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Developments in the Domestic Industry Requirements in the International Trade Commission

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Legal Update

In response to growing litigation costs, overseas manufacturing centers, and growing jurisdictional challenges to patent suits, the United States International Trade Commission (ITC) provides an attractive alternative to district court litigation for patent infringement cases. But to bring a complaint in the ITC, a complainant cannot be a true non-practicing entity. Rather, they must meet the *Domestic Industry* requirement of §337 of the Tariff Act of 1930 (as amended). Generally, in this world of patent enforcement entities, or companies formed solely for the purpose of enforcing patents, the *Domestic Industry* requirement can be a gating issue to an attractive enforcement strategy.

The *Domestic Industry* clause of §337 of the Tariff Act (codified as 19 U.S.C. §1337(a)(2)-(3)), establishes that remedies in the International Trade Commission are only available "if an industry in the United States, relating to the articles protected by the patent…exists or is in the process of being established." The statute is colloquially thought of as having two prongs: an economic prong and a technical prong.

I. <u>Economic Prong</u>

First, the economic prong is satisfied by producing evidence that satisfies one of the three categories specified in the Tariff Act:

> [A]n industry in the United States shall be considered to exist if there is in the United States, with respect to the articles protected by the patent… concerned –
>
> (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.

In practice, to meet the economic prong of the *Domestic Industry* requirement, an entity must provide evidence of investment in manufacturing facilities in the United States, employment of labor or capital that is related to developing the market or marketable products, or substantial investment in its exploitation, including engineering, research and development, or licensing. The first two categories specified are rather straightforward, although it should be noted that "significant" has no statutory definition, but is a case-by-case determination and is generally a relatively low threshold. Complainants seeking to satisfy the domestic industry requirements by their investments in patent licensing must show under section 337(a)(3)(C) that (i) the investment exploits the asserted patent, (ii) the investment relates to "licensing," and (iii) any alleged investment is domestic, *i.e.*, it must occur in the United States.

Licensing activity must be more than de minimis, but again, the threshold is relatively low. On January 10, 2013, the Federal Circuit denied rehearing en banc in *Interdigitial Communications, LLC v. International Trade Commission and Nokia, Inc.*, upholding a panel decision from August of 2012 and holding that licensing activity alone satisfies the Domestic Industry requirement. Nokia argued that InterDigital could not satisfy the domestic industry requirement because there were no U.S. manufactured products and the only activity was licensing-based. That argument was rejected by the ITC and by the Federal Circuit as well. The Federal Circuit held that "patent licensing alone" can be sufficient to satisfy the *Domestic Industry* requirement and that the statute does not require that any actual articles covered by the patent be manufactured in this country. Specifically, Judge Bryson stated that "the domestic industry requirement is satisfied if there is a domestic industry based on 'substantial investment [in the patent's] exploitation' where the exploitation is achieved by various means, including licensing."

Licensing activities can include litigation

Licensing activity that is supported by litigation costs can be sufficient to show substantial investment in exploitation, so long as the litigation is tied directly to the patent at issue and the litigation is reasonably tied to licensing, which can be evidenced by attempts to extract a license prior to litigation. Thus, it is recommended to spend money and specifically document fees associated with sending demand letters to some potential infringers that specifically request or offer to negotiate a royalty license.

Congress amended the Tariff Act in 1988 to read as shown above. In light of the purpose underlying the 1988 amendment to section 337, the Commission has consistently ruled that a domestic industry can be found based on licensing activities alone. See, for example, *Certain Integrated Circuits, Chipsets, and Products Containing Same Including Televisions, Media Players, and Cameras*. In those cases, the Commission has held that subparagraph (C) requires a showing of substantial licensing activities related to the asserted patent in order to support a finding as to the existence of a domestic industry based on licensing. But, the Federal Circuit has recently held, in *John Mezzalingua Assocs., Inc. v. ITC*, that the Commission reasonably concluded "that expenses associated with ordinary patent litigation should not automatically be considered a 'substantial investment in. . . licensing,' even if the lawsuit happens to culminate in a license." To support this conclusion, the Federal Circuit and the Commission pointed out that "[a]llowing patent infringement litigation activities alone to constitute a domestic industry would place the bar for establishing a domestic industry so low as to effectively render it meaningless." That is not to say, however, that patent litigation expenses are not able to meet the domestic industry requirements. Rather, it stands for the proposition that patent litigation expenses must be tied to a licensing scheme to satisfy the requirement.

In *Mezzalingua*, the Commission and the Federal Circuit list a number of factors that can evidence a lack of nexus between the patent litigation and licensing:

- Litigation was not all based on the design patent in question
- No letter offering settlement was sent
- No settlement discussions during litigation
- No established licensing program
- No other efforts to license

The Court specifically noted that none of the cease and desist letters offered an option to negotiate a license. Thus, the *Mezzalingua* case teaches that in order to rely on litigation expenditures under §1337(a)(3)(C), evidence must show that the litigation was conducted as part of an overall licensing effort and not focused solely on obtaining an injunction and money damages. Further, efforts to license or settle with a potential defendant should be ongoing and talks or settlement discussions should be conducted throughout the process.

II. Technical Prong

The second prong, the technical prong, is generally thought of as requiring a technical nexus between the patent sought to be enforced and the domestic industry relied on to satisfy the economic prong. Historically, this is satisfied if the product produced, or engineering and labor invested in, is covered by at least one claim of the patent being asserted in the ITC action.

Licensing activity is satisfied when the complainant shows that the licensing investment was tied directly to the patent and the products licensed are reasonably covered by the licensed patent. In *InterDigital*, the Federal Circuit held that the "requirement is satisfied in this case because the patents in suit protect the technology that is, according to InterDigital's theory of the case, found in the products that it has licensed and that it is attempting to exclude." With the development of patent portfolio licensing, the ITC has had to create a series of factors to determine whether the licensing of an entire portfolio had the necessary nexus to the individual patent being asserted, if for instance the licensing agreement did not specifically identify the patent or if the patent was one of many patents licensed together. The factors are as follows:

- Whether the licensee's efforts relate to a product protected by the asserted patent
- The number of patents contained in the portfolio
- Whether the asserted patent has relative importance in the licensed portfolio
- Whether the asserted patent was discussed during the license negotiation process, and the prominence of the patent in those discussions
- The scope of technology covered by the portfolio compared to the scope of the asserted patent
- Whether the asserted patent has been successfully litigated
- Whether the asserted patent relates to a technology industry standard
- Whether the asserted patent is a base or pioneering patent
- Whether the asserted patent was infringed or practiced in the United States
- Whether the asserted patent has been recognized by the market in some way

Potential claimants before the ITC should note that many of these factors are directed to actual products, but, licensors can take solace in the fact that the ITC and the Federal Circuit have explicitly stated that no commercial product is required under the licensing prong, even though it does provide evidence of a nexus. Also, the factors considered by the ITC under the technical prong favor complainants who engage in pre-suit licensing discussions. Whether the asserted patent was discussed "during the license negotiation process" is expressly enumerated by the ITC as a factor in favor of finding a nexus.

In conclusion, the ITC provides a strategic advantage on many levels for patent owners, but owners must consider the gating issue of the *Domestic Industry* requirement. Owners should consider including an express offer to negotiate a license in any communications with potential infringers and, if possible, this express language requesting a license negotiation should include a direct reference to the patents contemplated. Additionally, when contemplating bringing an ITC action, owners should take action to ensure that litigation is conducted as part of an overall licensing effort and not focused solely on obtaining an injunction and money damages. Further, efforts to license or settle with a potential defendant should be ongoing and talks or settlement discussions should be conducted throughout the process and documented thoroughly.

This advisory was prepared by Nutter's Intellectual Property practice. For more information, please contact your Nutter attorney at 617.439.2000.

Practice Areas

Intellectual Property