

**OPPOSE CALLS TO WEAKEN INTERNATIONAL TRADE COMMISSION
REMEDIES IN PATENT INFRINGEMENT INVESTIGATIONS**

American Manufacturers Need Strong Remedies

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The Case for Weaker Protection Against Infringing Imports Has Not Been Made

In the 112th Congress, various legislative proposals were discussed that would weaken the remedies available in International Trade Commission (“ITC”) investigations under Section 337 of the Tariff Act of 1930¹ to prohibit unfair trade practices in connection with goods imported into the United States, including the importation of goods that infringe United States patents. The Coalition for 21st Century Patent Reform (21C) opposed these proposals because we do not believe the case has been made for the sweeping changes that were proposed, nor were the proposals sufficiently narrowly tailored to avoid unintended negative consequences for U.S. manufacturers, universities and other patent owners. 21C expects that similar proposals for weakening the ITC’s Section 337 remedies will be proposed in the 113th Congress. 21C does not believe that such major amendments to Section 337 have been justified and we urge caution and restraint in considering any changes to Section 337 that would weaken the remedies available to U.S. patent owners who seek to prevent infringing imports.

Background

Under Section 337, the ITC may issue Exclusion Orders and Cease and Desist Orders to prevent infringing goods from entering and being sold in the United States. Congress adopted Section 337 in 1930 because it saw a need to protect U.S. industries from unfair imports, and Congress amended Section 337 in 1988 specifically to target imported goods that infringe U.S. patents.

Concerns have been raised that the ITC may issue Exclusion Orders in Section 337 investigations of alleged patent infringement brought by a subset of non-practicing entities (NPEs) that acquire patents for the sole purpose of obtaining settlement payments by asserting them against alleged infringers. These NPEs (frequently referred to as “patent assertion entities” or “PAEs”) seek to show a “domestic industry” through investments in “licensing” their patents, with such licensing investments primarily consisting of litigation fees and costs associated with enforcing the patents against alleged infringers. Even though

¹ 19 U.S.C. § 1337.

they seek to license their patents, not to exclude others from practicing them, PAEs are said to be turning to the ITC to seek Exclusion Orders to obtain negotiating leverage to extract larger royalties from accused infringers, because they are less likely to obtain similar leverage in the form of injunctions from U.S. district courts following the U.S. Supreme Court decision in *eBay, Inc. v. MercExchange, L.L.C.*, 547 U.S. 388 (2006).

Before changes to ITC jurisdiction or practice are made to address such alleged misuse, proponents of those changes should show (1) that the ITC is incapable of distinguishing between PAEs who are misusing the ITC and those U.S. patent owners who should be entitled to Exclusion Orders, and fashioning its remedies accordingly; and (2) that the proposed changes are narrowly tailored to avoid unintended negative consequences for U.S. patent owners who should be entitled to Exclusion Orders. 21C does not believe that the case has been made for (1), or that the proposed “fixes” are narrow enough to satisfy (2).

The Data Do Not Support Calls for Widespread Changes

Like any court, the ITC’s caseload varies from year to year. The trend over the past few years of increases in the number of Section 337 investigations reversed itself in 2012, with the number of new investigations dropping by more than 40% as compared to 2011.² Thus, the data do not support claims that the *eBay* decision has engendered a sustained rush to the ITC by patent holders who could not obtain injunctions in district courts.

Moreover, the data belie claims that PAEs have flooded the ITC with requests for Section 337 investigations. The most recently-available official ITC statistics show that only 8% of complaints are filed by patent owners who do not manufacture products and whose business model primarily focuses on purchasing and asserting patents.³

Nor is there evidence that PAEs are successful in the ITC. 21C is not aware that anyone has claimed that a PAE has obtained an ITC Exclusion Order. The ITC’s official statistics show that only one so-called “Category 2 NPE” complainant has ever obtained an Exclusion Order, and that party – Rambus – would not fit the definition of a PAE offered by proponents of changes to ITC remedies.⁴

Finally, there no evidence that the ITC is incapable of properly sorting out those complainants that are entitled to and need protection against infringing imports and those complainants which do not. The ITC has ruled that patent infringement litigation activities that are not related to engineering, research and development, or licensing, do not satisfy the

² See http://www.usitc.gov/intellectual_property/documents/cy_337_institutions.pdf (69 new Section 337 investigations in calendar year 2011, 40 in 2012).

³ See “Facts and Trends Regarding USITC Section 337 Investigations,” June 18, 2012, page 2, available at http://www.usitc.gov/press_room/documents/featured_news/337facts.pdf.

⁴ *Id.* at page 3.

threshold requirement to show an established “domestic industry,”⁵ a ruling upheld by the Federal Circuit.⁶ In October, the U.S. Supreme Court refused to review the Federal Circuit’s holding that expenditures on patent litigation did not establish the domestic industry needed to obtain an ITC Exclusion Order.⁷

The ITC Should Determine “Domestic Industry” on a Case-By-Case Basis

Given that all types of U.S. patent owners, including small and large companies, universities, and individual inventors, routinely license their patents, it is entirely appropriate that the ITC determine whether licensing activities establish a domestic industry on a case-by-case basis, rather than adopting *per se* rules that risk the unintended consequence of cutting off the ITC as a forum where patent owners who have licensed their inventions can seek to prevent infringing imports from destroying their investments. Moreover, Section 337 requires the ITC to consider the effect of any Exclusion Order upon the public health and welfare, competitive conditions in the United States economy, the production of like or directly competitive articles in the United States, and United States consumers.⁸ These public interest factors provide the ITC with considerable discretion to decide whether to deny or limit an Exclusion Order in an investigation initiated by a PAE. Again, we are not aware of any evidence that the ITC is incapable of appropriately considering and applying the public interest factors in its issuance of Exclusion Orders when they are being sought by PAEs.

The *eBay* Factors Do Not Belong in Section 337 Investigations

Proposals that the ITC’s issuance of Exclusion Orders be made subject to the same traditional four-factor equitable test that the Supreme Court held should be applied in deciding whether to issue a permanent injunction against patent infringement are misplaced. In *eBay*, the Court listed four factors that a patent owner must demonstrate to obtain a permanent injunction:

- (1) it has suffered an irreparable injury;
- (2) remedies available at law, such as monetary damages, are inadequate to compensate for that injury;
- (3) considering the balance of hardships between the plaintiff and defendant, a remedy in equity is warranted; and

⁵ *In the Matter of Certain Coaxial Cable Connectors and Components Thereof and Products Containing Same*, Investigation No. 337-TA-650 (April 14, 2010).

⁶ *John Mezzalingua Assoc., Inc. (Doing Business As PPC, Inc.) v. Int’l Trade Comm’n*, 660 F.3d 1322 (Fed. Cir. 2011).

⁷ *John Mezzalingua Assoc., Inc. (Doing Business As PPC, Inc.) v. Int’l Trade Comm’n*, --- U.S. ---, 133 S.Ct. 422, 184 L.Ed.2d 255 (Oct. 9, 2012) (denying *certiorari*).

⁸ 19 U.S.C. § 1337(d)(1).

- (4) the public interest would not be disserved by a permanent injunction.⁹

These *eBay* factors are simply inapplicable to the determination of whether an Exclusion Order should be issued in a Section 337 proceeding, because they arise from the traditional test in equity, where the issue is whether remedies at law, such as monetary damages, are adequate to compensate the plaintiff. When applied in patent infringement actions in U.S. district court, the judge is deciding whether a permanent injunction should issue in addition to whatever damages have been awarded to compensate for the infringement. In contrast, the only remedies available in an ITC Section 337 investigation are in essence injunctive relief – Exclusion and Cease and Desist Orders. Damages are not available and thus there is no determination of whether damages are an adequate remedy, as when a district court applies the *eBay* test.

With respect to the first *eBay* factor – whether the patent owner has suffered an irreparable injury – the question of whether an injury is irreparable boils down to whether or not it can be repaired with money damages. The question of whether the patent owner’s injury is “irreparable” – *i.e.*, repairable with a damages award – makes no sense in the ITC, where the patent owner either gets an Exclusion or Cease and Desist Order, or goes home empty-handed.

For the same reasons, the second *eBay* factor – whether remedies available at law, such as monetary damages, are inadequate to compensate for the injury – is equally inapplicable to ITC proceedings. The ITC cannot award money damages, which moots the question.

The third *eBay* factor – whether, considering the balance of hardships between the plaintiff and defendant, a remedy in equity is warranted – also becomes inapt when it is taken out of its context for determining whether relief in the form of both money damages and a permanent injunction is an equitable remedy. There can be no meaningful balancing of hardships between the owner of a patent found to be valid, enforceable and infringed who would receive no relief whatsoever without an Exclusion Order, versus an infringer who would merely be denied the ability to benefit from importing only those products found to infringe into the United States before the U.S. patent expires, while retaining the ability to make and sell them anywhere else in the world.

Finally, regarding *eBay*’s public interest factor, the ITC already must consider four public interest factors when determining whether to issue an Exclusion Order: (1) the public health and welfare, (2) competitive conditions in the U.S. economy, (3) the production of like or directly competitive articles in the U.S., and (4) U.S. consumers.¹⁰ As the ITC has observed, these public interest factors “are not meant to be given mere lip service,” but rather “public

⁹ *eBay*, 547 U.S. at 391.

¹⁰ 19 U.S.C. § 1337 (d)(1).

health and welfare and the assurance of competitive conditions in the United States economy must be the overriding considerations in the administration of this statute.”¹¹

For these reasons, the *eBay* factors have no place in determining whether to issue Exclusion Orders. Such an approach would take the factors out of their proper context in determining whether it is equitable to issue an injunction in addition to an award of money damages in a patent infringement case. The result would be greater burdens and uncertainty for all U.S. patent owners seeking to use the ITC -- not just PAEs, or even NPEs. The difficulty of proving that the *eBay* factors justify issuance of an Exclusion Order to prevent infringing importation would fall disproportionately on patent owners who are not manufacturers, such as universities, research-oriented engineering firms and independent inventors, who would face uncertainty as to the availability of Exclusion Orders to prevent imported infringing products from flooding the U.S. marketplace. Particularly when the evidence is lacking for claims that the ITC is being abused by PAEs, making this sweeping limitation to the ITC’s authority, in all investigations sought by all patent owners, is neither warranted nor wise.

Conclusion

There is no data to support the assertion that the ITC has inappropriately issued exclusion orders to PAE complainants. Indeed, 21C is not aware that a PAE actually has obtained an ITC exclusion order. Further, it is incontrovertible that the application of the *eBay* factors by the ITC would have a profound effect on all U.S. manufacturers, universities, and research and engineering firms. Such a change would be far too sweeping, risking too many unintended consequences. The ITC has applied a rigorous test requiring “substantial investment” within the United States when determining whether a complainant is entitled to relief under section 337, thus demonstrating that it has ample discretion and ability under existing law to examine the appropriateness of allowing relief and to make determinations that best serve the U.S. economy.

While the Coalition for 21st Century Patent Reform does not believe that amendments to Section 337 are warranted, 21C remains committed to working with all stakeholders on these and other issues of patent law and policy to find narrowly-tailored solutions to any real problems created by PAEs seeking ITC Exclusion Orders. Thus far, however, the proposals go well beyond what is needed to address the perceived problem and would not be good law or policy.

¹¹ *In re Certain Inclined Field Acceleration Tubes and Components Thereof*, Inv. No. 337-TA-67, USITC Pub. 1119, Comm’n Op., at 22 (Dec. 1980), quoting S. Rep. 93-1298, at 197 (1974), reprinted in 1974 U.S.C.C.A.N. 7186, 7330.