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 divide those who do and those who do not 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, and that a bright line test is not warranted, based on the statute. It does, however, suggest 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. One of the most pressing issues is who should have standing to initiate an ITC investigation. The statute specifies that only patent owners that can prove a "domestic industry" are eligible. Differences in opinion regarding what this term means have divided practicing and non-practicing patent owners. 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 at the ITC and United States district courts. Once a specialized venue with limited jurisdiction, the ITC has come to hear many of the important patent law cases and increased its caseload five-fold over the past 15 years. Though only one of about 90 venues in which a United States patent infringement lawsuit can be initiated, the ITC heard nearly 15% of all patent trials in 2010. Around two-thirds of ITC cases have a district court counterpart. In an ITC proceeding, there are no juries, no counterclaims, few stays for reexamination, and no damages. Complaints are likely to be

2. See id. § 1337(a)(2)-(3).
3. See Number of Section 337 Investigations Instituted By Calendar Year, U.S. INT'L TRADE COMM'N, http://www.usitc.gov/intellectual_property/documents/cy_337_institutions.pdf (last visited Nov. 8, 2011) (showing an increase in the number of ITC investigations over the last 19 years).
4. See id (showing an increase from 11 investigations in 1995 to 56 in 2010).
resolved within eighteen 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. If the ITC “determines...that there is a violation...it shall direct that the articles concerned...be excluded from entry into the United States” unless public interest factors dictate otherwise. In contrast, district courts “may grant injunctions in accordance with the principles of equity to prevent the violation of any right secured by patent.”


9. See Chien, supra note 7, at 102.
10. See id. at 101.


12. In addition, the ITC does not recognize certain defenses that are available to defendants in district court. See Kinik Co. v. Int’l Trade Comm’n, 362 F.3d 1359, 1363 (Fed. Cir. 2004) (“[T]he defenses established in § 271(g) are not available in § 1337(a)(1)(B)(ii) actions.”).

MercExchange, the Supreme Court enumerated the factors a court must consider in deciding whether or not to award an injunction.15

As a result, patent holders can get injunctions from the ITC even when they may not be entitled to them 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,16 versus the ITC’s nearly automatic grant. This difference is greater among entities that do not practice their patents: post eBay, district courts have granted about half (54-58%) of the requests for injunctions they received from non-practicing entities.17 When universities and research and development organizations are excluded,18 the injunction grant rate drops even further,19 in contrast

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15. See eBay Inc. v. MercExchange, LLC, 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. See id.

16. EVOLVING IP MARKETPLACE, supra note 7, at 217.

17. Id. at 256-257 n.23 (reporting that from the time of the decision until March 2010, seven out of thirteen requests for injunctions were granted). The 58% figure is based on a review in progress that includes cases up through August 18, 2011. Colleen V. Chien & Mark Lemley, Patent Holdup and the Public Interest (forthcoming) (article about the use of the public interest factors).


with the ITC's more favorable odds.

The differences in standards have drawn the intense scrutiny of amici, academics, practitioners, and the Federal Trade

aff'd in part, vacated in part and remanded, 504 F.3d 1293 (Fed. Cir. 2007), on remand, 609 F. Supp. 2d 620 (E.D. Tex. 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").


Yet they are poised to grow. The ITC borrows from intellectual property law to determine whether or not there has been an unlawful importation, but relies on its own prerequisites and procedures, and metes out its own remedies. Improvements to patent law procedures and remedies do not impact the ITC. Thus, when Congress enacted a new rule limiting the naming of multiple defendants in a patent infringement lawsuit, the reform did not extend to the ITC, allowing patentees to avoid the policy change by filing in the ITC.

With respect to non-practicing entities, two methods of harmonization have been proposed. The first is to limit access to the ITC to exclude the patent owners most likely to be denied an injunction under eBay, through interpretation of the domestic industry requirement. 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. The Federal Circuit has declined to require the ITC to follow eBay, 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.\textsuperscript{31} However, the America Invents Act does not address them.\textsuperscript{32} That leaves the Commission to interpret and apply the current language of the statute, subject to appellate review.\textsuperscript{33} 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.\textsuperscript{34} The statute’s domestic industry requirement provides an important safeguard in this regard, reserving the ITC’s special procedures and remedies to cases that 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 do not have to prove the technical prong and may point to a wide range of activities, including litigation, to prove the economic prong.\textsuperscript{35} Practicing entities, on the other hand, are subject to both the economic and the technical prong.\textsuperscript{36} 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.\textsuperscript{37}

Two practices in particular should be reformed. First, the ITC should consistently apply the technical prong in cases regardless of

\textsuperscript{31} See, e.g., Senate Judiciary Committee Holds Hearing on Process Patents, TECH L.J. (May 1, 2007), http://www.techlawjournal.com/topstories/2007/20070501b.asp (describing the Process Patents: Hearing Before the S. Comm. on the Judiciary, 110th Cong. (2007), concerning whether the exceptions contained in § 271(g) that apply in the district court should apply to proceedings under § 337). They continue not to apply in the ITC.

\textsuperscript{32} See Leahy-Smith America Invents Act, 35 U.S.C. §§ 316, 325, 298 (2011), available at http://www.gpo.gov/fdsys/pkg/BILLS-112hr1249enr/pdf/BILLS-112hr1249enr.pdf (legislating only, with respect to the ITC, that the estoppel that applies in the district court based on post-grant review, inter partes review, or transitional business method proceedings also applies in the ITC).


\textsuperscript{35} See infra Part II.B.

\textsuperscript{36} See infra Part II.A.

\textsuperscript{37} See infra Part II.A.
whether or not the complainant is practicing or non-practicing. The ITC's selective application of this requirement clashes with the plain language of the statute and disadvantages practicing complainants relative to their non-practicing counterparts. Second, in interpreting the domestic industry requirement in 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 trade disputes resulting from the importation of goods.\(^3\) It does so in part by addressing some of the special problems historically presented by infringing imports. The ITC's \textit{in rem} jurisdiction, over the goods themselves, attaches to foreign manufacturers that might otherwise evade district court.\(^3\) 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.\(^4\) The ITC takes about half as long to decide cases as do district courts,\(^4\) 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. . . . [T]he requirement that the statute be utilized on behalf of an industry in the United States retains that essential nexus."\(^4\) The domestic industry requirement acts as a "gatekeeper," preventing the "[transformation

\(^{38}\) \textit{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, pt. 1, at 157 (1987) ("The purpose of the Commission is to adjudicate trade disputes between U.S. industries and those who seek to import goods from abroad.").

\(^{39}\) \textit{See} Chien, \textit{supra} note 7, at 73-74.

\(^{40}\) \textit{See} id.

\(^{41}\) \textit{Id.} at 102 tbl.11 (adjudicated cases at the ITC take 14 months on average to resolve, vs. 26 months at the district court).

of] the ITC into an intellectual property court." 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. 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." This author shares the opinion of the Commission, the FTC, and commentators 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.

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 "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. 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 in the United States of an infringing product is a sale that rightfully belongs only to the holder or licensee of that

46. Id.
47. See Certain Coaxial Cable Connectors and Components Thereof and Products Containing Same, USITC Inv. No. 337-TA-650, Comm'n Op. at 47-49 (Apr. 14, 2010), EDIS Doc. No. 422832 (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).
48. See EVOLVING IP MARKETPLACE, supra note 7, 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").
49. See, e.g., Czebiniak, supra note 21, at 2 (finding problematic the availability of exclusion orders to NPEs); Lasher, supra note 22, at 176 (characterizing the ability of NPEs to bring their suits at the ITC as exceeding the historical purpose and language of the statute).
property."\textsuperscript{52} 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).\textsuperscript{53} As the Commission has noted, this statutory design informs the interpretation of "licensing," in a manner that reflects practical application of the patent.\textsuperscript{54}

The Congressional history also makes clear that "mere ownership of a patent" is not sufficient to justify ITC adjudication;\textsuperscript{55} further investment in development of the patent is also required.\textsuperscript{56} 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.\textsuperscript{57} As the ITC has pointed out, when Congress revised the statute to include "licensing," it had in mind this type of \textit{ex ante} licensing, in contrast with \textit{ex post} assertions that target existing production.\textsuperscript{58}

In its \textit{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

\textsuperscript{55} See S. REP. NO. 100-71, at 130 (1987).
\textsuperscript{56} See id.
\textsuperscript{58} See Nonconfidential Brief of Appellee International Trade Commission at 57, John Mezzaliqua Assocs. v. Int'l Trade Comm'n, 100 U.S.P.Q. 2d (BNA) 1462 (Fed. Cir. 2011) ("The Commission recognizes that the legislative history and the design of the statutory scheme indicates that Congress intended section 337 to cover 'licensing' that encourages the productive use of the patented technology.").
Congress, they identify instances in which licensing activities encourage practical applications of the invention or bring the patented technology to the market.\textsuperscript{59}

The FTC supports the ITC’s consideration of the economic impact of licensing in evaluating the economic prong. In its study, \textit{The Evolving Marketplace}, it suggests that the “ITC consider interpreting the domestic industry requirement as not satisfied by \textit{ex post} licensing activity solely focused on extracting rents from manufacturers based on products already on the market.”\textsuperscript{60} A focus on \textit{ex ante} licensing, licensing which supports bringing new products to market, is “consistent with the legislative history’s concern with promoting innovation in the United States.”\textsuperscript{61}

\section*{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.”\textsuperscript{62} The requirement that there be “articles protected by the patent” has been dubbed the “technical prong,” and satisfaction of one of the three conditions, the “economic prong.”\textsuperscript{63} 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.”\textsuperscript{64} 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.\textsuperscript{65} This position has no basis in statute. In fact, the statute places “substantial investment in . . . research and development, or licensing” on equal footing with

\begin{itemize}
\item \textsuperscript{59} Certain Coaxial Cable Connectors and Components Thereof and Products Containing Same, USITC Inv. No. 337-TA-650, Comm’n Op. at 49 (Apr. 14, 2010), EDIS Doc. No. 422832.
\item \textsuperscript{60} \textit{Evolving IP Marketplace}, supra note 7, at 242.
\item \textsuperscript{61} Id.
\item \textsuperscript{63} Certain CD-ROM Controllers and Products Containing the Same-II, USITC Inv. No. 337-TA-409, Comm’n Op. (Oct. 18, 1999), EDIS Doc. No. 48818.
\item \textsuperscript{64} Alloc, Inc. v. Int’l Trade Comm’n, 342 F.3d 1361, 1375 (Fed. Cir. 2003).
\item \textsuperscript{65} See infra Part II.B.
\end{itemize}
"significant investment in plant and equipment." 66 Under the plain
language of the statute, these activities, when carried out with respect
to the "articles protected by the patent" 67 prove a domestic industry.
Leveling the playing ground between practicing and non-practicing
entities was one of the aims of the 1988 amendments, which
broadened access to the ITC to universities, startups and licensing
companies. 68 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.

A. 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." 69 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, as discussed below.

In Variable Speed Wind Turbines (337-TA-641), GE initiated a
Section 337 claim against Mitsubishi in 2008 over wind turbine
technology. 70 GE is the world's second largest supplier of wind
turbines, 71 and the top wind turbine manufacturer in the United States,
supplying about 43% of the domestic market. 72 In 2009, GE generated
$6B in revenue related to wind turbines and employed 4,000 in wind
related jobs. 73 Despite these credentials, the Commission found GE to

69. Certain EPROM, EEPROM, Flash Memory, and Flash Microcontroller
Comm'n, 799 F.2d 1559, 1563 (Fed. Cir. 1986)).
70. Certain Variable Speed Wind Turbines and Components Thereof, Inv. No. 337-TA-
641, USITC Pub. 4202, 3 (Mar. 2010) (Final).
71. See Andrew S. David, Impact of Wind Energy Installations on Domestic
Manufacturing and Trade 3 (Office of Indus., Int'l Trade Comm'n, No. ID-25, 2010), available
72. See ANDREW S. DAVID, WIND TURBINES: INDUSTRY & TRADE SUMMARY iii (2009),
73. See, e.g., Paul Glader, GE Leads U.S. Wind Market but Faces More Competition, THE
lack the requisite “domestic industry” in variable wind-speed turbine technology (patent 6,921,985). 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. GE was found not to practice the patent, and therefore, to lack a domestic industry.

In another example, 3M initiated a Section 337 investigation against several respondents over computer keyboard gel-filled wrist rests. At the time, the company had net sales of $18.3 billion ($7.6 billion in U.S.), research and development expenditures of $6.0 billion, and 67,000 employees, about half of them based in the US. Still, 3M failed to prove a “domestic industry” in gel-filled wrist rests. This was because 3M’s wrist rests contained a trace amount of naphthenic oil, which its patent (5,713,544) was construed to disavow. Because of this technical difference, the administrative law judge (“ALJ”) and Commission agreed that 3M failed the technical prong and lacked standing to bring its case before the ITC.

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

Non-practicing entities do not need to satisfy the technical prong of the domestic industry test. 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," and therefore, must only prove the economic prong of the requirement. Such complainants are subject to a "simpler test," 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-suit, 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 certain portions of 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 . . . .” In 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,” and therefore, there may not be any products, a party still may be entitled to bring a 337 action.

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

The statute also does not distinguish between practicing and non-practicing entities, but rather between 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 in the process of

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84. Id. at 13.
86. Certain Semiconductor Chips with Minimized Chip Package Size and Products Containing Same (III), USITC Inv. No. 337-TA-630, Initial Determination at 7-8 (Sept. 16, 2008), EDIS Doc. No. 312688 (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 Same, USITC Inv. No. 337-TA-650, Comm’r Op. at 51 (Apr. 14, 2010), EDIS Doc. No. 422832 (“A complainant must clearly link each activity to licensing efforts concerning the asserted patent.”).
87. See, e.g., Certain Coaxial Cable Connectors, USITC Inv. No. 337-TA-650 at 49.
89. Id.
being established." 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 generally represent an established, rather than nascent, industry. 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, should govern which test applies.

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. But the technical prong is a more


91. Indeed, in one 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. See Certain Electronic Devices, Including Handheld Wireless Communications Devices, USITC Inv. Nos. 337-TA-673, 337-TA-667, Order No. 49C at 11-12 (Oct. 15, 2009), EDIS Doc. No. 414502.

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).

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 for non-practicing entities, 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.

With respect to clean technology, an area that touches upon public interest concerns, questions about the domestic supply have recently been raised. In a letter pertaining to 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.” While that case involved two operating companies, non-practicing entities have initiated a number of green technology disputes.

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93. See EVOLVING IP MARKETPLACE, supra note 7, at 242-43 n.131 (describing each of the following three cases: Certain Fluidized Supporting Apparatus, Inv. No. 337-TA-182, USITC Pub. 1667 (Oct. 1984) (patents covered beds for burn victims and patentee was unable to meet demand); Certain Inclined-Field Acceleration Tubes and Components Thereof, Inv. No. 337-TA-067, USITC Pub. 1119 (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); Certain Automatic Crankpin Grinders, Inv. No. 337-TA-060, USITC Pub. 1022 (Dec. 1979) (patent covered automobile part that was in short supply and that improved fuel efficiency during energy crisis)).


95. Id.

entity Paice, LLC has sued Toyota, the acknowledged leader in hybrid vehicle technology, several times. A district court in the Eastern District of Texas found that Toyota infringed Paice's 5,343,970 patent. 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, which would, had it not settled, likely have resulted in a grant of the injunction. 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. 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. 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 1337(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;" 

[hereinafter Lane, Cleantech Patent War]. Such disputes include those brought by hybrid power train startup Paice, LLC against Toyota, Columbia University Professor Gertrude Neumark Rothschild against numerous LED display companies, and Sipco against smart grid companies. Id.

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

98. Lane, Cleantech Patent War, supra note 96.


102. Because district court decisions are res judicata on the ITC, and the ITC almost always issues exclusion orders to prevailing patentees. See supra text accompanying note 16.


104. See LANE, CLEAN TECH INTELLECTUAL PROPERTY, supra note 97, at 142.

(B) significant employment of labor or capital; or (C) substantial investment in its exploitation, including engineering, research and development, or licensing.\textsuperscript{106} Evolution in the market for intellectual property has led to growth in a variety of types of licensing activity.\textsuperscript{107} 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.\textsuperscript{108} 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”?

\textit{A. The Coaxial Cable Decision}

In its \textit{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.\textsuperscript{109} 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.\textsuperscript{110} 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).\textsuperscript{111}

In order to determine whether an investment in licensing is sufficiently “substantial,” the Commission endorsed a fact specific, case-by-case inquiry.\textsuperscript{112} 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.\textsuperscript{113} In addition, the nature of the activity and the extent to which it “serves to

\textsuperscript{106} Id.
\textsuperscript{107} See \textit{EVOLVING IP MARKETPLACE}, supra note 7, at 31-72 (describing a range of technology transfer, \textit{ex ante}, and \textit{ex post} transactions).
\textsuperscript{108} Fram, supra note 22, at 7 (finding an increase from 13\% to 27\% in allegations of a domestic industry based on licensing activity from 2000-06 to 2007-10).
\textsuperscript{110} Id.
\textsuperscript{111} Id. at 51.
\textsuperscript{112} See id.
\textsuperscript{113} Id.
encourage practical applications of the invention or bring the patented
technology to the market" could be considered.\textsuperscript{114} The Commission’s
\textit{Coaxial Cable} decision is consistent with the generally flexible
approach that the ITC has adopted in evaluating the economic prong
under 337(a)(3)(A) and 337(a)(3)(B).\textsuperscript{115} 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, \textit{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 \textit{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 each factor deserves. 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.\textsuperscript{116}

\textbf{B. 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. 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.

\textsuperscript{114} \textit{Id.}
\textsuperscript{115} Peter S. Menell et al., \textit{Section 337 Patent Investigation Management Guide} 11-20
(U.C. Berkeley Pub. Law Research Paper No. 1603330, 2010), \textit{available at}
http://ssrn.com/abstract=1603330 (describing the ITC’s “flexible” approach to finding a
domestic industry).
\textsuperscript{116} Supplemental Briefing Request, \textit{supra} note 92.
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." Engineering and applied research and development also "encourage practical applications of the invention." 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. These activities are, by their nature, the types of activities that "Congress explicitly indicated may establish a domestic industry." 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 shop and potentially cross-licensing between practicing companies that provide each patentee with access to the other's technology, to the extent that they support technology transfer, 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 proven sufficient, as one ALJ has stated, "there is no requirement under Section 337 that an industry be a certain size." This has resulted in the "relative[] eas[e]" with which the domestic industry requirement has been cleared in cases of

118. Id.
119. As potentially contemplated, for example, by Questions 8 and 9 of the Supplemental Briefing Request. Supplemental Briefing Request, supra note 92, at 3-4.
120. Certain Coaxial Cable Connectors, USITC Inv. No. 337-TA-650 at 51.
121. See, e.g., EVOLVING IP MARKETPLACE, supra note 7, at 35-36.
123. As opposed to merely providing freedom from suit, without any technology transfer. See Certain NAND Flash Memory Devices and Products Containing Same, USITC Inv. No. 337-TA-553, Initial Determination at 123-24 (July 7, 2009), EDIS Doc. No. 406556 (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 Supplemental Briefing Request, supra note 92, at 3, Question (4).
companies practicing their patents domestically.\textsuperscript{125} 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, \textit{ex post} licensing, when the product already exists and commercialization of the product is complete,\textsuperscript{126} 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.\textsuperscript{127} 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.\textsuperscript{128} 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.

What happens when the patents-in-suit are licensed as part of a larger portfolio of patents, as contemplated in the ITC's April 2011 request for briefing?\textsuperscript{129} 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. However, 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

\begin{enumerate}
\item\textsuperscript{125} Menell, \textit{supra} note 115, at 11-16.
\item\textsuperscript{126} See \textit{EVOLVING IP MARKETPLACE}, \textit{supra} note 7, at 8.
\item 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 \textit{ex post}, after the firm accused of infringement has invested in creating, developing or commercializing the technology. The firm needs the \textit{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.
\item\textsuperscript{127} Certain Digital Processors, Digital Processing Systems, Components Thereof, and Products Containing Same, USITC Inv. No. 337-TA-559, Initial Determination at 85 (June 21, 2007) (Final), EDIS Doc. 276583 ("[T]he complainant must show that there is a 'nexus' between the activities upon which it relies and the asserted patent or patents.").
\item\textsuperscript{128} See Certain Coaxial Cable Connectors, USITC Inv. No. 337-TA-650 at 50.
\item\textsuperscript{129} See generally Supplemental Briefing Request, \textit{supra} note 92, at 2.
\end{enumerate}
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.\(^{130}\) This contribution could be demonstrated through evidence of the patent's prominence during ex post licensing negotiations. For example, if the particular patent did not form the "reason for the license," 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.\(^{131}\) 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.\(^{132}\) 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.\(^{133}\) 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 case law.

A relative approach to identifying the activity specifically attributable to the patent-in-suit is arguably more important in the

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\(^{130}\) As contemplated in Questions (1), (2), and (3) of the Supplemental Briefing Request. Supplemental Briefing Request, supra note 92, at 2.

\(^{131}\) See id. at 3-4, Questions (6), (9). The decision that the Commission ultimately issued in the Pioneer case reflected these sorts of considerations by requiring the complainant to show a nexus between its licensing activities and the asserted patent. Certain Multimedia Display and Navigation Devices and Systems, Components Thereof, and Products Containing Same, USITC Inv. No. 337-TA-694, Comm'n Op. at 8 (Aug. 8, 2011), EDIS Doc. No. 456236. One way of distinguishing a patent in a portfolio is by presenting "evidence that the patent-at-issue is practiced or infringed . . . . Conversely, a patent that is not practiced or infringed may indicate relatively less value." Id. at 12.

\(^{132}\) See Menell, supra note 115, at 11-19.

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.

Id.

\(^{133}\) See id. at 11-20 to 11-21.
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.