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IP Litigation and the U.S. International Trade Commission

Jorge L. Contreras
James T. Jensen Endowed Professor for Transactional Law
Director, Program on Intellectual Property and Technology Law
University of Utah S.J. Quinney College of Law

Written Testimony

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Mr. Chairman and distinguished members of the Committee, my name is Jorge Contreras and I am the James T. Jensen Endowed Professor for Transactional Law and Director of the Program on Intellectual Property and Technology Law at the University of Utah S.J. Quinney College of Law. Prior to entering academia in 2010, I practiced law for seventeen years, advising clients on a range of transactional matters in the U.S., Europe and elsewhere. As an academic, I have published more than 150 articles and book chapters, and written or edited 12 books, on these and related topics.[1] I thank you for the opportunity to testify before you today.

In 1916, Congress created the U.S. Tariff Commission to advise the President on import tariff levels. Congress expanded the Commission's jurisdiction in 1922, and again in 1930 as part of the infamous Smoot-Hawley Tariff Act, to investigate *unfair acts* pertaining to U.S. imports. The courts soon interpreted Section 337 of the Tariff Act to cover the importation of articles that infringed U.S. patents. Yet the patent laws, and the global economic order, of the 1920s were radically different than they are today.

By authorizing the Commission to investigate matters of patent infringement, Congress sought to fill gaps in then-existing law. For example, the U.S. Patent Act did not then offer a remedy against the sale of noninfringing products made abroad using processes patented in the United States. Nor could U.S. courts hearing patent cases assert jurisdiction over foreign producers of infringing products. As a result, cheap infringing goods were flooding U.S. markets as European manufacturers scrambled to recover from the economic devastation of World War I.

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[1] A more comprehensive treatment of the topics discussed in this testimony can be found in Jorge L. Contreras, *Reconsidering the Patent Jurisdiction of the International Trade Commission*, 38 HARVARD JOURNAL OF LAW & TECHNOLOGY (2024, forthcoming), https://papers.ssrn.com/sol3/papers.cfm?abstract_id=4840731. Other scholars who have raised some of the critiques noted in my comments include Colleen V. Chien, *Patently Protectionist? An Empirical Analysis of Patent Cases at The International Trade Commission*, 50 WM. & MARY L. REV. 63 (2008); Robert W. Hahn & Hal J. Singer, *Assessing Bias in Patent Infringement Cases: A Review of International Trade Commission Decisions*, 21 HARV. J. L. & TECH. 457 (2008); Sapna Kumar, *The Other Patent Agency: Congressional Regulation of the ITC*, 61 FLORIDA LAW REVIEW 529 (2009); Colleen V. Chien & Mark A. Lemley, *Patent Holdup, the ITC, and the Public Interest*, 98 CORNELL L. REV. 1 (2012); Thomas F. Cotter, *The International Trade Commission Reform or Abolition? A Comment on Colleen v. Chien & Mark A. Lemley, Patent Holdup, the ITC, and the Public Interest*, 98 CORNELL LAW REVIEW ONLINE 43 (2013); Charles Duan, *The U.S. International Trade Commission: An Empirical Study of Section 337 Investigations*, R STREET POLICY STUDY NO. 246 (2021).

Today, more than a century later, the world is a different place. The U.S. Patent Act has been amended to prohibit the sale of non-infringing products made abroad using infringing processes. Likewise, manufacturing firms based overseas routinely establish subsidiaries in the U.S., bringing them squarely within the jurisdiction of the U.S. courts. In fact, in 2022 and 2023, only 6% of ITC patent cases were brought against foreign manufacturers that were allegedly beyond the jurisdictional reach of U.S courts.

What about the other 94% of the ITC's patent cases? They are brought by domestic companies against domestic rivals who offer lower prices to U.S. consumers by having products manufactured or assembled overseas. They are brought by non-practicing entities seeking an exclusion order to pressure manufacturers to enter into monetary settlements with them. And, most surprisingly, nearly a *third* of ITC cases in the last two years were brought by *foreign* companies seeking to prevent *U.S.* companies from importing their own products back into the U.S. Think about this for a moment: the U.S. International Trade Commission, which was created to protect U.S. markets from unfair foreign imports, is now a venue where *foreign* companies can seek to prevent *domestic* manufacturers from selling their own products in the U.S. Members of the Committee, I submit to you that something has gone very wrong with the International Trade Commission.

You will undoubtedly hear from patent holders, domestic and foreign, that the ITC is a wonderful place. That it affords patent holders exclusionary remedies that are no longer available in the courts. That it is fast. That its judges and staff have unprecedented expertise in patent matters.

Whatever the merit of these assertions, and some of them are indeed questionable, they do not avail. Notwithstanding any tactical advantages the ITC may offer to patent holders, there is little justification for the maintenance, at an annual taxpayer expense of nearly $40 million, of a duplicate patent litigation system in the United States.

And with respect to patent matters, the ITC *is* duplicative. In the last two years, 83% of all ITC patent cases had parallel proceedings in district court, often involving the same parties, the same

patents (or nearly identical members of the same patent families) and the same allegedly infringing products. And while the courts have discretion to stay some proceedings pending the resolution of ITC matters, they do not always do so.

The result is costly and often inconsistent litigation on two fronts. We have recently seen examples in which patents are found invalid at the ITC and then asserted again in court, which gives no preclusive effect to ITC validity determinations. We have also seen the ITC extend its reach even beyond the patent statute, blocking the importation of noninfringing goods that *might* someday be used for infringing purposes. The truth is that ITC offers patent holders a supercharged "second bite at the apple" – an unprecedented opportunity to succeed in one venue on claims that were rejected in another. This privilege, while understandably attractive to patent asserters, is virtually unknown in any other form of litigation in the United States, from medical malpractice to breach of contract to tax evasion.

So what should be done? Over the years, a range of proposals have been made to rein in the ITC's ever-expanding patent jurisdiction, all to no avail. But this month, in its landmark decision in *Loper Bright v. Raimondo*, the Supreme Court issued a clear message to the nation that the power of administrative agencies in the U.S. has gone too far, and that the authority of these agencies must yield to that of our Constitutionally empowered courts. As such, the time is ripe for Congress to reconsider the patent jurisdiction of the ITC.

A few potential measures might include (1) limiting the availability of the ITC to parties over which the federal courts cannot assert personal jurisdiction, (2) narrowing the definition of the U.S. domestic market to exclude patent assertion and licensing by parties that don't manufacture or sell products in the U.S., (3) requiring the ITC to follow judicial precedent when issuing patent remedies, (4) aligning the ITC's public interest analysis with that of courts assessing injunctive relief, and (5) enabling the courts to work directly with the Customs and Border Protection agency to prevent the importation of patent-infringing goods, as they already do with products that infringe U.S. copyrights and trademarks.

With one or more of these straightforward measures, Congress can correct the ITC's course so that it can focus once again on its primary mission of protecting U.S. markets from unfair foreign imports.

I thank you again for the opportunity to share these thoughts with you today.