

The benefits of using the ITC

An infringement action in the US federal court system is not the only option available to rights holders. Russell E Levine outlines the benefits of taking an action to the International Trade Commission

The US International Trade Commission (ITC) offers an alternative forum for US IP owners seeking to block infringing products from the US market. Specifically, 19 USC § 1337 (Section 337) authorizes the ITC to hear complaints brought by US patent owners against alleged infringing imports. ITC actions differ procedurally from US district court actions, and the remedies available at the ITC are also different from those that can be obtained in district court actions. Depending on the facts and circumstances, the ITC may be an attractive alternative to US district court litigation.

Elements of a Section 337 complaint

The ITC Rules of Practice specify the necessary elements of a Section 337 complaint. For example, an ITC complaint alleging patent infringement must include certified copies of the patent, patent assignments, and file history. Also required are copies of the cited prior art references and licence agreements, the identification of any foreign counterpart patents or patent applications, and a description of any past or current litigation involving the asserted patent or its foreign counterparts. In addition, an ITC complaint must plead the specific facts that form the substance of the alleged unfair act – in other words, all the elements of an unfair trade claim. Thus, specific evidence of importation such as shipping labels and purchase receipts relating to an accused product will often be attached as an exhibit to the complaint. An ITC complaint alleging patent infringement must also be accompanied by claim charts purporting to show that the accused article infringes a representative claim of each asserted patent.

An ITC complaint typically accuses foreign manufacturers, foreign or domestic importers, and domestic sellers of the accused imported articles with violating Section

337. Such parties are referred to as respondents, while the party filing the complaint is referred to as the complainant. A complaint also may name a US company as a respondent, having exported component parts of an infringing article that are assembled abroad and imported back to the US for sale. Other parties that can be named as respondents include importers or manufacturers of products created abroad by a process covered by a US patent.

Increasing investigations

The number of Section 337 investigations instituted at the ITC has risen in recent years. During the fiscal years 1995 to 2000, an average of 12 investigations were instituted annually. However, as shown in Table 1, the number of complaints instituted during fiscal years 2001 to 2003 has exceeded that average, and eighteen new investigations have already been instituted in the present fiscal year, which began October 1 2003. Moreover, six additional complaints have been filed which, if all were instituted, would bring the total number of new investigations instituted so far this year to twenty-four.

While the annual number of ITC investigations may not appear substantial as compared to the number of patent infringement complaints filed each year in the district court, most ITC investigations involve multiple parties. The ITC exercises *in rem* jurisdiction over articles that are imported into the US. Thus, an IP owner who files suit at the ITC does not need to establish jurisdiction over the accused infringer, and multiple defendants from different jurisdictions can be included in a single ITC proceeding. For example, in the eight investigations instituted so far in the current fiscal year, a total of 37 parties are accused of violating Section 337. One recent investigation involved 25 named respondents.

A brief history of Section 337

Section 337 is a trade statute that prohibits the importation, sale for importation, or sale after importation of an article that infringes a US trade mark, copyright, trade secret or patent. Section 337 complaints are heard by the ITC, which is an independent federal agency composed of six commissioners who each serve staggered nine-year terms. When a complaint alleging one or more violations of Section 337 is filed, the ITC Commissioners have 30 days to vote on whether to commence, or institute, a proceeding that is referred to as a Section 337 investigation. The ITC will typically institute a Section 337 investigation if the complaint includes all the necessary elements as set forth in the ITC rules of practice.

The increase in Section 337 investigations may be due in part to an increase in the number of imports into the US in recent years. The Commerce Department recently determined that there was a 3.3% increase in the number of imports shipped into the US in 2002 compared to the previous year, and that imports rose again by 4% in 2003. This increase in imports can be expected to result in a corresponding increase in the number of allegedly infringing products that enter the US from abroad and that are therefore subject to the ITC's *in rem* jurisdiction.

The increase in Section 337 investigations also may be partly due to the increase in the number of foreign companies that have standing to bring an action at the ITC. To establish standing at the ITC, a US patent owner must demonstrate the existence of a domestic industry as defined by Section 337. One method of establishing a domestic industry is to provide evidence of investments in the US in employment and labour. The Commerce Department estimates that an additional 3.4 million workers were employed in the US by foreign entities in 2001 compared to 1986. This increase indicates that more foreign entities now have standing to bring an action under Section 337 than in the past. In the past three years, at least six investigations were initiated by non-US entities.

Establishing a case

To establish standing at the ITC, the complaining party must prove that it owns the asserted patent, that the accused product was imported into the US, and that an industry in the US relating to the articles protected by the asserted IP right exists or is in the process of being established – in other words, that there is a relevant domestic industry. Patent ownership is typically established by the submission of a certified copy of the patent and patent assignment. Importation is typically established by the submission of shipping labels taken from a sample accused product purchased in the US. Decisions by the ITC and Court of Appeals for the Federal Circuit (CAFC) indicate that a single importation of an accused article may be sufficient to satisfy the ITC's importation requirement, and that the electronic importation of an accused product, such

as an infringing computer software program, in digital form may also be sufficient.

The ITC typically applies a two-part test to determine whether Section 337's domestic industry requirement has been met. The first part of the test is referred to as the technical prong, which has been described as an infringement analysis of the complainant's product. To satisfy the technical prong, the complainant's product must be covered by the asserted IP right. The second part of the test is referred to as the economic prong. To satisfy the economic prong, the complainant often will show that it has made significant investments in the US in plant and equipment, or labour and capital with respect to its product.

In practice, the domestic industry requirement is often satisfied where the complainant manufactures a product covered by the asserted IP right at a facility in the US. Evidence of the cost of the manufacturing facility, the manufacturing equipment, and/or the wages paid to the manufacturing employees is typically cited to satisfy the domestic industry requirement. However, as the Department of Labor noted in a recent analysis of the electronics manufacturing sector, "many products are being designed in one country, manufactured in another, and assembled in a third," and "electronics manufacturing has become truly global, and it is difficult to characterize many companies and their products as American or foreign".

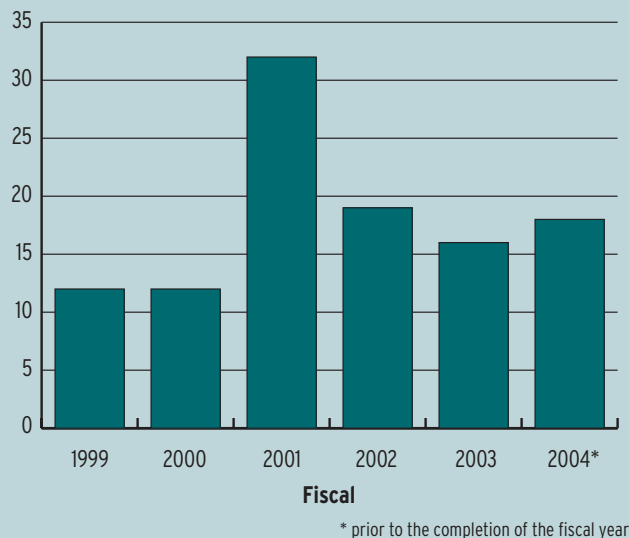
To analyze the domestic industry of a product that is not entirely manufactured in the US, the ITC will usually apply a comparative analysis: if 40% or more of the product's total value was added in the US, the economic prong of the domestic industry requirement generally will be satisfied. If only a small percentage of the product's total value was added in the US, or if the product was entirely manufactured abroad, the economic prong can still be satisfied if the complainant has made significant investments in certain activities in the US, such as research and development, product design, packaging, quality control, or customer service and repair. Finally, the domestic industry requirement may be satisfied even if the complainant does not manufacture any product where it has made substantial investments in a domestic licensing programme. This may provide entities such as research colleges and universities with greater access to the ITC.

ITC proceedings

When an investigation is instituted, it is assigned to an ITC administrative law judge (ALJ), who presides over the proceedings. The ALJ oversees discovery, rules on summary motions, and conducts an evidentiary hearing. The evidentiary hearing is held at the ITC building in Washington DC and is open to the public, except for those portions that involve a party's confidential business information. Hearings typically last between one and two weeks and usually occur about six or seven months after institution of the investigation. Because the hearing is an administrative proceeding, slightly more liberal evidentiary rules will apply as compared to a district court. For example, certain

Table 1

Annual number of instituted 337 investigations



hearsay evidence may be admitted into the evidentiary record at the ITC. After conducting an evidentiary hearing, the ALJ issues an initial determination as to whether there is a violation of Section 337.

At least three parties are involved in an ITC proceeding, the complainant, the respondent, and the ITC staff attorney. The ITC staff attorney acts as a third-party litigant on behalf of the public interest. The staff attorney can serve written discovery and deposition notices, file and respond to motions, question witnesses at the evidentiary hearing, submit prehearing and post-hearing briefs, and take a position on the issues in dispute. In addition to the staff attorney, an attorney from the ITC general counsel's office also is assigned to the investigation to provide advice on matters that may come before the Commissioners for review.

The ALJ's initial determination is subject to review by the ITC Commissioners, who receive advice from IP attorneys in the ITC's office of general counsel. The standard on review is whether the initial determination contains a clearly erroneous finding of material fact, an erroneous legal conclusion, or affects Commission policy. If a petition for review is denied, the ALJ's initial determination is adopted and becomes the ITC's final determination. If a petition for review is granted, the parties will typically be given a briefing schedule, a list of the specific issues that are under review, and one or more questions or topics that the Commission wishes to have addressed. The portions of the ALJ's initial determination that are not under review are deemed to be adopted and become part of the ITC's final determination. At its discretion, the Commission can adopt, modify, or reverse the ALJ's initial determination. In rare instances, the Commission may put aside a finding of violation if, in its view, such a determination would be contrary to the public interest. The Commission's final determination can be appealed to the Federal Circuit.

Table 2

Disposition of Section 337 proceedings

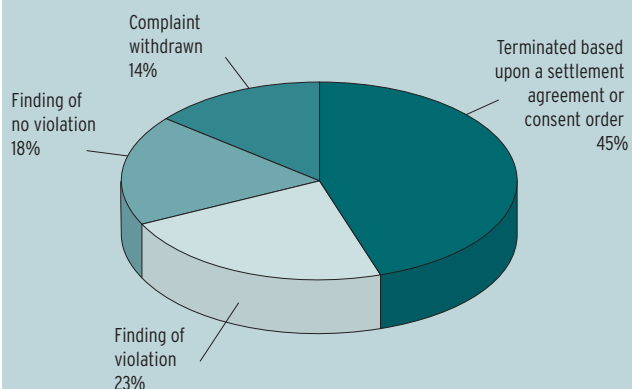


Table 2 indicates the disposition of 111 investigations that were concluded during the fiscal years 1995-2002. As indicated above, 59% of those investigations were settled or withdrawn prior to conclusion. Of the 41% of the investigations that proceeded to trial, slightly more than half (23% of all the investigations) resulted in a finding of violation, while slightly less than half (18%) resulted in a finding of no violation.

Advantages of filing an ITC complaint

There are several differences between ITC and district court proceedings. They include the speed of ITC proceedings, the ITC's broad jurisdiction and lack of jury trials, ITC general exclusion orders, customs enforcement of ITC remedial orders, the limited *res judicata* effect of ITC decisions, and the unavailability of the infringement defences set forth in 35 USC § 271(g).

Speedy proceedings

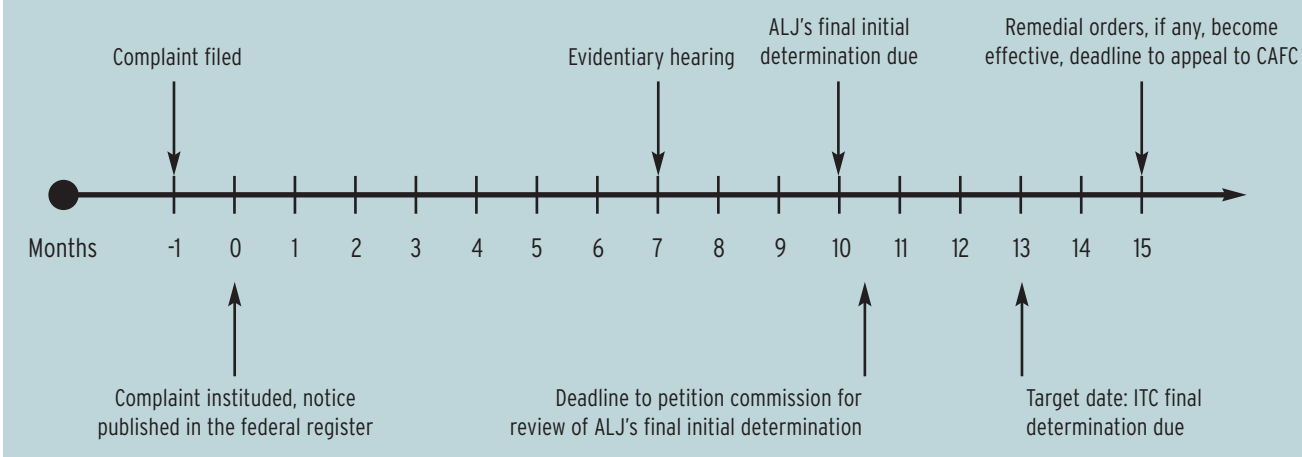
Pursuant to Section 337, the ITC must conclude each investigation and make its determination "at the earliest practicable time". Moreover, the ITC rules of practice state that all investigations and related proceedings shall be conducted "expeditiously" and that the parties, their attorneys or other representatives, and the presiding ALJ "shall make every effort at each stage of the investigation or related proceeding to avoid delay". To promote expeditious adjudication, Section 337 directs the ITC to establish a target date for its final determination.

ITC target dates are set shortly after publication of the notice that the ITC has instituted a Section 337 investigation in the US Federal Register. The typical target date is between 12 and 15 months. In more complicated cases, the target date may be 18 months after publication of the notice. ITC target dates are rarely extended. In the fiscal year 2002, the average target date was 13.8 months. Table 3 is a sample timeline for a 13-month investigation.

As shown above, the ALJ must typically render his initial determination three months before the target date. Thus, the evidentiary hearing must occur about six or seven

Table 3

Sample timeline: 13 month investigation



months after institution, and discovery must be completed in about six months.

Broad jurisdiction

The ITC exercises *in rem* jurisdiction over the accused imports. Thus, personal jurisdiction over the accused respondents, who often reside outside the US, need not be established at the ITC. Moreover, the ITC's *in rem* jurisdiction allows a complainant to bring a single action against multiple respondents located in different jurisdictions. For example, in one recent Section 337 investigation, the complaint named 25 respondents from seven states and five foreign countries. With respect to discovery, the ITC's authority to issue subpoenas covers the entire US and its territories.

No jury trials

ITC proceedings are presided over by an ALJ who ultimately renders a determination as to whether there has been a violation of Section 337. The parties can then request that the ALJ's determination be reviewed by the six ITC Commissioners. Thus, there is no jury option available for either the complainant or the respondent. There are currently four ITC ALJs who concentrate exclusively on Section 337 investigations. Because the ITC is a federal agency, its proceedings are governed by the Administrative Procedures Act, as well as the Commission's rules of procedure, which generally track the Federal Rules of Civil Procedure, and the ground rules of the ALJ assigned to the case. Thus, ITC proceedings typically resemble a district court bench trial. An ITC ALJ is experienced in working with technical subject matter and in dealing with IP disputes.

Customs enforcement

If the ITC determines that there has been a violation of Section 337, it will issue an exclusion order barring the entry of the infringing goods into the US. ITC exclusion orders are enforced by the US Customs Service at the border. Before issuing a remedial order, the ITC will con-

sult with Customs to draft language that can be understood and readily enforced by Customs' border agents. Thus, the IP owner is not solely responsible for ensuring that the infringer is complying with the ITC's exclusion order.

General exclusion orders

In instances where there is a pattern of infringing products being imported from several sources, the ITC can issue a general exclusion order. General exclusion orders are not available in the district court. They bar the importation of infringing products from any source. Thus, even the goods of a party that was not named in the ITC proceeding would be covered by an ITC general exclusion order. Such orders allow the IP owner to avoid repeated litigation against numerous infringers who often vanish once they are named in a complaint only to reappear under another name to resume their infringement. To obtain a general exclusion order, the IP owner typically must show a pattern of patent infringement and business conditions suggesting that foreign manufacturers other than respondents may attempt to import infringing products.

Limited *res judicata* or collateral estoppel

Because the ITC is a federal agency, ITC final decisions in patent-based complaints are not binding on a US district court and have no *res judicata* or collateral estoppel effect. Accordingly, a finding at the ITC of non-infringement, invalidity, or unenforceability would not prevent the patent owner from reasserting the patent in the district court. As a result, some patent owners who do not prevail at the ITC try again in the US district court. However, if the IP owner does try again in the district court, the ITC's final decision can be placed before the judge and, under US law, a party can offer the evidentiary record from the ITC proceeding into evidence in the district court action.

Unavailability of § 271(g) defences

35 USC § 271(g) prohibits the importation into the US of an article that was manufactured abroad by a process that

infringes a valid US patent. However, § 271(g) also sets forth two defences to an allegation of infringement. A product that is made by a patented process will not be considered to be so made after it is materially changed by subsequent processes or it becomes a trivial and non-essential component of another product. This defence is often raised in patent infringement actions involving patents that claim methods for manufacturing biotech or pharmaceutical products. Section 337 also prohibits the importation of articles manufactured abroad by an infringing process. However, the ITC has recently held that Congress did not intend for the 271(g) defences to apply in an ITC

proceeding, and this determination has been upheld by the Federal Circuit.

To keep infringing imports out of the US market, US patent owners can file suit in the district court under federal IP laws or file a complaint at the ITC under US trade laws. While district court and ITC proceedings are similar in many respects, there are differences that may make one forum preferable over the other depending upon the given facts and circumstances.

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