

**Written Statement of Mark L. Whitaker**

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Subcommittee on Courts, Intellectual Property, and the Internet

*“International Trade Commission (ITC) Patent Litigation”*

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## **I. Introduction and Executive Summary**

Mr. Chairman, and distinguished members of the Subcommittee, thank you for convening this hearing and for the opportunity to testify. It is an honor to speak with you regarding this important topic today.

I am a partner with Morrison & Foerster LLP, and I have been involved in crafting litigation strategies before the United States International Trade Commission (“ITC”), U.S. district courts, and the Court of Federal Claims for over 24 years. I am currently the President-Elect of the American Intellectual Property Law Association, and serve as a member of the Council of the ABA Section of Intellectual Property Law. I appear today in my individual capacity, however, and not on behalf of my firm or any of its clients, the AIPLA, or the ABA.

It is my understanding that the committee is interested in learning about the effectiveness of the ITC in combating abusive litigation by non-practicing entities, as well as overlapping considerations for litigants bringing patent complaints before the ITC and U.S. district courts. To that end, I offer a few key observations for consideration by the Subcommittee referencing H.R. 4829, entitled “Trade Protection Not Troll Protection Act.” H.R. 4829 proposes a series of modifications to Section 337. While Congress should be commended for attempting to target abusive behavior by non-practicing entities, it is my view that the existing Section 337 framework already provides the Commission with a robust arsenal of tools in this area. Indeed, over the past few years since the last hearing on this subject-matter, the Commission has not only listened, but implemented several reforms either through rulemaking or precedential decisions consistent with the statute to address potential abuses. As currently drafted, the bill could introduce a number of unintended consequences impacting myriad industries, companies, and even academic institutions across the spectrum. Thus, any amendment to Section 337 should not be undertaken without exhaustive study as to the ancillary impacts of the proposed amendments.

## **II. Importance of Protecting U.S. Intellectual Property Rights**

Congress intended that the Commission provide the owners of intellectual property rights with broad protections against a wide range of unfair acts of importation. Section 337 of the Trade Act of 1930 was intended to broadly cover unfair methods of competition and unfair acts in the importation of articles.

### **A. Section 337 has Broad Coverage**

Soon after Section 337’s enactment, the Court of Customs and Patent Appeals (the United States Court of Appeals for the Federal Circuit’s predecessor) addressed the provision’s scope in *In re Orion Co.*, 71 F.2d 458 (C.C.P.A. 1934). Citing Supreme Court authority under the Federal Trade Commission Act, as well as *Frischer Co. v. Bakelite Corp.*, 39 F.2d 247, 260 (C.C.P.A. 1930), the court held that the provision has broad coverage and authorizes action whenever unfair competition or unfair acts occur. The court explained the following:

Up until the time when [imported articles] are released from customs custody into the commerce of this country, no opportunity is presented to the manufacturer of the United States to protect himself against unfair methods of competition or unfair acts. After the

goods have been so released into the commerce of the country, the American manufacturer may assert his rights against anyone who has possession of, or sells, the goods. However, this method of control must be, and is, ineffective, because of the multiplicity of suits which must necessarily be instituted to enforce the rights of the domestic manufacturer. This phase of the matter obviously was in the minds of the Congress at the time of the preparation of said section 337 (19 USCA § 1337).

*Id.* at 465-467. Similarly, in *In re Von Clemm*, 229 F.2d 441, 443-44 (C.C.P.A. 1955), the court explained that Section 337

provides broadly for action by the Tariff Commission in cases involving “unfair methods of competition and unfair acts in the importation of articles” but does not define those terms nor set up a definite standard. As was noted in our decision in *In re Northern Pigment Co.*, 71 F.2d 447, 22 C.C.P.A., Customs, 166, T.D. 47124, the quoted language is broad and inclusive and should not be held to be limited to acts coming within the technical definition of unfair methods of competition as applied in some decisions.

Section 337 is more than a surrogate to the district courts for the application of U.S. patent laws to infringing imports. Instead, it is trade protection that is informed by U.S. patent law. *See* Section 337(a)(1) (“the following are unlawful, and when found by the Commission to exist shall be dealt with, *in addition to any other provision of law.* ...” (emphasis added)).

## **B. Congress Revamped Section 337 into its Modern Form**

In 1974, Congress significantly revamped Section 337 principally into its modern form. The amended provisions authorized the newly created International Trade Commission to impose remedies, whereas the prior version only authorized the Tariff Commission to make recommendations to the President. Like its predecessors, the substantive provision of Section 337 as adopted in 1974 provided that:

Unfair methods of competition and unfair acts in the importation of articles into the United States, or in their sale by the owner, importer, consignee, or agent of either, the effect or tendency of which is to destroy or substantially injure an industry, efficiently and economically operated, in the United States, or to prevent the establishment of such an industry, or to restrain or monopolize trade and commerce in the United States, are declared unlawful, and when found by the Commission to exist shall be dealt with, in addition to any other provisions of law, as provided in this section.

Section 337(a), Pub. Law 93-617. Despite not explicitly mentioning patent infringement in the statute, Congress made it clear that it intended the provision to continue to apply broadly to patent infringement. In 1988, Congress eliminated the need to establish injury to a domestic industry in patent, trademark, and copyright cases brought under Section 337. *See* 19 U.S.C. § 1337(a)(1)(B) (1988) (codified as amended at 19 U.S.C. § 1337(a)(1)(B) (2006)).

It is against this backdrop of Section 337's broad authority to deal with unfair methods of competition and unfair acts in the importation of articles that we turn to potential changes in Section 337's framework.

### **III. H.R. 4829 Specific Provisions**

The purpose of H.R. 4829 is to ensure that the resources of the ITC are focused on protecting genuine domestic industries, to restore confidence with the trading partners of the U.S. that the Commission will not be a duplicative forum for enforcing intellectual property rights when U.S. district courts are already available, and to safeguard the public health and welfare and the U.S. economy (including competitive conditions). While the drafter's intent of H.R. 4829 should be applauded, I want to direct the Subcommittee to a few areas where the Commission has already achieved earnest reforms in these areas, and point to some further considerations that might be important to weigh in this respect.

#### **A. Non-Practicing Entity Cases are Not Prevalent in Practice**

With respect to the domestic industry requirement, complainants already have to establish that a U.S. licensing industry exists related to the patents being asserted in cases based upon licensing. H.R. 4829 would not allow the complainant to rely on licensing activity unless it was also able to show that "the license leads to the *adoption and development* of articles that incorporate the claimed patent . . . ." While this change could potentially limit the ability of non-practicing entities to utilize Section 337, in practice, investigations brought by such entities do not account for many Section 337 investigations. Likely because of the ostensible threat of non-practicing entities filing complaints in the ITC, the Commission gathers data on the number of Section 337 investigations brought by non-practicing entities. *See e.g.*, Section 337 Statistics: Number of Section 337 Investigations Brought by NPEs (Updated Quarterly), Q1 CY 2016, [https://www.usitc.gov/intellectual\\_property/337\\_statistics\\_number\\_section\\_337\\_investigations.htm](https://www.usitc.gov/intellectual_property/337_statistics_number_section_337_investigations.htm). The Commission has identified two categories of non-practicing entities: entities that obtain patents based on their research and development and license those patents to manufacturers, and entities that purchase patents strictly to monetize them. *Id.* In 2014, only three Section 337 investigations were brought by the type of non-practicing entities that purchase patents strictly to monetize them, and in 2015, just two Section 337 investigations were brought by this type of non-practicing entities. *Id.* In the first quarter of 2016, only one such Section 337 investigation has been filed. *Id.* Moreover, since the U.S. Supreme Court's May 15, 2006 decision in *eBay, Inc. v. MercExchange, LLC*, which made injunctions more difficult to obtain in district courts, just ten percent of the total Section 337 investigations brought through the first quarter of 2014 were filed by the type of non-practicing entities that purchase patents strictly to monetize them. USITC Section 337 Investigations - Facts and Trends Regarding Caseload and Parties, pp. 3-4, June 10, 2014 Update, [https://www.usitc.gov/press\\_room/documents/featured\\_news/337facts2014.pdf](https://www.usitc.gov/press_room/documents/featured_news/337facts2014.pdf). This data demonstrates that non-practicing entities represent a very limited number of Section 337 complaint filings.

## **B. The Commission Has Recently Strengthened the Domestic Industry Standard**

In addition, in the past few years the Commission has strengthened the Section 337 domestic industry standard. Prior to 2014, entities that manufactured a patented article in the U.S. had a greater burden of proving their domestic industry than entities that relied on their U.S. licensing activities. While entities that manufactured a patented article in the U.S. were required to prove that their article practiced the patent-in-suit, the so-called “technical prong” of the domestic industry standard, traditionally the Commission did not require a complainant to meet the technical prong by showing that licensed articles actually practiced the asserted patents for a licensing-based domestic industry. That distinction disappeared as a result of two Federal Circuit decisions in 2013 (*InterDigital Commc'ns, LLC v. ITC*, 707 F.3d 1295 (Fed. Cir. 2013), and *Microsoft Corp. v. ITC*, 731 F.3d 1354 (Fed. Cir. 2013)) and several Commission opinions in 2014. As confirmed by the Federal Circuit in 2015, establishing a domestic industry based on licensing now requires proof of an article that practices the patent-in-suit.

The Commission has also clarified that in order to establish a domestic industry, a nexus between the asserted patent and the U.S. investment in that patent must be shown when the domestic industry showing is based on licensing. *Certain Integrated Circuit Chips and Products Containing the Same*, Inv. No. 337-TA-859, Comm'n Op. (Aug. 22, 2014).

With respect to public interest issues, in 2011, the Commission introduced new rules that enhance the evidentiary record with respect to public interest factors. See Commission Rule 210.8(b)-(c). The new rules require complainants to submit a separate statement with their complaint providing specific content with respect to the public interest factors. And in its September 2015 Notice of Proposed Rulemaking, the Commission also proposed amendments to allow institution of multiple investigations based on a single complaint, where necessary, to limit the number of technologies and/or related patents asserted in a single investigation, and to give the Judges the authority to sever an investigation into two or more investigations prior to or upon issuance of the protective order. These recent developments demonstrate that the Commission is not only listening and observing conditions as they develop, but have responsibly implemented the necessary tools to deal with the challenges that non-practicing entities bring to Section 337 investigations.

## **C. The Implications of the Proposed Bill on Existing Domestic Industry Precedent are Unclear**

Without exhaustive study, it is unclear what the additional domestic industry requirements in H.R. 4829 would do to decades of settled domestic industry precedent. It would seem to allow a complainant to rely on the activities of a licensee only if the licensee's activities lead to adoption and development of a new article. But complaints filed by those that are *not* non-practicing entities have long been able to rely on the activities of a licensee related to existing articles. Provisions in H.R. 4829, if implemented, make it unclear whether this would continue to be good law or not, or if it would mean that a complainant cannot rely on articles developed before the license. Moreover, adding this further constraint in the domestic industry arena may incentivize potential licensees to no longer negotiate and enter into licensing agreements. This is because the temporal constraint may discontinue consideration of work done subsequent to “adoption” or “development” of an article, thus ensuring that only the first license

with respect to the patent is considered in the domestic industry analysis. Further, if the bill would allow a complainant to rely on the activities of a licensee only if the licensee's activities lead to adoption and development of a new article, it is also unclear how much modification is required before an article would become "new."

#### **D. Licensees as Co-Complainants**

H.R. 4829 would require that a licensee join a Section 337 investigation as a co-complainant in order for licensing activities to qualify under the domestic industry prong. This requirement is not limited to only non-practicing entity licensing situations. This would require, for example, a research and development entity such as a university, to persuade one or more of its licensees to agree to be a co-complainant in order to make use of Section 337. Thus, this change could result in barring those beyond non-practicing entities that exist solely to monetize patent rights, such as universities and laboratories, from proceeding against infringing imports at the ITC. At bottom, such a change indelibly limits the property rights enjoyed by such entities as compared to others.

Indeed, H.R. 4829 may have the unintended consequence of decreasing ITC access to universities, small businesses, or even technology companies. For example, a technology company that licenses some subset of its patent portfolios to others to exploit the technology, and that does not exploit that technology personally because of its business structure or economic objectives, might be impacted negatively by provisions in the bill that try to reduce non-practicing entity filings at the ITC. Remember that Congress intended to open the ITC up to certain non-practicing entities with its 1988 amendments, as "[s]uch a change would enable universities and small businesses who do not have the capital to actually make the good in the United States to still have access to the ITC forum for the protection of their rights." *InterDigital Commc'ns, LLC v. Int'l Trade Comm'n*, 707 F.3d 1295, 1301 (Fed. Cir. 2013) (internal citation omitted).

#### **E. The Commission Will Likely Codify and Expand the 100-Day Pilot Program for Identification and Adjudication of Potentially Dispositive Issues**

In June of 2013, the Commission unveiled a new pilot program aimed at providing expedited Section 337 investigations without the burden and cost of a full-length investigation. The Commission can identify potentially case-dispositive issues at the institution of an investigation and direct the presiding ALJ to issue an Initial Determination on the designated issue within 100 days. In September of 2015, the Commission published a Notice of Proposed Rulemaking to make several amendments to its Rules of Practice and Procedure, which would, among other things, codify and expand the 100-day pilot program for early termination of Section 337 investigations. H.R. 4829 would essentially make this 100-day pilot program for early termination a mandatory part of Section 337 investigations. But with the Commission's proposed amendments, the provision in the bill is not necessary, and would remove flexibility from the Commission with respect to the institution of investigations.

The Commission has only designated two investigations for expedited consideration under the 100-day pilot program (*Certain Products Having Laminated Packaging, Laminated Packaging, and Components Thereof*, Inv. No. 337-TA-874, with respect to the economic prong

of the domestic industry requirement; and *Certain Audio Processing Hardware and Software and Products Containing Same; Institution of Investigation*, Inv. No. 337-TA-949, with respect to standing). There are likely several reasons why the 100-day pilot program has not been utilized as extensively as many initially expected that it would be. For example, pre-filing reviews by the Commission's Office of Unfair Import Investigations may catch a number of problematic domestic industry complaints, which therefore head off the filing of weak complaints. Complainants, apprehensive about the new 100-day pilot program are also likely to be more diligent with respect to shoring up, substantiating, and crafting their domestic industry claims. And Respondents have taken advantage of the opportunity to file early dispositive motions for summary determination challenging a complainant's domestic industry contentions.

In addition, while there was general support by public commenters for the Notice of Proposed Rulemaking to codify and expand the 100-day pilot program, several commenters expressed concern that the proposed expansion of the program to allow 100-day designations after institution could encourage disruptive motions practice or otherwise delay Section 337 proceedings. Allowing the Commission to continue modifying its procedure to develop and improve with regard to 100-day designations, as it has been allowed to do in other areas such as discovery, is advisable at this time.

#### **F. Terminating an Investigation Based on More than Public Interest Grounds**

H.R. 4829 would allow the Commission to terminate an investigation based on public interest grounds without a determination on violation. This is a significant modification to the statute. Though the legislation's purpose is to address non-practicing entities and their role with respect to Section 337 investigations, as written, this provision would impact other types of investigations as well. The provision would require the Commission to examine "*other relevant considerations*" when determining whether exclusion of the article would be in the public interest. This would require the Commission to go beyond the existing public interest factor framework, and may have the effect of importing the *eBay* injunction criteria into the ITC's public interest analysis.

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. But the Federal Circuit has held that the *eBay* factors are not applicable in Section 337 investigations because of the "different statutory underpinnings for relief before the Commission in Section 337 actions" as compared to patent infringement suits in district courts. *Spanston, Inc. v. Int'l Trade Comm'n*, 629 F.3d 1331, 1359 (Fed. Cir. 2010). "Congress intended injunctive relief to be the normal remedy for a Section 337 violation and [ ] a showing of irreparable harm is not required to receive such injunctive relief." *Id.* at 1358. Moreover, inadequacy of legal relief is not applicable in Section 337 investigations since monetary relief is not available at the ITC. And, as mentioned above, in 1988, Congress eliminated the need to establish injury to a domestic industry in Section 337 investigations. *See* 19 U.S.C. § 1337(a)(1)(B) (1988) (codified as amended at 19 U.S.C. § 1337(a)(1)(B) (2006)). In addition, when downstream products are at play, the "EPROM factors" may be relevant, thus providing factors that account for the remaining *eBay* factors, though the continued viability of the

EPROM factors after the Federal Circuit's *Kyocera* case has certainly been questioned. See *Kyocera Wireless Corp. v. ITC*, 545 F.3d 1340 (Fed. Cir. 2008).

### **G. Losing Party Staying Investigation**

H.R. 4829 would also allow a losing party who appeals to the Federal Circuit to request a stay of all further proceedings in the investigation until all appeals are final. This measure would also apply to all Section 337 investigations, not only those brought by non-practicing entities. From the stand point of intellectual property rights holders, the ability to obtain expeditious relief against unfair imports is one of the most important features of Section 337. Adoption of this provision, however, would potentially delay relief in Section 337 for as much as a year or more in many investigations. This provision would also have the anomalous effect of encouraging those who lose before the Commission to drag out the appeals process as long as possible in order to continue to engage in conduct the Commission has found to be in violation of the statute.

### **IV. Conclusion**

While the purpose behind H.R. 4829, to ensure that the resources of the ITC are focused on protecting genuine domestic industries, is applauded, the work that the Commission has already been able to accomplish in this area effectively eliminates the need for a number of provisions in the bill. In addition, any future amendments to Section 337 should be exhaustively studied and considered so that they do not impose unintentional consequences to those beyond non-practicing entity cases.