, No. 2010-1536, 57 (Fed. Cir. Mar. 21, 2011) (“The Commission recognizes that the legislative history and the design of the statutory scheme

In its Coaxial Cable decision (337-TA-650), the Commission carefully considered and acknowledged Congress' emphasis on licensing activities that promote technological commercialization:

“The examples mentioned in the legislative history . . . share a common thread; namely, the intellectual property right holder is taking steps to foster propagation or use of the underlying intellectual property To the extent the examples contained in the legislative history may be understood to convey an intent of Congress, they identify instances in which licensing activities encourage practical applications of the invention or bring the patented technology to the market.”⁴⁵

The FTC supports the ITC's consideration of the economic impact of licensing in evaluating the economic prong. In its study, *The Evolving Marketplace*, it suggests that the “ITC consider interpreting the domestic industry requirement as not satisfied by *ex post* licensing activity solely focused on extracting rents from manufacturers based on products already on the market.”⁴⁶ It finds a focus on *ex ante* licensing, licensing which supports bringing new products to market to be “consistent with the legislative history's concern with promoting innovation in the United States.”⁴⁷

II. The Technical Prong Should Be Applied Consistently to Practicing and Non-Practicing Entities

According to 19 U.S.C. § 1337(a)(3), a domestic industry exists, with respect to patented articles, 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.” The requirement that there be “articles protected by the patent” has been dubbed the “technical prong,” and satisfaction of one of the three

indicates that Congress intended section 337 to cover ‘licensing’ that encourages the productive use of the patented technology.”).

⁴⁵ Certain Coaxial Cable Connectors and Components Thereof and Products Containing the Same, Inv. (Commission Decision) No. 337-TA-650 at 49.

⁴⁶ EVOLVING IP MARKETPLACE, *supra* note 13, at 242.

⁴⁷ *Id.*

conditions, the “economic prong.”⁴⁸ The test for the technical prong of the domestic industry requirement “is essentially the same as that for infringement, i.e., a comparison of domestic products to the asserted claims.”⁴⁹ Satisfaction of the technical prong thus requires evidence that the asserted patent is being practiced.

The ITC has decided to apply the technical prong selectively, to practicing but not non-practicing entities.⁵⁰ This position has no basis in statute. In fact, the statute places “substantial investment in . . . research and development, or licensing” on equal footing with “significant investment in plant and equipment.”⁵¹ Under the plain language of the statute, these activities, when carried out “with respect to the articles protected by the patent” prove a domestic industry. Leveling the playing ground between practicing and non-practicing entities was one of aims of the 1988 amendments, which broadened access to the ITC to universities, startups and licensing companies. While nothing in the statute or its statutory history indicates that Congress intended for it to become easier for non-practicing entities than practicing entities to qualify as domestic industries, the ITC’s non-application of the technical prong requirement in 337(a)(3)(C)-based investigations has arguably had this impact.

The Application of the Technical Prong to Practicing Entities

To satisfy the technical prong, the complainant must show that “the patent claims cover the articles of manufacture relied on to establish the domestic industry.”⁵² The ITC only applies the technical prong to practicing entities, and has at times used it to dismiss the complaints of companies with large domestic operations from the ITC.

⁴⁸ Certain CD-ROM Controllers & Prods. Containing Same, Inv. No. 337-TA-409, Comm’n Op. 55 (Oct. 18, 1999).

⁴⁹ *Alloc, Inc. v. Int’l Trade Comm’n*, 342 F.3d 1361, 1375 (Fed. Cir. 2003).

⁵⁰ See *infra* paragraphs under the header *The Non-Application of the Technical Prong to Non-Practicing Entities*.

⁵¹ 19 U.S.C. § 1337(a)(3).

⁵² Certain CD-ROM Controllers & Prods. Containing Same, Inv. No. 337-TA-409 at 55; accord *Alloc, Inc.*, 342 F.3d at 1375 (“To determine whether an industry relates to the protected articles (the ‘technical prong’ of the domestic industry requirement), the Commission examines whether the industry produces articles covered by the asserted claims. The test for satisfying the ‘technical prong’ of the industry requirement is essentially same as that for infringement, i.e., a comparison of domestic products to the asserted claims.”).

In *Variable Speed Wind Turbines* (337-TA-641), GE initiated a Section 337 claim against Mitsubishi in 2008 over wind turbine technology.⁵³ GE is the world's second largest supplier of wind turbines,⁵⁴ and the top wind turbine manufacturer in the United States, supplying about 43% of the domestic market.⁵⁵ In 2009, GE generated \$6B in revenue related to wind turbine and employed 4,000 in wind related jobs.⁵⁶ Despite these credentials, the Commission found GE to lack the requisite "domestic industry" in variable wind-speed turbine technology (patent 6,921,985).⁵⁷ This is because GE failed the technical prong of the requirement, as GE's wind turbines shunted current *within* a circuit, while the claim recited shunting *from* a circuit.⁵⁸ GE was found not to practice the patent, and therefore, to lack a domestic industry.⁵⁹

In another example, 3M initiated a Section 337 investigation against several respondents over computer keyboard gel-filled wrist rests.⁶⁰ At the time,

⁵³ Certain Variable Speed Wind Turbines and Components Thereof, Inv. No. 337-TA-641, USITC Pub. 4202, Comm'n Op. (Mar. 02, 2010).

⁵⁴ See ANDREW S. DAVID, OFFICE OF INDUSTRIES, INT'L. TRADE COMM'N, IMPACT OF WIND ENERGY INSTALLATIONS ON DOMESTIC MANUFACTURING AND TRADE 3 (2010), available at http://www.usitc.gov/publications/332/working_papers/ID-25.pdf.

⁵⁵ See INT'L. TRADE COMM'N, WIND TURBINES: INDUSTRY & TRADE SUMMARY iii (2009), available at <http://www.usitc.gov/publications/332/ITS-2.pdf>.

⁵⁶ See Paul Glader, *GE Leads U.S. Wind Market but Faces More Competition*, ONLINEWSJ.COM (April 16, 2010), <http://online.wsj.com/article/SB10001424052702303720604575170500339244626.html>; Steve Hargreaves, *GE taps science in comeback fight*, CNNMONEY (Feb. 3, 2011), http://money.cnn.com/2011/02/03/news/companies/general_electric_research/index.htm.

⁵⁷ Matter of Certain Variable Speed Wind Turbines and Components Thereof, Inv. No. 337-TA-641 at 43.

⁵⁸ *Id.* at 39-40, 42.

⁵⁹ *Id.* at 43.

⁶⁰ Certain Gel-Filled Wrist Rests and Products Containing the Same, Inv. No. 337-TA-456, USITC Pub. 3573, Comm'n Op. (Jan. 23, 2003). The respondents included: Velo Enterprise Co., Ltd. ("Velo"), Taiwan; Aidma Enterprise Co. ("Aidma"), Taiwan; Good Raise Chemical Industry Co., Ltd. ("Good Raise"), Taiwan; ACCO Brands, Inc. ("ACCO/Kensington"), Lincolnshire, Illinois; Curtis Computer Products, Inc. ("Curtis"), Provo, Utah; Allsop, Inc. ("Allsop"), Bellingham, Washington; American Covers, Inc. ("ACI"), Draper, Utah; and Gemini Industries, Inc. ("Gemini"), Clifton, New Jersey. *Id.* at 2. The complaint and notice of investigation were later amended to add Crown Vast Development Ltd. ("Crown Vast") and Hornleon Company, Ltd. ("Hornleon"), both of Taiwan. *Id.*

the company had net sales of \$18.3 billion (\$7.6 billion in U.S.), research and development expenditures of \$1.1 billion,⁶¹ and 67,000 employees, about half of them based in the US.⁶² Still, 3M failed to prove a “domestic industry” in gel-filled wrist rests.⁶³ This was because 3M’s wrist rests contained a trace amount of naphthenic oil, which its patent (5,713,544) was construed to disavow.⁶⁴ Because of this technical difference, the ALJ and Commission agreed that 3M failed the technical prong and lacked standing to bring its case before the ITC.⁶⁵

The Non-Application of the Technical Prong to Non-Practicing Entities

Non-practicing entities are not subject to the technical prong.⁶⁶ The ITC has taken the position that a section 337(a)(3)(C) “complainant is not required to separately prove the technical prong of domestic industry,”⁶⁷ but must only prove the economic prong of the requirement. Such complainants are subject to a “simpler test,”⁶⁸ one that does not require practice of the patent. While there does need to be a “nexus” between the complainant’s activities and the patents-in-

⁶¹ 3M, GLOBAL + SPEED + INNOVATION = GROWTH (2003), *available at* http://media.corporate-ir.net/media_files/nys/mmm/reports/2003ar.pdf.

⁶² *Id.*

⁶³ Certain Gel-Filled Wrist Rests and Products Containing the Same, Inv. No. 337-TA-456 at 3. The ITC did not review the ALJ’s remaining findings that: “the ‘544 patent is not invalid due to anticipation, indefiniteness, lack of a written description or the lack of enablement, or improper joinder or non-joinder of inventors; that the ‘544 patent is not unenforceable due to inequitable conduct before the U.S. Patent and Trademark Office (“PTO”); and that complainants are not barred from asserting the ‘544 patent due to equitable estoppel.” *Id.*

⁶⁴ *Id.* at 10, 12.

⁶⁵ *Id.* at 12.

⁶⁶ *See, e.g.*, Certain Short-Wavelength Light Emitting Diodes, Laser Diodes and Products Containing Same, Inv. No. 337-TA-640, Initial Determination Granting Complainant’s Motion No. 640-141 Regarding Domestic Industry Requirement (May 8, 2009).

⁶⁷ Certain Short-Wavelength Light Emitting Diodes, Laser Diodes and Products Containing Same, Inv. No. 337-TA-640, Initial Determination Granting Complainant’s Motion No. 640-141 Regarding Domestic Industry Requirement (May 8, 2009).

⁶⁸ Certain Microlithographic Machs., Inv. No. 337-TA-468, Initial Determination 63 (April 3, 2003) (adopted in relevant part by the Commission).

suit,⁶⁹ this only requires that the asserted patents and activities regarding the patents be connected, not that the patents and products be linked.

Suspension of the technical prong requirement in licensing-based investigations does not follow from the plain language of the statute. However, ITC decisions have cited to the legislative history of the statute. In this history, Congress stated that, “actual production of the article in the United States [is not required] if it can be demonstrated that substantial investment and activities of the type enumerated are taking place in the United States”⁷⁰ In the subsequent paragraphs of the legislative history, Congress makes a distinction between nascent and existing industries, stating that even when an industry is “in the process of being established,”⁷¹ and therefore, there may not be any products, a party still may be entitled to bring a 337 action.

Recommendation: Apply the Technical Prong Consistently, Based on the State of the Technology, Not of the Patentee

The statute does not distinguish between practicing and non-practicing entities, but rather between the nascent and existing stages in a technology’s development. Section 1337(a)(2) specifies that the statutory provisions apply both when “an industry in the United States . . . exists” and also when “an industry . . . is the process of being established.”⁷² This provides a more sensible and statutorily supported distinction for application or non-application of the technical prong. When a startup or university licenses its technology, including the patents, *ex ante*, to a manufacturer, it can take time for the technology to be incorporated into production. In this case, it would not make sense to apply the technical prong requirement because there are no products to compare the patents to. However, when the patents cover existing products, by definition, they

⁶⁹ Certain Semiconductor Chips with Minimized Package Size and Products Containing Same, Inv. No. TA-630, Initial Determination (Sept. 16, 2008), 2008 ITC LEXIS 1700, at *11 (complainant is “only required to show that there is a ‘nexus’ between its licensing activities and the patent in suit”); *accord* Certain Coaxial Cable Connectors and Components Thereof and Products Containing the Same, Inv. (Commission Decision) No. 337-TA-650 at 51 (“[A] complainant must clearly link each activity to licensing efforts concerning the asserted patent.”).

⁷⁰ H.R. REP. NO. 100-40, at 157.

⁷¹ *Id.*

⁷² 19 U.S.C. § 1337(a)(2).

generally represent an established, rather than nascent, industry.⁷³ Indeed, patent assertions and the licenses that result from litigation or pre-litigation demands are generally based on allegations of current, not future, products. Where products exist, there is no good reason a non-practicing patentee should not be required to meet the technical prong just as practicing entities are.

This article recommends the consistent application of the technical prong regardless of whether the complainant is practicing or not. As long as there is a product connected to the patent, by the complainant or its licensee, the requirement should apply. When there is a nascent industry in the technology, because the product has not yet been developed, the nexus requirement could continue to supply the relevant test. The statute's distinction, between existing and nascent domestic industries, rather than an arbitrary distinction between practicing and non-practicing entities, would govern which test applied.

Besides better conforming ITC practice to the statute, this change would avoid complications associated with the current nexus requirement. For example, the ITC has asked for guidance regarding how much activity involving the asserted patent is required, when the patent is part of a larger portfolio.⁷⁴ But the

⁷³ Indeed, in one case that deviates from the practice of not requiring the technical prong to be proven in 1337(a)(3)(C) cases, the ALJ found a domestic industry to exist in part based on the assertion of the complainant, a licensing company, that several products of its licensee practiced the asserted patent. *Certain Electronic Devices, Including Handheld Wireless Communications Devices*, Inv. Nos. 337-TA-673, 337-TA-667, Initial Determination Granting Saxon Innovations, LLC's Motion for Summary Determination that It Has Met the Economic Prong of the Domestic Industry Requirement 14 (Oct. 15, 2009) ("Saxon asserts that the Motorola Moto Q9h, Motorazr2 V8, Tundra VA76r, and MOTO W755 handsets all practice the Asserted Patents. Saxon then offers undisputed evidence regarding the substantial investment in engineering and research and development that Motorola has expended that is directly related to these products. This is sufficient evidence to meet the requirements of the economic prong under 19 U.S.C. § 1337(a)(3)(C).").

⁷⁴ See *Certain Multimedia Display and Navigation Devices and Systems, Components Thereof, and Products Containing Same*, Inv. No. 337-TA-694, Notice of Commission Determination to Extend the Target Date; Request for Supplemental Briefing (Apr. 18, 2011) [hereinafter, April 2011 Request for Public Comment], available at <http://www.itcblog.com/wp-content/uploads/2011/04/commnnoticein694.pdf> (questions "explor[ing] the domestic industry requirement in the context of a complainant that invests in licensing a patent portfolio, which includes the asserted patent among the licensed patents").

technical prong is a more sensible way to test for the requisite connection between the intellectual property and a domestic industry in the products than the consideration of “nexus,” a term that is not derived from the statute.

Consistent application of the technical prong could also reduce the risk that the US will lose access to technology through exclusion orders. If the technical prong is satisfied, the patent is being practiced by someone other than the respondent, providing greater assurance that an alternative supply will be available to address the market need. The risk of a disruption to the domestic market has historically presented a concern. Indeed, each of the three times the ITC has cited public interest concerns to decline to award a prevailing complainant an exclusion order, it has been because domestic alternatives were perceived to be inadequate.⁷⁵

With respect to clean technology, an area that touches upon public interest concerns, questions about the domestic supply have recently been raised. In an investigation involving wind turbine technology (337-TA-641), US Senators Blanche Lincoln and Mark Pryor commended the Commission for reviewing an initial determination of infringement by Mitsubishi, a wind turbine technology maker, that presumably would have led to the issuance of an exclusion order. Their letter stated, “[p]romoting a diversity of technologies in the wind energy sector will be essential if the nation is to achieve the Administration’s goal of developing 20 percent of our electricity from wind by 2030.”⁷⁶ While that case involved two operating companies, non-practicing entities have initiated a number of green technology disputes.⁷⁷ Non-practicing entity Paice, LLC has

⁷⁵ EVOLVING IP MARKETPLACE, *supra* note 14, at 242 n.131 (describing each of these three cases: “Fluidized Supporting Apparatus, USITC Pub. 1967, Inv. No. 337-TA-182 (Oct. 1984) (patents covered beds for burn victims and patentee was unable to meet demand); Inclined-Field Acceleration Tubes, USITC Pub. 1119, Inv. No. 337-TA-067 (Dec. 1980) (patents covered devices used in nuclear physics research, including weapons development and other applications funded by the federal government, for which there were no cost effective replacements); Automatic Crankpin Grinders, USITC Pub. 1022, Inv. No. 337-TA-060 (Dec. 1979) (patent covered automobile part that was in short supply and that improved fuel efficiency during energy crisis)”).

⁷⁶ Letter from Blanche Lincoln, Senator, & Mark Pryor, Senator, to Int’l Trade Comm’n (Nov. 9, 2009), *available at* <http://www.globalclimatelaw.com/uploads/file/Wind%20Turbines%20Lincoln%20Letter.pdf>.

⁷⁷ Eric Lane, *Begun, the Cleantech Patent War Has*, CLEANTECH BLOG (Apr. 8, 2011), <http://www.cleantechblog.com/2011/04/begun-the-cleantech-patent-war-has.html>

sued Toyota, the acknowledged leader in hybrid vehicle technology,⁷⁸ in several venues.⁷⁹ A district court in the Eastern District of Texas found that Toyota infringed Paice's 5,343,970 patent.⁸⁰ Applying *eBay*, however, the district court denied the licensing company an injunction. In an apparent move to avoid this result, Paice re-filed its action in the ITC,⁸¹ which would, had it not settled, likely have resulted in a *grant* of the injunction.⁸² In another series of ITC cases by a non-practicing entity, Columbia Professor Gertrude Neumark Rothschild sued technology companies over light-emitting diode (LED) technology.⁸³ While these disputes settled prior to the issuance of an exclusion order, they highlight the impact on the domestic supply that the ITC can potentially have.⁸⁴ There is a real risk that access will be compromised by an exclusion order if there is no nascent or existing domestic supply, by the complainant or its licensee. Application of the technical prong, however, reduces this risk.

III. Activity that Supports the Commercial Development of the Patent Should Be Given Greater Weight in Evaluation of the Economic Prong

The economic prong requires proof that one or more of the economic activities specified in section 337(a)(3)(A)-(C) take place with respect to the articles identified by the technical prong. These activities include: "(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." Evolution in the market for

[hereinafter Lane, *Begun*] (describing "Clean Tech Non-practicing Patentees in Court: The (First and) Second Wave").

⁷⁸ ERIC L. LANE, CLEAN TECH INTELLECTUAL PROPERTY: ECO-MARKS, GREEN PATENTS, AND GREEN INNOVATION 120 (2011) [hereinafter LANE, CLEAN TECH INTELLECTUAL PROPERTY].

⁷⁹ Lane, *Begun*, *supra* note 77.

⁸⁰ Paice LLC v. Toyota Motor Corp., 2006 US Dist LEXIS 61600, at *3 (E.D. Tex Aug. 16, 2006) (The finding of infringement has been confirmed in Paice LLC v. Toyota Motor Corp., 504 F.3d 1293 (Fed. Cir. 2007).).

⁸¹ Certain Hybrid Electric Vehicles and Components Thereof, Inv. No. 337-TA-688.

⁸² Because district court findings are *res judicata* on the ITC. *See* Young Engineers, Inc. v. Int'l Trade Comm'n, 721 F.2d 1305, 1314-16 (Fed. Cir. 1983).

⁸³ LANE, CLEAN TECH INTELLECTUAL PROPERTY, *supra* note 78, at 137; *e.g.*, Certain Short-Wavelength Light Emitting Diodes, Laser Diodes and Products Containing Same, Inv. Nos. 337-TA-640, 337-TA-674.

⁸⁴ LANE, CLEAN TECH INTELLECTUAL PROPERTY, *supra* note 78, at 142.

intellectual property has led to growth in a variety of types of licensing activity.⁸⁵ Reflective of this trend, according to one analysis, the percentage of investigations that assert a domestic industry based on licensing has grown in recent years.⁸⁶ These trends highlight the importance of two questions: first, what does the term “licensing” mean, and second, what factors should the ITC consider when determining whether an investment in licensing is “substantial”?

The Coaxial Cable Decision

In its *Coaxial Cable* decision, the Commission addressed both questions. As to the question of “licensing,” the Commission considered two types: what it called “advantage-taking” licensing – licensing that involves getting a royalty on existing production, and “productive” licensing – licensing which helps bring a patented technology to market.⁸⁷ While acknowledging that Congress had in mind the latter type of licensing when amending the statute, the Commission nonetheless found the statutory term “licensing” to encompass both types of behavior. Thus, litigation activities such as preparing for and engaging in patent litigation, if connected to the execution of a license could prove a domestic industry. Further, the Commission specified, the licensing efforts must be “clearly link[ed]” to the asserted patent(s).⁸⁸

In order to determine whether an investment in licensing is sufficiently “substantial,” the Commission endorsed a fact specific, case-by-case inquiry. Factors including the type of activity, the relationship between the activity, licensing, and patent at issue, and the amount of investment could be taken into account. In addition, the nature of the activity and the extent to which it “serves to encourage practical applications of the invention or bring the patented technology to the market” could be considered.⁸⁹ The Commission’s *Coaxial Cable* decision is consistent with the generally flexible approach that the ITC has

⁸⁵ See EVOLVING IP MARKETPLACE, *supra* note 13, at 31-72 (describing a range of technology transfer, ex ante, and ex post transactions).

⁸⁶ FRAM, *supra* note 19 at 5 (finding an increase from 13% to 27% in allegations of a domestic industry based on licensing activity from 2000-2006 to 2007-2010).

⁸⁷ Certain Coaxial Cable Connectors and Components Thereof and Products Containing the Same, Inv. No. 337-TA-650, Comm’n Op. 49-50 (Apr. 14, 2010) (Public Version).

⁸⁸ *Id.* at 51.

⁸⁹ *Id.*

adopted in evaluating the economic prong under 337(a)(3)(A) and 337(a)(3)(B).⁹⁰ The context-specific analysis it endorses is also appropriate for determining whether there is sufficient domestic activity to warrant the special protections of the ITC.

However, *Coaxial Cable* leaves a number of questions unresolved. While enumerating a number of factors, it does not detail how to apply them to different licensing situations. Because the Commission adopted an unrestricted definition of “licensing,” the decision fails to clearly signal whether the successful pursuit of ex post or “advantage-taking” licensing, and nothing more, will satisfy the economic prong. While including a laundry list of potential considerations, the decision does not provide guidance as to the weight that the factors deserve. Perhaps conscious of these open questions, the Commission asked for public comment in 2011 regarding how to evaluate the domestic industry definition when the complainant invests in licensing the patent-in-suit as part of a patent portfolio.⁹¹

Recommendation: Give Greater Weight to Activities that Promote Commercialization or Operation of a Domestic Industry, and Less Weight to Those that Do Not

This article recommends that, when analyzing the economic prong, the ITC give greater weight to the types of activities contemplated in the Congressional history, that is, activities that promote commercialization or operation of a domestic industry. Conversely, the more removed from a domestic industry in the ordinary sense of the word the activities are, the more difficult it should be to prove the economic prong. A greater amount of activity, in kind and amount, for example, would need to be shown and may not be sufficient. This approach would apply under any subsection of 337(a)(2), and indeed, would result in a more consistent and uniform approach to the economic prong.

⁹⁰ Peter S. Menell et al., Section 337 Patent Investigation Management Guide 11-20 (UC Berkeley Public Law Research Paper No. 1603330, 2010), *available at* <http://ssrn.com/abstract=1603330> (describing the ITC’s “flexible” approach to finding a domestic industry).

⁹¹ Certain Multimedia Display and Navigation Devices and Systems, Components Thereof, and Products Containing Same, Inv. No. 337-TA-694, Notice of Commission Determination to Extend the Target Date; Request for Supplemental Briefing (Apr. 18, 2011).

What types of activities by the complainant would deserve favored treatment? Investing in plants, equipment, labor and capital for the production or servicing of products are activities that “serve to bring the patented technology to the market.”⁹² Engineering and applied research and development also “encourage practical applications of the invention.”⁹³ So, too, does licensing that includes not only freedom from suit, but supports the adoption and incorporation of the technology through, for example, know-how, support, and servicing of licensed technology.⁹⁴ These activities are, by their nature, the types of activities that “Congress explicitly indicated may establish a domestic industry.”⁹⁵ Because they directly support the commercialization of a technology, they should be treated favorably under an analysis of the economic prong.

Licensing that leads to technology adoption or transfer would satisfy the economic prong. For example, the practices of in-licensing a technology from a specialized company or design shop⁹⁶ and potentially cross-licensing between practicing companies that provide each patentee with access to the other’s technology,⁹⁷ to the extent that they support technology transfer,⁹⁸ would prove the economic prong.

Such an approach is consistent with existing ITC practice, which favors activities that have a commercial impact. A wide variety of activities under 337(a)(3)(A) and (B), directed towards practice of patents, have generally been proven sufficient – as one ALJ has stated, “[t]here is no requirement under

⁹² Certain Coaxial Cable Connectors and Components Thereof and Products Containing the Same, Inv. No. 337-TA-650 at 51.

⁹³ *Id.*

⁹⁴ As potentially contemplated, for example, by Questions 8 and 9 of the April 2011 Request for Public Comment.

⁹⁵ Certain Coaxial Cable Connectors and Components Thereof and Products Containing the Same, Inv. No. 337-TA-650 at 51.

⁹⁶ *E.g.*, EVOLVING IP MARKETPLACE, *supra* note 13, at 35-36.

⁹⁷ Described in, *e.g.*, Colleen V. Chien, *From Arms Race to Marketplace: The Complex Patent Ecosystem and Its Implications for the Patent System*, 62 HASTINGS L.J. 297, 307-310 (2010).

⁹⁸ As opposed to merely providing freedom from suit, without any technology transfer. *Accord* NAND Flash Memory, Inv. No. 337-TA-553 (finding defensive cross licenses that were the result of litigation but which did not encourage adoption of the patented technology to provide insufficient evidence of a domestic industry under 337(a)(3)(C)); *see also* April 2011 Request for Public Comment, at Question (4).

Section 337 that an industry be a certain size.”⁹⁹ This has resulted in the domestic industry requirement, when applied to companies who are practicing their patents domestically, as being “relatively easy to clear.”¹⁰⁰ The pursuit of licensing by universities and startups in order to support the domestic commercialization of their inventions should also, in this author’s opinion, by their nature generally be found sufficient. Indeed, by specifying that nascent industries satisfy the domestic industry test, the statute seems to endorse such a conclusion.

However, *ex post* licensing, when the product already exists and commercialization of the product is complete,¹⁰¹ would be treated differently. Such licensing is not the type of activity Congress had in mind when it drafted the statute. In such cases, it should be harder to prove the economic prong. As the Commission has stated, a nexus between the activity and the asserted patent must be established.¹⁰² This article also recommends that the technical prong be applied when the licensee is practicing. Litigation that resolves in a settlement might be probative of the required activity, but cannot stand in for the licensing that is statutorily required.¹⁰³ As it has in past cases, the ITC should more carefully scrutinize the amount of activity and decline to find the economic prong satisfied in this case unless it is truly substantial.

⁹⁹ Certain Audible Alarm Devices for Drivers, Inv. No. 337-TA-365, USITC Pub. 2903, Initial Determination 50 (Feb. 2 1995).

¹⁰⁰ Menell, *supra* note 90, at 11-16.

¹⁰¹ See EVOLVING IP MARKETPLACE, *supra* note 13, at 8 (“In many cases, the licensee or purchaser already uses the patented technology when approached by the patent owner, but it lacks a license to use the technology. These patent transactions occur *ex post*, *after* the firm accused of infringement has invested in creating, developing or commercializing the technology. The firm needs the *ex post* license to avoid liability, even if it invented or obtained the technology independent of the patentee, because patent infringement is a strict liability offense.”).

¹⁰² Certain Digital Processors, Digital Processing Systems, Components Thereof, and Products Containing Same, Inv. No. 337-TA-559, Initial Determination 85 (May 11, 2007) (“[T]he complainant must show that there is a ‘nexus’ between the activities upon which it relies and the asserted patent or patents.”).

¹⁰³ See Certain Coaxial Cable Connectors and Components Thereof and Products Containing the Same, Inv. No. 337-TA-650, Comm’n Op. 50 (Apr. 14, 2010) (Public Version).

What happens when the patents-in-suit are licensed as part of a larger portfolio of patents, as contemplated the ITC's April 2011 request for briefing?¹⁰⁴ As discussed above, this article recommends that the ITC apply the technical prong and favor activity that supports commercialization of the asserted patent into a product. This should not change just because the patent is part of a larger portfolio. But when the licensing activity represents only enforcement of a patent, rather than the transfer or commercialization of technology, this article recommends that the ITC, in addition to applying the technical prong, carefully determine the portion of the licensing attributable to the contested patent to ensure that the activities are sufficiently significant. Relevant to this evaluation would be the contribution of the asserted patent to the overall portfolio, in number or importance.¹⁰⁵ This contribution could be demonstrated through evidence of the patent's prominence during ex post licensing negotiations – if the particular patent did not form the “reason for the license,” for example, the ITC should be less inclined to find a domestic industry. Other considerations contemplated by the ITC's briefing request, including the number of patents in the portfolio, could be taken into account.¹⁰⁶

A “relative” approach to qualifying activities comports with ITC precedent. For example, when the complainant produces a number of products, domestically and abroad, the ITC has in the past determined what portion of this activity represents domestic investment in the patent.¹⁰⁷ To do so, the ITC has taken into account factors such as the nature of the domestic activities, the value that they add to the finished article, and the nature of the patented invention.¹⁰⁸ Giving greater weight to activity that supports commercial development of the patent ex ante, and less to activity that merely targets existing production, as the article recommends, would be well-supported by previous ITC caselaw.

¹⁰⁴ April 2011 Request for Public Comment, *supra* note 74.

¹⁰⁵ As contemplated in Questions (1), (2), (3) of April 2011 Request for Public Comment, *supra* note 75.

¹⁰⁶ *Id.* at 3-4 (Questions (9) and (6)).

¹⁰⁷ See Menell, *supra* note 90, at 11-19 to 11-20 (“Where a complainant produces a single product or product line incorporating the patented technology at issue in a domestic factory, then it is relatively easy to attribute the investments in plant and equipment to the domestic industry. But connecting expenditure on plant and equipment to particular patents becomes more difficult where the complainant produces multiple products and where the product at issue is manufactured in stages both inside and outside the United States. Such cases require the ITC to determine what portion of the domestic investment in plant and equipment can be attributed to patented technology at issue.”).

¹⁰⁸ See *id.* at 11-19 to 11-21.

A relative approach to identifying the activity specifically attributable to the patent in suit is arguably more important in the 337(a)(3)(C) context than others. The absence of the technical prong in such cases means that the connection between the asserted patent and the supporting activities may be more tenuous. A determination of what licensing activities are attributable to the patent-in-suit helps guarantee that there is a sufficient domestic industry in the asserted patent to warrant ITC adjudication.

Conclusion

The ITC plays an important role in the US patent system, providing an efficient and predictable forum for the resolution of disputes involving imports. The domestic industry requirement is crucial to this function, reserving to the ITC cases that cannot get adequate protection from a district court. In the ITC's application of the domestic industry requirement, this article recommends that the agency consistently apply the technical prong and favor commercial and operational activities in the evaluation of the economic prong. Doing so would better align the domestic industry requirement in practice with its historic purpose and the plain language of the statute.
