

August 2, 2012

The Honorable Bob Goodlatte, Chairman  
The Honorable Mel Watt, Ranking Member  
House Judiciary Subcommittee on Intellectual Property,  
Competition, and the Internet  
Room B-352 Rayburn House Office Building  
Washington, DC 20515-6216

**RE: Hearing on “The International Trade Commission and Patent Disputes,” July 18, 2012**

Dear Chairman Goodlatte and Ranking Member Watt:

I am writing on behalf of the American Intellectual Property Law Association (AIPLA) to give our perspective on patent disputes at the International Trade Commission (ITC) and respectfully request that a copy of this letter be made a part of the record for the July 18, 2012, hearing on “The International Trade Commission and Patent Disputes.” Although the Subcommittee heard calls for changing ITC procedures, AIPLA does not believe the case for change has been made and urges caution.

AIPLA is a U.S.-based national bar association with approximately 14,000 members who are primarily lawyers in private and corporate practice, government service, and the academic community. AIPLA represents a diverse spectrum of individuals, companies, and institutions involved directly and indirectly in the practice of patent, trademark, copyright, unfair competition, and trade secret law, as well as other fields of law affecting intellectual property. Our members practice or are otherwise involved in patent law and other intellectual property law in the United States and in jurisdictions throughout the world.

The Subcommittee hearing on July 18 heard some witnesses suggest that the ITC has become the venue of choice for patent enforcement as case law developments have made those actions more difficult in district courts. There were statistics offered to support the claims that the number of patent complaints has increased in the ITC over the last three decades, and that many patent actions are brought by “non-practicing entities” (NPEs).

To address these and other statements, some historical perspective is in order. Congress enacted Section 337 of the Tariff Act of 1930, 19 U.S.C. 1337, to protect U.S. industries by giving the ITC the power to block imports that result from unfair trade practices. Such imports could be excluded if they would destroy or substantially injure a U.S. industry, prevent the establishment of such an industry, or restrain trade and commerce in the United States. The process includes an initial determination by an administrative judge, review by the Commission, and the possibility of a Presidential veto within 60 days of the Commission’s final action. 19 U.S.C. § 1337(j).

The importation of infringing goods fell into the statutory category of unfair trade practices until 1988, when intellectual property was expressly recognized in Section 337 as excludable subject matter. Significantly, the law was amended to declare infringing imports unlawful without requiring proof of injury to an industry, although the ban on infringing imports applies only if a U.S. industry relating to the infringing imports exists or is in the process of being established. For purposes of the statute, the existence of such a U.S. industry can be shown with evidence of (1) significant investment in plant and equipment, (2) significant employment of labor or capital, or (3) substantial investment in its exploitation, including engineering, research and development, or licensing. 19 U.S.C. 1337(a)(3)(C). The domestic industry criterion that is currently receiving great attention is evidence of U.S. licensing activities.

With this background, AIPLA would like to respond to some of the testimony presented to the Subcommittee at the July 18 hearing.

1) **No compelling case has been made that the current domestic industry standard needs to be amended to categorically exclude NPEs from ITC proceedings.**

It has been suggested that the increase in Section 337 filings at the ITC is caused by allowing filings by NPEs, entities that do not engage in production of the patented invention, who are able to meet the domestic industry requirement through the statute's licensing provision. A recent document from the ITC identified two categories of NPEs: (1) those that obtain patents on their research and development and license those patents to manufacturers; and (2) those that obtain patents by purchasing them for the sole purpose of enforcement.<sup>1</sup>

Some stakeholders have expressed the concern that Category 2 NPEs, as defined by the ITC, are increasingly using Section 337 proceedings to obtain exclusion orders. They explain that such NPEs go to the ITC to avoid the higher burden in the district court for injunctive relief created by the Supreme Court in *eBay, Inc. v. MercExchange, LLC*, 547 U.S. 388 (2006), discussed below. Some have proposed a categorical exclusion of these NPEs from the domestic industry standard.

The ITC has reported that there has been a substantial increase in Section 337 filings over the last decade.<sup>2</sup> It has also reported that, in the 5 years since *eBay*, only 8% of the investigations instituted by the ITC were filed by Category 2 NPEs,<sup>3</sup> and that only one of those investigations resulted in the issuance of an exclusion order.<sup>4</sup> Given these statistics, AIPLA questions whether there is a demonstrated need for legislation that changes the Section 337 definition of domestic industry to exclude NPEs. Currently, the ITC attempts to distinguish between genuine licensing investments and arguably sham activities that are designed solely to create a jurisdictional basis for ITC jurisdiction by assessing on a case-by-case basis whether licensing or litigation expenses establish a domestic industry. There is no evidence that the ITC has failed or will fail to make appropriate determinations on this issue.

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<sup>1</sup> U.S. International Trade Commission, *Facts and Trends regarding USITC Section 337 Investigations*, p. 2, June 18, 2012, [http://www.usitc.gov/press\\_room/documents/featured\\_news/337facts.pdf](http://www.usitc.gov/press_room/documents/featured_news/337facts.pdf).

<sup>2</sup> "The number of new Section 337 investigations has increased by over 530% from FY2000 to FY2011." U.S. International Trade Commission, *Facts and Trends regarding USITC Section 337 Investigations*, p. 1

<sup>3</sup> U.S. International Trade Commission, *Facts and Trends regarding USITC Section 337 Investigations*, p. 2.

<sup>4</sup> U.S. International Trade Commission, *Facts and Trends regarding USITC Section 337 Investigations*, p. 3.

If a statutory amendment to exclude certain NPEs from Section 337 proceedings were pursued, AIPLA has concerns about how such an exclusion could be accomplished. The definition of an NPE depends largely on perspective, and even the ITC points out that not all NPEs exist for the sole purpose of asserting patent rights against potentially infringing imports. There are many legitimate circumstances for an entity other than a manufacturer to enforce a patent.

For these reasons, AIPLA believes that changes to Section 337 to categorically exclude NPEs are unnecessary at this time.

**2) The *eBay* factors should not be applied to Section 337 actions.**

Some have also proposed that alleged abuse of Section 337 proceedings could be prevented by extending the *eBay* factors for injunctive relief from a district court in patent infringement cases to patent cases in Section 337 proceedings before the ITC.

In *eBay*, the Supreme Court held that district courts hearing patent cases must exercise equitable discretion in granting injunctive relief by applying the traditional four-factor test: (1) proof of irreparable harm; (2) inadequate legal relief; (3) balance of the hardships of relief; and (4) the public interest. The Court rejected the view that injunctive relief automatically follows from a determination of patent infringement.

AIPLA believes that the *eBay* rule for district courts has not been shown to be necessary for ITC proceedings. It is important first to distinguish the judiciary's administration of equitable relief, represented by the ruling in *eBay*, from the relief Congress has specifically authorized for a legislatively created tribunal that resolves trade disputes. The policy differences behind each of these are substantial and should be carefully considered before legislative changes are made.

With respect to the particular factors mandated by *eBay*, the 1988 amendments to Section 337 were explicitly designed to relieve IP owners of the burden of showing harm to domestic industry. This change was premised in part on the understanding that irreparable harm is inherent in the importation of infringing articles. The legislatively created remedies available from the ITC are distinguishable from the injunctive relief which a district court grants under its inherent equitable powers. Congress required a different showing to obtain an exclusion order from the ITC, in part by deliberately rejecting the requirement of proving harm to a domestic industry. It is also significant that *eBay* factor 2—the inadequacy of legal relief—is entirely inapplicable since no monetary relief is available from the ITC at all.

As for the other *eBay* factors, an examination of Section 337(d) and ITC case law reveals that these factors are effectively part of the process for determining whether exclusion orders are appropriate. Under Section 337(d), the ITC considers four public interest factors for 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 United States; and (4) the interests of U.S. consumers.

Moreover, ITC case law has developed additional factors, known as the “EPROM factors,” which already account for effectively all of the remaining *eBay* factors.<sup>5</sup> Those factors include:

- the value of the infringing articles compared to the value of the downstream products in which they are incorporated;
- the identity of the manufacturer of the downstream products, i.e., whether it can be determined that the downstream products are manufactured by a respondent or by a third party;
- the incremental value to a complainant of the exclusion of downstream products;
- the incremental detriment to a respondent from exclusion of such products;
- the burdens imposed on third parties resulting from exclusion of downstream products;
- the availability of alternative downstream products that do not contain the infringing articles;
- the likelihood that the downstream products actually contain the infringing articles and are thereby subject to exclusion;
- the opportunity for evasion of an exclusion order that does not include downstream products; and the enforceability of an order by Customs.

Careful review of ITC procedures demonstrates that, contrary to what was suggested at the Subcommittee’s July 18 hearing, obtaining an exclusion order from the ITC is not an easier course than obtaining injunctive relief from district courts.

AIPLA believes that the application of the *eBay* factors to Section 337 proceedings is unwarranted.

### **3) Standard essential patents should not be categorically excluded from ITC proceedings.**

Interoperability issues in high tech industries are often resolved through consensus standard setting conducted by standard-setting organizations (SSOs). Participation in the SSO process is voluntary, but many companies participate in hopes that their technology will be included in the standard. Many SSOs require members to agree to license their standard essential patent(s) (SEPs) on reasonable and non-discriminatory (RAND) terms if their patents are included in a standard.

It is alleged that some patent holders whose technology has been made part of a standard are harming consumers by using threats of ITC exclusion orders to hold-up market participants and demand higher royalties than what would have been available before the technology was selected for the standard. To prevent this potential problem, it has been suggested that SEP owners be categorically excluded from enforcing their SEPs with Section 337 exclusion orders.

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<sup>5</sup> See Inv. No. 337-TA-276, Comm. Op. at 125-26 (May 1989), *aff’d sub. nom., Hyundai v. U.S. Int’l Trade Comm’n*, 899 F.2d 1204 (Fed. Cir. 1990).

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AIPLA has several concerns about such a proposal. Like all patent owners, SEP owners should have the right to protect their intellectual property from infringement. Removing this patent enforcement option at the ITC may be harmful to the rapidly growing IT and telecommunications industries that often participate in the SSOs. Additionally, a categorical exclusion of SEPs from Section 337 proceedings would make it easier for foreign companies to import infringing goods into the U.S.

In addition, it cannot be assumed that all infringing imports of SEP technology arise from the SEP owner's breach of an agreement to license the patent under RAND terms. There are legitimate circumstances under which SEP owners may want to refuse a license, and it is against good public policy to deny them patent enforcement opportunities at the ITC. Finally, excluding SEPs from Section 337 proceedings would act as disincentive to participate in SSOs. Companies may not participate in an SSO if they will lose the right to enforce the patent at the ITC by doing so. This would be more harmful to the public because it discourages collaborative innovation.

AIPLA does not believe an adequate case has been made to support a change in the law to exclude owners of SEPs from Section 337 proceedings.

AIPLA would like to thank the Subcommittee for considering these important issues and looks forward to further opportunities to assist the Subcommittee in this matter.

Sincerely,

A handwritten signature in black ink, appearing to read "William G. Barber", with a long, sweeping horizontal line extending to the right.

William G. Barber  
President  
American Intellectual Property Law Association