

September 25, 2024

Representative Jim Jordan  
Chair, House Judiciary Committee  
United States House of Representatives  
Washington, DC 20510-6275

Re: Response to Questions for the Record -- House Judiciary Subcommittee on Courts, Intellectual Property, and the Internet - Hearing, "IP Litigation and the U.S. International Trade Commission", July 23, 2024

Dear Representative Jordan,

I thank you for the opportunity to provide written responses regarding my testimony at the House Judiciary Subcommittee on Courts, Intellectual Property, and the Internet Hearing on "IP Litigation and the U.S. International Trade Commission" held on July 23, 2024. My responses to the questions posed by Chair Issa and Representative Cline are set forth below. I would be happy to answer any additional questions that you or any members of the Subcommittee may have.

**Questions from Representative Darrell Issa**

**For all witnesses:**

1. *How might Section 337 be improved to be a more powerful tool to block imports of products that infringe U.S. patents, misappropriate U.S. trade secrets, and otherwise undermine intellectual property of Americans?*

Response: As currently practiced, Section 337 litigation harms American businesses and consumers by driving up litigation costs and giving powerful exclusionary remedies to foreign companies and patent assertion entities that target American companies. Limiting the availability of Section 337 remedies to those few cases that involve foreign manufacturers that are beyond the reach of U.S. courts, or eliminating it entirely, would remove a significant burden on American businesses and consumers, who ultimately bear these costs.

2. *To the extent that you call for reforms related to 337 litigation, will these reforms be helpful to better hold China accountable for abuse of intellectual property?*

Response: Yes. Focusing Section 337 on cases in which foreign manufacturers are beyond the reach of U.S. courts will hold them accountable for infringing U.S. intellectual property rights wherever they are based.

3. *To the extent that you call for reforms related to 337 litigation, to what extent could the problems you identified be solved by administrative action by the ITC rather than a statutory change?*

Response: The ITC can address some of the issues that arise in Section 337 litigation through its own administrative actions and decisions. For example, the ITC could apply the “technical” prong of the domestic industry requirement to all complainants, thereby limiting the availability of Section 337 for entities that do not promote technological commercialization.<sup>1</sup> Likewise, the ITC could give greater weight to its own public interest considerations when deciding whether to issue an exclusion order, thereby more closely aligning the ITC’s remedial profile with that of district courts that apply the Supreme Court’s *eBay* test.<sup>2</sup> The ITC could also exercise greater flexibility in fashioning its remedial awards. Thus, the ITC could (1) revive its *EPROM* factors<sup>3</sup> to consider the proportionality of an exclusion order in view of the value of the patented technology to the product into which it is incorporated;<sup>4</sup> (2) tailor exclusion orders to cover only new product models, thus allowing products already on the market to continue to be imported;<sup>5</sup> (3) postpone the effectiveness of exclusion orders to enable infringers to design around the patented technology;<sup>6</sup> and (4) consider whether the patentee is a PAE, whether the defendant is a willful infringer, and whether the patent is standards-essential when determining whether to issue an exclusion order.<sup>7</sup> Nevertheless, despite reforms that could be effected internally by the ITC, these reforms would not address all of the issues that exist with respect to the ITC’s jurisdiction over patent cases, some of which may require a structural change to the ITC’s governing statute.

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<sup>1</sup> See, e.g., Matthew Duescher, *Controlling the Patent Trolls: A Proposed Approach for Curbing Abusive Section 337 Claims in the ITC*, 96 J. PAT. & TRADEMARK OFF. SOC’Y 614, 632–34 (2014); Colleen V. Chien, *Protecting Domestic Industries at the ITC*, 28 Santa Clara Comp. & High Tech. L.J. 169, 179 (2011), U.S. Federal Trade Comm’n, *The Evolving IP Marketplace: Aligning Patent Notice and Remedies with Competition* 242 (2011).

<sup>2</sup> See Colleen V. Chien & Mark A. Lemley, *Patent Holdup, the ITC, and the Public Interest*, 98 Cornell L. Rev. 1, 5 (2012).

<sup>3</sup> Certain Erasable Programmable Read-Only Memories, Components Thereof Products Containing Such Memories, and Processes for Making Such Memories, ITC Inv. No. 337-TA-276, USITC Pub. 2196, at 124–26 (May 1989). As explained by Chien and Lemley, under the *EPROM* factors, “[w]hen the value of the invention is small compared to the value of the enjoined article that incorporates the invention downstream, the ITC has paused to consider whether the patentee deserves an injunction and if so, what type of injunction is appropriate.” Chien & Lemley, *supra* note 2, at 30.

<sup>4</sup> Chien & Lemley, *supra* note 2, at 29–31.

<sup>5</sup> *Id.* at 32–33.

<sup>6</sup> *Id.* at 34–36.

<sup>7</sup> *Id.* at 40–42. See also Jorge Contreras, *The Topsy-Turvy ITC*, INFOJUSTICE.ORG (Jun. 16, 2013), <http://infojustice.org/archives/29909> (proposing exclusion of standards-essential patents from scope of ITC exclusion orders).

**For Prof Contreras:**

1. *What was the original statutory purpose of Section 337?*

Response: Section 316, the predecessor to Section 337, was added to the ITC's statutory charter in 1922 to supplement the commission's existing authority to review tariffs on foreign goods that were being imported at below-cost prices (dumping), primarily by European manufacturers seeking to recover from the economic devastation of World War I. Section 316 thus authorized the commission to investigate "unfair methods of competition and unfair acts" pertaining to imports.<sup>8</sup> Within a few years, the courts interpreted the scope of "unfair acts" to include the importation of goods that infringed US intellectual property rights.<sup>9</sup>

a. *Follow on question: Approximately what proportion of the IP cases at the USITC meet this original statutory purpose, as you understand it?*

Response: When enacted, the predecessor to Section 337 clearly targeted the importation practices of foreign manufacturers seeking to sell goods in the U.S. in violation of US law. This regulatory structure was needed because foreign manufacturers were largely beyond the jurisdiction of the U.S. courts and U.S. law did not, at the time, prohibit the importation of products manufactured abroad according to the methods disclosed by U.S. patents. This changed, however, in 1988 with the addition of Section 271(g) to the U.S. Patent Act.<sup>10</sup> Likewise, by the late 20<sup>th</sup> century many foreign companies were establishing subsidiaries in the U.S. for sales, marketing and other purposes, making them amenable to jurisdiction in U.S. courts. This leaves only a small number of cases over which the ITC had unique patent jurisdiction. Thus, in 2022 and 2023, only 6% of ITC patent cases targeted only foreign respondents.<sup>11</sup>

A large portion of the remainder of the ITC's patent cases are domestic disputes over which the district courts have jurisdiction. Thus, during 2022 and 2023, 83% of ITC patent cases involved patents that were also being asserted against the same defendants in district court.<sup>12</sup> As a former chief economist of the U.S. Department of Justice has observed, ITC litigation today "is mostly a U.S.-on-U.S

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<sup>8</sup> Tariff Act of 1922, § 316(a), 42 Stat. 943.

<sup>9</sup> *Frischer & Co. v. United States*, 39 F.2d 247, 250 (C.C.P.A. 1930), *cert. denied*, 282 U.S. 852 (1930).

<sup>10</sup> Process Patent Amendments Act of 1988, Pub. L. 100-418, title IX, subtitle A (Sec. 9001 et seq.), Aug. 23, 1988, 102 Stat. 1563 (codified at 35 U.S.C. § 271(g)).

<sup>11</sup> Jorge L. Contreras, *Reconsidering the Patent Jurisdiction of the International Trade Commission*, 38(4) *Harvard J. L. & Tech.* \*8 (2024, forthcoming) (working draft of Sep. 6, 2024 available at [https://papers.ssrn.com/sol3/papers.cfm?abstract\\_id=4840731](https://papers.ssrn.com/sol3/papers.cfm?abstract_id=4840731)).

<sup>12</sup> *Id.*

problem.”<sup>13</sup> Nowhere in the legislative history of the ITC was it contemplated that the agency should serve as a forum for disputes between domestic parties, yet that is now one of its principal uses.

Even worse, the ITC today hears an increasing number of cases initiated by foreign companies against domestic respondents, whose products can be barred from importation if they were manufactured or assembled overseas. In 2022 and 2023, 31% of ITC patent cases were brought by foreign complainants (i.e., companies that are headquartered outside the U.S., acting through their U.S. subsidiaries) against domestic respondents.<sup>14</sup>

Likewise, there are significant ITC cases that involve foreign complainants (through their U.S. subsidiaries) asserting patents against foreign respondents, turning the ITC into a forum for foreign companies to hash out their differences. One prominent example is the recent ITC litigation between Ericsson (based in Sweden) and Lenovo (based in China),<sup>15</sup> which supplements the parties’ concurrent patent litigation in the Eastern District of North Carolina.<sup>16</sup>

As these examples show, the ITC has drifted far from its original purpose of addressing comparatively rare instances of infringing imports by foreign manufacturers that are beyond the reach of the U.S. courts.

2. *It has been suggested that the eBay decision has forced companies to rely upon the USITC by preventing patent owners from realistically obtaining injunctions in district court. Do you agree or disagree?*

Response: I disagree. The Supreme Court’s *eBay* decision has not “forced” companies to do anything. Whether or not *eBay* has made it more difficult for patent asserters to obtain injunctive relief (see Response 2.a, below), the simple existence of the ITC as a second forum for patent litigation makes it attractive for patent asserters. That is, asserters would go to the ITC as a quick, fast forum for seeking an exclusion order no matter how likely it is that they could also get a permanent injunction in district court.

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<sup>13</sup> *International Trade Commission Patent Litigation: Hearing Before the Subcomm. on Cts., Intell, Prop., and the Internet of the H. Comm. on the Judiciary*, 114th Cong. at 44 (2016) (statement of Fiona M. Scott Morton, Theodore Nierenberg Professor of Economics, Yale School of Management).

<sup>14</sup> Contreras, *supra* note 11, at \*17.

<sup>15</sup> See *Certain Mobile Phones, Components Thereof, and Products Containing Same.*, ITC Inv. No. 337-TA-1375; and *Certain Electronic Devices, Including Mobile Phones, Tablets, Laptops, Components Thereof, and Products Containing the Same.*; Inv. No. 337-TA-1376.

<sup>16</sup> *Telefonaktiebolaget LM Ericsson v. Lenovo (U.S.), Inc.*, No. 5123-CV-00569-BO (E.D.N.C.).

- a. *Follow on question: What data is available about whether the eBay decision is preventing patent owners from being awarded injunctive relief in district courts?*

Response: There is a wealth of empirical evidence demonstrating that federal district courts continue to grant permanent injunctions in patent cases following the *eBay* decision in 2006. For example, a number of academic studies have found that courts have granted permanent injunctions in patent cases following *eBay* at a rate in the neighborhood of 75%:

- 72% grant rate from *eBay* to mid-2021<sup>17</sup>
- 72.5% grant rate from *eBay* to 2013<sup>18</sup>
- 75% grant rate from 2007 to 2011<sup>19</sup>
- 75% grant rate from *eBay* to 2011<sup>20</sup>
- 79% grant rate in year following *eBay* <sup>21</sup>

- b. *Follow on question: How would you explain differences in how district courts are applying the eBay decision based on whether the patent owner, for example, is a manufacturer versus a patent assertion entity?*

Response: Under the Supreme Court's *eBay* factors, a district court considering whether to grant the equitable remedy of a permanent injunction must consider whether the patent asserter could adequately be compensated via legal or monetary damages. Given that most patent assertion entities (PAEs) assert patents for the sole purpose of earning revenue, it is usually the case that monetary damages would compensate them for an infringement. As a result, district courts grant relatively few permanent injunctions when the patent asserter is a PAE. For example, Chien and Lemley found that from *eBay* to 2011, PAE success rates in obtaining permanent injunctions were 26%,<sup>22</sup> and Seaman found an overall PAE success rate of 16% from *eBay* to 2013.<sup>23</sup>

3. *Some have suggested that the ITC is an important venue for small businesses to have their claims heard. What proportion of small entities utilizing the ITC are actually*

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<sup>17</sup> Jorge L. Contreras & Jessica Maupin, *Unjoined Infringement and Compulsory Licensing*, 38 Berkeley Tech. L.J. 661, 690 (2023).

<sup>18</sup> Christopher B. Seaman, *Permanent Injunctions in Patent Litigation After eBay: An Empirical Study*, 101 Iowa L. Rev. 1949, 1982–83 (2016).

<sup>19</sup> Thomas F. Cotter, *Comparative Patent Remedies: A Legal and Economic Analysis* 103 (2013).

<sup>20</sup> Chien & Lemley, *supra* note 2, at 9–10.

<sup>21</sup> Colleen V. Chien, *Patently Protectionist? An Empirical Analysis of Patent Cases at the International Trade Commission*, 50 Wm. & Mary L. Rev. 63, 98–99 (2008).

<sup>22</sup> Chien & Lemley, *supra* note 2, at 10.

<sup>23</sup> Seaman, *supra* note 18, at 1988.

*small manufacturers or small businesses who have developed their own products, and what proportion are patent assertion entities that have acquired the IP of others solely for the purpose of assertion?*

Response: According to the ITC's statistics, from mid-2006 through 2023, approximately 19% of Section 337 investigations were initiated by non-practicing entities (NPEs), with 8% initiated by PAEs.<sup>24</sup> In each of 2022 and 2023, the share of NPE actions was approximately 30%, with the percentage of PAE actions 19% and 3%, respectively.<sup>25</sup>

### **Questions from Representative Ben Cline**

1. *Isn't it true that a number of the presumably small business complainants in recent decades have been patent assertion entities (PAEs), which are simply shell companies that purchase portfolios of weak patents from other parties solely to assert claims of infringement, whether in district court or under Section 337 at ITC, to extract settlements?*

Response: This is true. See further responses below.

- a. *Can you provide more detail on the prevalence of PAEs before the ITC in Section 337 cases?*

Response: According to the ITC's statistics, from mid-2006 through 2023, approximately 19% of Section 337 investigations were initiated by non-practicing entities (NPEs), with 8% initiated by PAEs.<sup>26</sup> In each of 2022 and 2023, the share of NPE actions was approximately 30%, with the percentage of PAE actions 19% and 3%, respectively.<sup>27</sup>

2. *Can you give an example of an NPE that has received an exclusion order and subsequently introduced a product into the US market?*

Response: I am not aware of a case in which an NPE introduced a product into the US market after receiving an exclusion order at the ITC. In general, NPEs do not produce products, but instead seek monetary payments to settle patent litigation.

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<sup>24</sup> *Section 337 Statistics: Number of Section 337 Investigations Brought By NPEs (Updated Annually)*, U.S. INTL. TRADE COMM'N, [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) (calculations made by the author).

<sup>25</sup> *Id.*

<sup>26</sup> *Id.*

<sup>27</sup> *Id.*

I thank you again for the opportunity to respond to these questions. Please let me know if I can provide any additional information to assist the subcommittee with its important work in this area.

Very truly yours,

A handwritten signature in black ink, appearing to read 'J. L. Contreras', with a long horizontal flourish extending to the right.

Jorge L. Contreras