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BEFORE THE SUBCOMMITTEE ON INTELLECTUAL PROPERTY, COMPETITION AND THE INTERNET OF THE HOUSE COMMITTEE ON THE JUDICIARY

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I. INTRODUCTION

The U.S. International Trade Commission Trial Lawyers Association ("TLA") is pleased to participate in this hearing. We hope our participation will aid the Subcommittee in its consideration of how Section 337 of the Tariff Act of 1930, as amended (19 USC §1337) ("Section 337") works in patent-based cases, and in particular the practice under Section 337 as it relates to so-called non-practicing entities ("NPEs").

The TLA is an association of private practice, corporate and government lawyers concerned with practice under Section 337. The TLA has over 300 members worldwide. It provides input and advice to the U.S. International Trade Commission ("Commission" or "ITC"), which administers Section 337, and to U.S. Customs and Border Protection, the Administration, and Congress regarding the procedures and substance of Section 337 practice to improve the efficiency and effectiveness of the statute.[1]

Recently, there has been increased attention focused by U.S. technology companies, academics and the U.S. Congress on the activities of NPEs under Section 337 in cases based on alleged infringement by imports of U.S. patents owned by such NPEs. The principal concern expressed by those focusing increased attention on NPEs' use of Section 337 is that because there is a possibility in a Section 337 investigation that an NPE may succeed in establishing that

[1] The comments and observations made in this testimony are presented as part of the educational and advisory function of the TLA and do not necessarily represent the views of any individual member.

imports infringe one or more of its asserted patents, and thereby secure an order excluding such imports from entry into the United States, those who are named as respondents (defendants) in Section 337 investigations (e.g., the U.S. importers or users of the infringing imports, or foreign manufacturers or exporters thereof) feel compelled to settle with the NPE at unreasonably high royalty rates in order to avoid the risk of exclusion from the U.S. market. This is often referred to as the "hold-up" effect of NPEs' actions under Section 337. This has led to suggestions from some companies and legislators representing them that Section 337 be amended to restrict access to Section 337 by NPEs and to make securing exclusion orders by NPEs more difficult, in particular by amending the criteria which must be met to qualify as a U.S. industry that can cause a Section 337 investigation to be undertaken, and by requiring in Section 337 investigations the application of the same equitable principles used in the U.S. district courts to determine whether an injunction should issue in patent litigation.

The analysis presented in this written testimony largely reflects a "White Paper" prepared recently by the TLA, entitled "Section 337 and Its Uses by Non-Practicing Entities" (February 2013). The analysis briefly considers the current law and practice under Section 337 as it relates to certain provisions in the law which some suggested legislative amendments address. The analysis suggests that great caution is in order before making legislative amendments to Section 337 to address perceived NPE issues, and counsels deference for permitting the continued development of the law by the Commission, which development is already manifestly affecting NPE use of Section 337.

II. SECTION 337 OF THE 1930 TARIFF ACT

Section 337 is a trade statute under title 19 of the U.S. Code. The statute, administered by the U.S. International Trade Commission, declares unlawful unfair methods of competition and unfair acts in the importation of articles into the United States that injure a U.S. industry.

Since the 1930s, infringement of U.S. patents (and other intellectual property rights) by imports has been held to constitute a violation of Section 337; in amendments to Section 337 made in 1988, patent infringement by imports was expressly recognized as unlawful when a U.S. industry existed which exploited the patent(s) asserted, and the need to prove injury to such industry was dropped as a requirement for a finding of violation. Patent-based actions have constituted, and continue to constitute the large majority of cases filed and instituted under Section 337. Section 337 proceedings are considered government investigations. *See USITC v. Jaffee*, 433 BR 538 (E.D. Va. 2010). Similar to most trade statutes, Section 337 has in rem jurisdiction; its actions are against the articles being imported and no personal jurisdiction is needed for relief to be given.

Patent-based Section 337 investigations are instituted upon a complaint by a holder of a U.S. patent right. Section 337 investigations are trial-type proceedings conducted under the Administrative Procedure Act before an Administrative Law Judge ("ALJ"), and in patent-based cases, the trial is very much like a patent trial in a U.S. district court in terms of both procedures and substantive law. One distinction between a district court patent proceeding and a Section 337 patent investigation is that in order to be eligible for relief under Section 337, the complainant must show that a U.S. industry exists which exploits each of the patents being asserted. This is usually done by the complainant proving that there is U.S. production of a product practicing the patents asserted.

Following the trial, the ALJ issues an initial determination, followed by review by the Commission in most cases and the issuance of a final determination on violation by the Commission. The Commission's determinations on infringement and validity of patents are not binding on U.S. district courts, but are made to carry out the Commission's function under

Section 337. On the other hand, U.S. district court determinations on validity and infringement are binding on the Commission.

The remedy for violation of Section 337 is exclusion from entry into the United States of infringing articles. This remedy, like those of most trade laws, is directed against the article and not against a company or person, and is to prevent the unfair practice from continuing. No damages or compensation are provided to the U.S. IP rights holder under Section 337. The Commission may also issue a cease and desist order directed to a person violating Section 337, enjoining continued infringement; unlike an exclusion order, the Commission has required personal jurisdiction over the respondent before it will issue a cease and desist order. Before issuing a remedy, the Commission will determine whether the public interest requires that no remedy issue, i.e., whether the effect of the remedy on the public health and welfare, competition in the United States, U.S. production, or U.S. consumers is such that no order or something less than full relief should issue. Public interest considerations rarely have prevented issuance of an order.

Any remedy issued by the Commission is subject, for a period of 60 days, to disapproval by the President (delegated to the U.S. Trade Representative) on the basis of the national economic interest; disapproval rarely occurs. Final actions and determinations of the Commission are subject to review by the U.S. Court of Appeals for the Federal Circuit.

As a trade border enforcement remedy, a Commission exclusion order is enforced by U.S. Customs and Border Protection ("CBP"). While CBP has direct enforcement authority in the case of registered trademarks (e.g., knock-off products that are falsely branded), CBP has no comparable authority to enforce patents at the border except based on a Section 337 order. Consequently, if a U.S. patent owner seeks to enforce its patent rights at the border to physically

block infringing articles before they enter the stream of commerce within the United States, its sole remedy is to first go through the ITC under Section 337 and obtain an exclusion order. If an exclusion order (or cease and desist order) is violated, no damages are provided to the U.S. IP rights holder.

A Commission cease and desist order issued against a person is enforced by the Commission. Violation of a cease and desist order may result in a substantial monetary penalty and the issuance of an exclusion order if not already ordered.

While Section 337 goes back to 1930, Congress radically amended Section 337 in the Trade Act of 1974 to make it more effective in fighting imports of articles which infringe U.S. Intellectual property rights, particularly U.S. patents. This was an early recognition by the trade committees of Congress and, indeed, the entire Congress, that as U.S. competitive advantage lessened in terms of labor, capital and natural resources, it was critically important that the U.S. competitive advantage in intellectual capital or property be preserved and indeed encouraged, not only to continue U.S. production activities but to itself become a critical source of value for the U.S. economy as some U.S. production moved off-shore.

In 1988, Congress again amended Section 337, recognizing that as some manufacturing increasingly left the United States and became more dispersed around the world, it was important to encourage not only U.S. production, but also U.S.-based engineering, research and development and licensing associated with U.S. patents and other IP. The amendments added engineering, research and development, and licensing activities, i.e., the activities in which some NPEs engage, to U.S. production as equally appropriate bases to establish that a U.S. industry exists so as to justify the use of Section 337 to stop trade in infringing imports. 19 U.S.C. §1337(a)(3)(C). The amendment is in part also a recognition that imports which infringe U.S.

intellectual property rights are not less unfair or damaging to the U.S. economic interest because the rights owner does not itself or through licensees engage in U.S. production.

Parties use Section 337 in lieu of or in addition to U.S. district court patent actions for a variety of reasons. The speed of Section 337 investigations is one of the primary reasons. Typically Section 337 investigations are completed within 16-18 months, while district court cases can often take twice as long or more. If a violation is found in Section 337 investigations, the remedy, an exclusion order, is effective and implemented by CBP, while a district court injunction requires enforcement by contempt proceedings initiated by the plaintiff. Being an *in rem* proceeding at a national tribunal, personal jurisdiction and venue issues are not present in Section 337 investigations like in district court cases. The absence of juries and the experience of the Commission's ALJs may also be draws relative to district court cases. Within two years of being at the ITC, ALJs will have handled more patent trials than the vast majority of U.S. district court judges. ITC decisions on the merits are sound; as Federal Circuit review confirms, the affirmance rate is at least as high as for U.S. district court patent cases. These factors have caused the number of Section 337 cases filed to triple in the last decade. In FY 2011, a total of 70 cases were instituted.

III. CALLS FOR AMENDMENTS TO SECTION 337: THE NPE ISSUE

A. The "Problem"

Some assertions have been made that amendments are needed to Section 337 because NPEs (persons or companies that seek to enforce a U.S. patent that they own but which do not manufacture or market a product covered by the patent), or a subset of NPEs, so-called patent assertion entities ("PAEs") (entities focused on purchasing patents and seeking the enforcement of them if licenses are not agreed to) are turning to Section 337 in greater numbers. NPEs and PAEs usually gain access to Section 337 if their licensing activities in the United States are

sufficient to constitute a licensing industry in the United States under the 1988 amendment to Section 337.

Some assert that NPEs' and PAEs' newfound interest in Section 337 may be because they are less able to receive injunctive relief in the district courts than in the past, while they can continue to receive an exclusion order or cease and desist order (hereinafter, collectively referred to as an "exclusion order") under Section 337. The argument is made that they then can use the threat of an exclusion order to "hold-up" respondents accused of infringement in license negotiations for higher than warranted payments because the accused infringers cannot afford to take the risk of being excluded from the U.S. market by an exclusion order.

The basis for asserting the difference between district court cases and Section 337 investigations as to injunctive-type relief is the 2006 Supreme Court case, *eBay v. MercExchange,* 547 U.S. 388 (2006). There, the Court said that injunctive relief should not be virtually automatic, but required district courts to apply "traditional equitable principles" (i.e., the traditional four-factor test of irreparable harm, inadequacy of legal remedies, balance of hardships, and the public interest) when determining whether to grant permanent injunctive relief. This decision was consistent with the patent statute's provision that district courts may issue injunctions in accordance with "the principles of equity." The Federal Circuit subsequently rejected this approach of using traditional equitable principles in Section 337 investigations, however, finding that *eBay* did not apply because Section 337 had "different statutory underpinnings for relief", including that injunctive relief was the normal remedy and that irreparable harm need not be shown to receive it. *Spansion, Inc. v. U.S. Int'l Trade Comm'n,* 629 F.3d 1331 (Fed. Cir. 2010).

B. A Purported Solution

In order to address this perceived problem, some have argued that Section 337 should be amended to change the definition of what constitutes a U.S. or domestic industry under the statute to make it more difficult for NPEs to qualify as such, and to require that the Commission apply the *eBay* decision in determining whether to issue an exclusion order, which would presumably have the effect of making exclusion orders far less available to NPEs/PAEs in Section 337 investigations.

The most often referenced exemplar of the proposed amendments to Section 337 was draft legislation being considered by Representative Devin Nunes in the last Congress, which is similar in scope and direction to a proposal from some in private industry. The draft legislation would provide in the most relevant part:

> (1) that the required domestic industry, when based on licensing (which is a principal basis for the ability of many NPEs, and almost the exclusive basis for the ability of PAEs, to use Section 337), should be found to exist only when the NPEs' licensing activity, or activities of any of its licensees, is prior to, and promotes, the adoption of the claimed patented invention in articles for sale in the United States; and
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> (2) that the principles of equity set forth in the *eBay* decision should be applied in Section 337 investigations by the Commission in deciding whether to issue any relief.

C. The Extent of the Asserted Problem

In the six (6) years since *eBay*, there have been only three exclusion orders issued on behalf of an NPE (in Investigation No. 337-TA-605 (Tessera); Investigation No. 337-TA-661

(Rambus); and Investigation No. 337-TA-679 (UNeMed)). U.S. International Trade Commission, Facts and Trends Regarding USITC Section 337 Investigations, pp. 2, 3, June 18, 2012, http://www.USITC.gov/Press-room/documents/featured_news/337facts.pdf. According to the Commission, only one of these orders involved a PAE (Rambus), and in each of these cases, it happens that the NPE itself had developed the technology leading to the patent. Based on those facts, it is difficult, at best, to say whether injunctions would or would not have issued in a district court if these cases had been brought there.

Supporters of the changes to the Section 337 say that despite the low number of NPE exclusion orders, problems with NPE use of Section 337 exist whether an exclusion order issues or not. They assert that the existence of a Section 337 case and the risk of possible exclusion from the U.S. market result in settlements at "hold up" rates, which risk would not exist to the same extent in district court cases because the application of *eBay* would result in many fewer injunctions being imposed when a NPE was the plaintiff.

There is no question that the number of new Section 337 investigations instituted has increased since 2006; Commission statistics indicate an irregular but upward trend to where about twice the number of cases were instituted in FY 2011 compared with FY 2006. *Id.*, p.1 (chart).[2] While the number of investigations instituted involving NPEs has increased comparing 2006/2007 to 2010/2011, it is clear that investigations involving NPEs are not the major cause of the overall increase in Section 337 cases; NPEs and PAEs together accounted for some 18% of the 258 investigations instituted from May 2006 through the first quarter of 2012, with PAEs

[2] It should be noted that the number of cases instituted in FY 2012 declined over 40% from 2011 levels, but is still well above FY 2006 levels.

accounting for only 8 percentage points of this total. *Id.*, pp.2-3.[3] Perhaps relevant to the question of "hold up", in terms of settlements, non-NPE investigations settled at a rate of 50.62%, while investigations involving NPEs actually settled at a lower rate of 47.06%. *Id.*[4]

IV. DEVELOPING COMMISSION PRACTICE AND JURISPRUDENCE ARE ADDRESSING THE NPE/PAE ISSUE

While NPE/PAE use of Section 337 has increased, the development of the Commission's practice and jurisprudence is addressing their use of Section 337, and in particular their access to Section 337 and perceived excessive leverage, the very issues addressed by the proposed legislative changes. The Commission, as administer of the law, is well suited to developing the application of Section 337 to NPEs and PAEs and the issues raised thereby. Given that this process involves the application of expertise in complex fact and law situations, thought should be given to according the Commission deference in this process prior to amendment of the statute.

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[3] These percentages may be somewhat higher in FY 2012 compared to FY 2011, but NPEs still constitute less than one-third of cases instituted under Section 337 and the absolute number of NPE cases instituted declined in FY 2012 compared to FY 2011. Colleen V. Chien, "Patent Trolls by the Numbers", Legal Studies Research Paper Series, Santa Clara University School of Law (working paper no. 08-13. March 2013) (downloaded from http://ssrn.com/abstract=2233041). This is in contrast to NPE filings in U.S. district courts, which increased sharply in 2012 over 2011 in both absolute and percentage terms (id.), which should be noted seems to undercut assertions of a rush by NPEs to Section 337.

[4] Whether "hold up" occurs in settlement negotiations in either NPE investigations, or, for that matter, in non-NPE investigations, while certainly having a logical basis, is ambiguous based on available empirical evidence. The financial terms of settlements in ITC investigations are often confidential. It is not a question which has been rigorously studied. Further, even if a respondent may pay more to settle than it may think warranted, that does not mean that it pays more than the technology is worth, nor that it pays more to an NPE than a non-NPE; indeed, a counter-argument exists that an NPE which receives a return on its IP only if it settles a Section 337 investigation is less likely to insist on an unreasonably high settlement amount compared to a non-NPE, which receives a return on its IP from its own sales activities and therefore is not as dependent on reaching a settlement to receive a return. Ultimately, however, the financial motivation of any particular complainant is likely to be unique to that complainant.

A. Licensing as a Domestic Industry

As noted above, NPEs usually, and PAEs always, seek to establish the domestic industry required for access to Section 337 relief by reliance on licensing activities to show that a U.S. licensing industry exists related to the patents being asserted, as the 1988 amendments to Section 337 permit. 19 U.S.C. §1337(a)(3)(C). The Commission's practice with respect to licensing industries has, over the last several years, revealed rigorous analysis of claims that a licensing industry exists, including perhaps most importantly requiring greater tying of claimed licensing activities to the particular patents being asserted. The Commission is insisting on a case-by-case basis that each asserted licensing industry be shown by substantial proof, and as a result, there is no indication that questionable licensing industries have been found to exist, nor will be in the future.

For example, in 2010, in *Certain Coaxial Cable Connectors, Components Thereof, and Products Containing Same ("Coaxial Cable")*, Inv. No. 337-TA-650, Comm. Op. (Apr. 14, 2010), *aff'd, John Mezzalingua Assocs., Inc. v. Int'l Trade Comm'n* (Fed. Cir. 2012)), in finding that no domestic licensing industry existed, the Commission considered whether expenses incurred in prior patent litigation could be considered investments in licensing and, thus, help establish a domestic industry under §1337(a)(3)(C). The ITC determined that litigation expenses, on their own, could not establish a domestic industry under §1337(a)(3)(C). However, the Commission also held that, if prior litigation expenses exhibited a clear nexus to the complainant's concerted efforts to license the asserted patent, they could be considered as one factor, among others, as to whether there was substantial investment in exploiting the patent via licensing efforts. The Commission also held that the design and history of the statute favor licensing activity that furthers the development and commercialization of technology. Because

of this, the Commission indicated it will give greater weight to such activity over activity that merely monetizes patent assets in determining whether an industry exists.

The ITC further honed its interpretation of §1337(a)(3)(C) in *Certain Multimedia Display and Navigation Devices and Systems, Components Thereof, and Products Containing Same ("Navigation Devices")*, Inv. No. 337-TA-694, Comm'n Op. (Aug. 8, 2011). In *Navigation Devices*, the Commission again found that no domestic licensing industry existed. The primary issue was whether a complainant could establish a domestic industry based upon its investment in licensing its entire patent portfolio without allocating expenditures to licensing the asserted patents. Despite public comments advocating this broad approach, the ITC determined that Congress did not intend Section 337 to encompass such a liberal interpretation. Instead, the Commission stated that the test is governed by the "strength of the nexus between the licensing activity and the asserted patent." *Id.* at 9.

Specifically, the Commission analyzed the complainant's patent portfolio and related activities in three areas to determine whether a "substantial investment" had been made to exploit the patents at issue, namely: (1) "the relative importance or value of the asserted patent within the portfolio"; (2) the extent to which activities are "*solely* related to licensing" versus "serv[ing] multiple purposes"; and (3) "the extent to which the complainant conducts its licensing operations in the United States, including the employment of U.S. personnel and utilization of U.S. resources in its licensing activities." *Id.* at 9-15. Consequently, the ITC determined that the burden is on the complainant to "present evidence that demonstrates the extent of the nexus between the asserted patent and the complainant's licensing activities and investments." *Id.*[5]

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[5] Similarly, in *Certain Semiconductor Chips and Products Containing Same*, Investigation No. 337-TA-753 (2012), in which Rambus Inc. was the complainant, the Commission, in reversing the ALJ's Initial Determination that Rambus had established a licensing industry, held that Rambus's reliance on its total

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More recently, in *Certain Liquid Crystal Display Devices, Including Monitors, Televisions, Modules, and Components Thereof ("Liquid Crystal Display Devices")*, Inv. Nos. 337-TA-741/749, Comm'n Op. (Jul 6, 2012), where the complainant had purchased a substantial patent portfolio covering a broad array of technology and subsequently filed parallel suits in the district court and the ITC against a number of respondents, the Commission was tasked with determining which of the complainant's activities and investments related to its efforts to license the patents at issue in the suit and ultimately determined that only the "activities relating to [complainant's] LCD licensing program, including employee time, facility use, travel, and product acquisition," qualified as "substantial investment" under Section 337(a)(3)(C). *Id.* at 110. The Commission began its analysis by reiterating the guidance laid out in *Navigation Devices*, that "the complainant must demonstrate that a particular activity: (1) relates to the asserted patent; (2) relates to licensing; and (3) occurred in the United States." *Id.* at 109. Importantly, the Commission determined that expenses and activities related to the purchase of patent portfolios, litigation of underlying Section 337 investigations and parallel district court actions, and reexamination of the patents at issue did not qualify as exploitation through licensing. *Id.*

(footnote continued from previous page)
investment in its entire licensing program, the amount of licensing revenue received for patent portfolios that included the patents in issue, and the number of licenses for each of the patent families did not provide sufficient evidence of a nexus between the portion of its overall licensing investment and the patents being asserted, and also made impossible a determination of the substantiality of the licensing investment in the asserted patents. *Id.*, pp. 45-47. It should be noted that this effectively overturned the existence of a domestic industry of Rambus in Investigation No. 337-TA-661, *supra*, to the extent that existence was based on the same patents Rambus asserted in Investigation No. 337-TA-753; the Commission decision in TA-661 was the only investigation in which the Commission had held that a PAE satisfied the requirements for a licensing domestic industry and had issued relief. *See also, Certain Integrated Circuits, Chipsets, and Products Containing Same Including Televisions,* Investigation No. 337-TA-786 (2012).

Most recently, the Commission indicated its continued focus on the domestic industry requirement in cases where a licensing industry is asserted by issuing a Notice of Investigation calling for an early determination on whether a domestic industry existed. In Certain Products Having Laminated Packaging, Laminated Packaging, and Components Thereof, Investigation No. 337-TA-874 (March 22, 2013), the ALJ was directed to determine within 100 days (with a possible limited extension) whether the Complainant satisfied the domestic industry requirement. 78 Fed. Reg. 19007-008 (March 28, 2013). The Commission indicated that a determination of no industry by the ALJ would likely result in a stay of the investigation, presumably so the Commission could review the determination, with the implication that affirmance of a no industry determination would end the investigation. *Id.*

The preceding discussion illustrates that the ITC has appeared to balance its obligations under Section 337. In investigations which are heavily fact dependent, harnessing its administrative expertise, its decisions have conveyed an effort to remain mindful of the 1988 amendments' intent to liberalize Section 337 while also remaining vigilant in not allowing an expansion of the domestic industry test beyond the intent of Congress.

B. Public Interest Considerations and the Availability of Relief

In determining the remedy in a Section 337 investigation, the Commission is required to consider the effect any exclusion order will have 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." 19 U.S.C. §1337(d). These are referred to as the public interest factors. The Commission, in determining whether to issue a remedy, need not consider public interest issues other than the four public interest factors enumerated in the statute. As noted previously, in S*pansion v. U.S. Int'l Trade Comm'n*, the

Federal Circuit held that, in determining whether to issue a remedy, the Commission was not required to apply the traditional four-factor test set forth in *eBay Inc. v. MercExchange*. The Federal Circuit explained that the legislative history of Section 337 "indicates that Congress intended injunctive relief to be the normal remedy for a Section 337 violation and that a showing of irreparable harm is not required to receive such injunctive relief." 629 F.3d at 1358. In particular, the court noted that Congress did not include monetary remedies when passing the original Tariff Act of 1930 (nor has it subsequently), which shows that the Commission is not to consider whether the complainant could be made whole through monetary remedies in deciding whether to issue a remedy. 629 F.3d at 1359 (citing 35 U.S.C. § 283).

Over the last several years, as the issue of NPE use of Section 337 has drawn increased attention, the Commission has been addressing the statutory public interest factors even more intently than it had done in the past. The Commission amended its rules in November 2011 to gather information on the public interest from the filing of the complainant (which now must be accompanied by a public interest statement, to which respondents may reply), and not just at the conclusion of an investigation. 76 Fed. Reg. 64803 (October 19, 2011). Since October 2011, in approximately 40% of cases the Commission has also asked the ALJ to develop specific evidence regarding the public interest, something rarely done in prior practice.

Further, recent Commission decisions show not only increased attention to the public interest, but flexibility in providing relief, all of which indicates that the Commission can adequately address issues of improper leverage by NPEs. One such case is *Baseband Processor Chips*, a case where complainant sought an exclusion order against all downstream products that included within them the chips of respondents that had been found to infringe, which potentially could have affected the availability and development of "3G" cell phones. ITC Inv. No. 337-TA-

543. After extensive comments and a lengthy hearing on public interest, the Commission declined to issue such a broad remedy. *Id.*, Comm. Op. at 116-30 and 148-54 (July 7, 2007). Instead, the Commission issued an exclusion order that excluded the downstream products containing the respondents' infringing chips, except for models of products that had been sold in the United States on or before the date of the final Commission determination, which models include some that used a type of chip from the respondent that was generally not available from other sources. The Commission found that the exemption was warranted because of the magnitude of the economic harm from lack of product that the third parties (such as network providers, like Verizon and Sprint) would suffer without the exceptions. ITC Inv. No. 337-TA-543, Comm. Op. at 116-30.

In another example, the Commission addressed the public interest factors in *Personal Data and Mobile Communications Devices and Related Software,* Inv. No. 337-TA-710 (Dec. 2011). Although the Commission issued an exclusion order in that investigation, it provided in the order that the infringing articles could be imported for a transition period of four months. The Commission found that an exclusion order with immediate effect would have had a substantial impact on competitive conditions in the wireless service, and that a "transitional" exclusion order was within its discretion and addressed the concerns about the impact on competitive conditions.

This development of Commission practice relating to the public interest plainly demonstrates that the Commission has the flexibility to deal with the perceived undue leverage that NPEs may seek to assert, and to take into account effects on consumers and competition when it sees fit to do so. The development of the practice is also consistent with recent calls for careful public interest consideration and a flexible approach to the exclusion order remedy when dealing with

NPEs/PAEs. *See* N.Y. Times, Postscripts Appended, Colleen Chien and Mark Lewley, December 13, 2011.

V. THE CONSEQUENCES OF ANY AMENDMENT TO SECTION 337 SHOULD BE CAREFULLY CONSIDERED

A. Application of *eBay*

As noted, one principal proposal has been put forward for amendment of Section 337 to address the perceived issue of use of Section 337 investigations by NPEs to gain leverage over respondents and achieve settlements at "hold-up" rates. Section 337 would be amended so that in determining whether an exclusion order should be issued when the Commission finds a violation under Section 337, the Commission would be required to apply in Section 337 investigations the same equitable principals required by *eBay* to be applied in district court patent cases when the court must determine whether an injunction should issue or whether monetary relief only should be made available. The differences, however, between Section 337 investigations and district court cases dictate that such proposal should be carefully evaluated as to its appropriateness given the consequences that likely result.

Unlike district courts, the Commission does not have the ability to award damages if a violation is found. Section 337 is a trade/border enforcement statute. It operates in addition to any other provision of law, but has at its disposal only one remedy -- an exclusion order. Congress determined that only the remedy of exclusion should be applied in Section 337 cases, subject to consideration of the public interest. The House report on the 1988 Act specifically noted that the temporary right to exclude others was the essence of the patent right, citing Article 1, Section 8, Clause 8 of the Constitution. U.S. House of Representatives, "Trade and International Economic Policy Reform Act of 1987", Report of the Committee on Ways and Means, Rept. 100-40 at 156 (April 6, 1987). In Section 337 investigations, if no exclusion order

issued, no relief would be given even though infringement is occurring. This effectively makes the *eBay* criterion of adequacy of legal (i.e., monetary) relief simply inapplicable to Section 337 investigations. The consideration of equity in these circumstances is totally different than in district court cases, where relief is always available in the form of damages. Thus, applying district court equity standards to determine if an injunction should be available in addition to damages, is problematic at best for Section 337 investigations where only one remedy is available.

In any event, the Commission's examination of the public interest and the Presidential review of national economic interest likely provide safeguards against a decision not in the public interest at least as great as those provided by *eBay*. For example, when the Commission has limited or denied relief based upon the public interest, it has been in the context of a complainant not being able to demonstrate that non-infringing alternatives exist that can supply the demand in the U.S. market. *See Baseband Processing Chips, supra*: *Fluidized Supporting Apparatus*, Investigation Nos. 337-TA-182/188. Thus, NPEs not able to show that there are sufficient alternative products to meet demand will likely have a difficult time receiving relief and this will certainly mitigate any leverage such NPEs may have in negotiations for settlement, as well as the effect of any such leverage on consumers and the economy. Further, as noted in the discussion below of current Commission considerations of the public interest in determining whether to issue relief, the Commission can tailor remedies, including exclusion orders, and in doing so does not focus on the narrow interests of an infringer as much as *eBay* would require (the four factors under *eBay* include harm to the infringer by an injunction, and whether the infringer is causing irreparable harm to the IP holder). Instead, the Commission focuses more on the larger public interest, which is perhaps appropriate in a trade statute which values the

importance of U.S. intellectual property as a national public interest and encourages rejection of infringing imports.

Application of *eBay* would also reintroduce an injury test (irreparable harm, one of the *eBay* four factors) into Section 337, despite proof of injury specifically being eliminated in the 1988 legislation as necessary to establish a patent-based violation, and would reintroduce it after the ITC was specifically admonished not to do so: "The Committee does not intend that the USITC reintroduce these requirements [including injury] in making their public interest determinations." House Ways and Means Rept., *supra*, p. 156. This again reflects the different foundations between Section 337 and district court patent cases.

Layering the *eBay* standard on top of the Commission's public interest standard also would likely engender confusion and uncertainty. For example, besides the presence of criteria in *eBay* which do not seem applicable and would be difficult at best for the Commission to address (e.g., the availability of monetary relief), where the *eBay* factors and the Commission's current public interest factors do seem to overlap in part, is the Commission supposed to change its approach to mirror that of a district court if the Commission practice varies from district court practice?

Additionally, because application of *eBay* would apply to all Section 337 investigations, not just those involving NPEs, it would increase the cost and likely the length of all Section 337 investigations as parties would be required to undergo additional steps to prove their cases, and in particular to prove irreparable injury. This would be particularly detrimental to smaller entities, universities, research facilities and inventors, and is directly contrary to the express intent that Section 337 investigations be conducted expeditiously and efficiently.

B. Suggested Changes to Domestic Industry

As noted above, the principal proposal, other than the application of *eBay* to Section 337 investigations, that is made by those that seek to limit the access of NPEs to relief under Section 337, is to amend the domestic industry requirement as it relates to licensing industries. In particular, some have suggested a licensing domestic industry should be found only when the licensing relied upon to show the existence of an industry is prior to, and promotes, the adoption of the patented invention.

Adding a requirement to Section 337 to the effect that U.S. licensing activity will only be counted in determining whether a U.S. licensing industry exists if the activity occurs prior to, and promotes, the adoption of the patented invention in products in the U.S., introduces a host of issues, including a temporal limitation that may well incentivize behavior that stifles innovation, rather than promoting it. To avoid the limitations of this proposed language, some inventors may avoid publishing prior to issuance of a patent in order to give time for licensing before an industry springs up based on a disclosure in a publication. Also, some infringing parties could be rewarded for dilatory tactics during license negotiations because the temporal restriction could be interpreted as cutting off consideration of licensing activities done after the "adoption" of the patented invention. This would imply that only the first license involving the patent which results in a product sold in the U.S. is relevant to the domestic industry analysis. Thus, if a company starts small with a licensing program, and eventually licenses an entire industry, only the initial license may be considered, rendering meaningless the subsequent and true extent of the complainant's licensing activity. This will eliminate an inappropriately large number of cases based purely on the vagaries of timing.

It should also be noted that the use of "promotes" and "adoption" in the proposed language will introduce uncertainty into the statute as the Commission determines what those words actually mean in the context of the "patented invention". The terms are open-ended and subject to many different interpretations: what constitutes "adoption"; what "promotes" such adoption; what is the "patented invention"? Such vague terms will result in years of unnecessary litigation and uncertainty.

Further, dependent on the interpretation, the requirement that an article based on the patent be "sold in the United States" may largely read licensing industries out of the statute, or at least make them redundant, contrary to Congress's plain intent to include them as a distinct, separate basis for satisfying the domestic industry requirement. Does "sold" mean also produced in the United States; if not, why is this term used, because the importation requirement under Section 337 almost certainly already means that sales are occurring, making the term largely redundant absent a broader meaning. Licensing activities directly tied to certain intellectual property, without a corresponding product produced in the United States, should satisfy the domestic industry requirement. To hold otherwise would make redundant the long established ITC precedent that recognizes the U.S. production activities of licensees that practice the patent as satisfying the domestic industry requirement and eliminate access to the ITC of the universities and other research facilities that were expressly of concern when the statute was changed in the Omnibus Trade and Competitiveness Act of 1988.

VI. CONCLUSION

It is not clear that any amendments to Section 337 are needed to address perceived issues of use of Section 337 by NPEs/PAEs. The extent of the actual issues is unclear, and the development of Commission jurisprudence appears to be addressing the issues in a measured fashion consistent with the Commission's existing statutory authority. In any event, any changes

to Section 337 should be undertaken with caution, as perhaps unintended, negative consequences of such changes may far outweigh any perceived benefit from them.