

Another Big Year For ITC: Top 12 Section 337 Highlights

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This has been another eventful year for litigation before the U.S. International Trade Commission under Section 337 of the Tariff Act of 1930. While the ITC refined the domestic industry standard in cases involving nonpracticing entities, newly introduced legislation might ultimately result in more changes. The Federal Circuit agreed to reconsider its decision narrowing Section 337's applicability to induced infringement, as the ITC held on to its jurisdiction over standard-essential patents and confirmed its ability to reach digital imports. Meanwhile, both the ITC and Customs and Border Protection took steps toward better exclusion order enforcement, even as the ITC stayed one of its own exclusion orders pending appeal for the first time. Here are 12 highlights from the year:



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1. It keeps getting harder to prove a domestic industry under Section 337(a)(3)(C).

The last several years have seen a series of commission decisions tightening up the domestic industry requirement, particularly as it applies to NPEs claiming a “substantial investment in” a patent or other statutory intellectual property right through “engineering, research and development, or licensing” under Section 337(a)(3)(C). This year, in *Computer and Computer Peripheral Devices*, Inv. No. 337-TA-841, the commission reversed decades of practice to rule that a complainant seeking to prove a domestic industry based on licensing activities must demonstrate that it or its licensee produces an “article” that practices the patent asserted in the investigation (although the article need not be manufactured in the United States).

Previously, a complainant only needed to show that its economic investment in licensing activities was “substantial.” Meanwhile, in *Integrated Circuit Chips*, Inv. No. 337-TA-859, the commission held that a complainant asserting a domestic industry based on research and development must show both that it or its licensee produces an article that practices the asserted patent(s) and separately that its U.S.-based research and development expenditures have a nexus to the asserted patent(s). U.S.-based R&D focused on features of the article not covered by the asserted patent(s) will not suffice.

2. But an NPE can still rely on licensee activities to meet the domestic industry requirement under Section 337(a)(3)(A) or (B).

In Optical Disc Drives, Inv. No. 337-TA-897, the commission reaffirmed its longstanding interpretation that a complainant seeking to prove a domestic industry under Section 337(a)(3)(A) or (B) based on “significant investment in plant and equipment” or “significant employment of labor or capital” may rely entirely on the U.S. investments of its licensee, even if the licensee developed its product before it took the license. The commission rejected the argument that an NPE whose only U.S. economic activity is revenue-driven licensing may proceed only under Section 337(a)(3)(C). In theory, relying on licensee activities is an easier way for an NPE to meet the domestic industry standard than relying on its own domestic activities — but only if the licensee cooperates in the ITC investigation.

3. Importation may be virtual as well as physical.

A violation of Section 337 requires proof of “importation into the United States” of “articles that infringe” an asserted patent or other statutory IP right. Historically, most Section 337 investigations have involved the importation of physical products. In Digital Models, Inv. No. 337-TA-833, the respondents were electronically transmitting certain digital data sets used to produce dental positioning appliances from foreign to domestic computers. In a decision that has attracted attention among copyright-holding content owners, the ITC confirmed that the cross-border electronic transmission of data is “importation” of an “article” as required by the statute. While this is not the first time the ITC has acted to exclude a digital product, Digital Models provides a more detailed rationale than previous decisions for interpreting the statute to cover importation of any article of commerce, regardless of whether it has a physical form. The decision is currently on appeal.

4. Federal Circuit grants rehearing en banc after nixing ITC jurisdiction over induced infringement.

In *Suprema Inc. v. ITC*, 742 F.3d 1350 (2013), the Federal Circuit reversed an ITC decision finding a violation of Section 337 based on induced infringement where the requisite act of direct infringement did not take place until after the accused article was imported and combined with certain software in the United States. The panel ruled that the prohibition on “articles that ... infringe” a U.S. patent in Section 337(a)(1)(B)(i) “cannot extend to” articles that infringe under 35 U.S.C. § 271(b), because liability for inducement does not attach “until there has been a direct infringement” and, in this case, “there are no ‘articles that ... infringe’ at the time of importation.” The ITC and complainant Cross Match Technologies sought rehearing. On May 13, 2014, the court issued an order granting rehearing en banc and vacating the panel decision. If the full court upholds the panel’s ruling, it will significantly narrow Section 337’s reach. A decision is expected in 2015.

5. ITC grants first ever stay of remedy pending appeal.

The ITC has historically refused to grant a stay of its remedial orders pending appeal to the Federal Circuit, while the court itself has granted such stays only occasionally. On June 11, 2014 — for the first time ever — the ITC issued a decision staying its remedial orders pending appeal in Digital Models, Inv. No. 337-TA-833. As noted above, Digital Models involves the question of Section 337’s applicability to digital imports. In granting the stay, the ITC identified the legal issue as difficult, noting the existence of a dissenting opinion and the wide range of implications raised in public comments. In light of the controversy over its decision, the commission apparently opted to take a cautious approach. Whether this decision is an anomaly or signals greater openness to stays in the future remains to be seen.

6. H.R. 4763 proposes amendments to Section 337.

Ever since the U.S. Supreme Court's decision in *eBay Inc. v. Merc-Exchange*, 547 U.S. 388 (2006) made it harder for a patentee to win an injunction in district court and as the ITC's Section 337 docket expanded rapidly in the mid-2000s, there have been calls to amend Section 337 to make it harder for NPEs to meet the domestic industry requirement and to apply the eBay standard to exclusion orders.

Although discussion papers have been circulating for several years, the first bill to propose specific amendments to Section 337, H.R. 4763, was introduced May 29, 2014, by Reps. Cardenas, D-Calif., and Farenthold, R-Texas. While Congress amended Section 337 in 1988 to allow NPEs to establish a domestic industry based on licensing activities, the bill would permit only licensing activities that "lead to the adoption and development of articles that incorporate the claimed patent" or other IP to satisfy the domestic industry requirement. It would also add eBay-like considerations alongside the ITC's public interest inquiry. To date, there is no Senate companion bill, and no indication that action on the House bill is likely in the near term.

7. Status of FRAND-encumbered SEPs remains uncertain.

Since the U.S. trade representative's 2013 disapproval of an ITC exclusion order premised on infringement of a declared-essential patent in *Electronic Devices, Inv. No. 337-TA-794*, the commission has yet to find another violation of Section 337 involving an SEP. Nevertheless, in two cases this year, the commission sought extensive party briefing on SEP and FRAND-related factual issues: *Consumer Electronics with Display and Processing Capabilities, Inv. No. 337-TA-884*, 79 Fed. Reg. 65,698 (Nov. 5, 2014); *3G Mobile Handsets, Inv. No. 337-TA-613*, Revised Opinion Remanding Investigation (Mar. 26, 2014). Thus, the commission has signaled that it continues to adhere to its holding in *Electronic Devices* that Section 337 relief is not categorically precluded in SEP cases, either as a matter of law or public interest, but instead requires a fact-dependent inquiry.

8. Personnel and other changes made at the agency.

April 2014 saw the arrival of a new commissioner, Rhonda K. Schmidlein, an alumna of the USTR's Office of General Counsel. In June, the president named Commissioners Meredith Broadbent and Dean A. Pinkert to serve two-year terms as chairman and vice chairman, respectively, following the completion of Commissioner Irving A. Williamson's term as chairman. August saw the retirement of Administrative Law Judge E. James Gildea after six years at the ITC. A search for a replacement ALJ is underway. Finally, in late September, the agency launched 337Info, a Web-based, searchable repository of Section 337 data and information accessible at www.usitc.gov.

9. The Section 337 caseload remains steady.

While the filing of new Section 337 complaints rose dramatically in 2010 and 2011 in the midst of the mobile phone wars, and fell just as precipitously in 2012, the ITC's caseload has now leveled out. 2014's 39 new complaints (34 instituted and five pending as of this writing) is in line with the average number of new complaints instituted annually over the past decade (41) and the 42 complaints instituted in 2013. Clearly, the ITC is not the venue of choice for the vast majority of U.S. patent litigation, but its attractiveness as a venue for a subset of disputes involving imported products remains undiminished.

10. Small but important signs of progress seen on exclusion order enforcement.

In 2010, the White House intellectual property enforcement coordinator identified improved enforcement of Section 337 exclusion orders as a key administration goal. IPEC's 2013 public survey

revealed widespread dissatisfaction with the speed, cost, and (in the case of Customs and Border Protection) transparency of post-order proceedings and many suggested improvements.

Since that time, both CBP and the ITC have launched internal efforts to review and improve their procedures. While neither agency has yet adopted new rules, CBP recently announced that it has drafted proposed rules (currently under review within the U.S. Department of Homeland Security) to replace its ex parte pre-importation ruling process with an inter partes process. Similarly, ITC has indicated that it is looking for ways to speed up its ancillary proceedings, and recently adopted expedited procedures for issuing an advisory opinion in *Kinesiotherapy Devices*, Inv. No. 337-TA-823.

11. Trade Secrets cases grow in number.

While the great majority of Section 337 complaints focus on patent infringement, cases asserting trade secret misappropriation have seen modest growth in the past several years. Four trade secret investigations were pending during 2014: Inv. Nos. 337-TA-933, -887, -883, and -849. The Federal Circuit's 2011 decision in *TianRui Group Co. v. ITC*, 661 F.3d 1322, which upheld a Section 337 violation where the trade secret misappropriation occurred entirely outside the United States, will likely encourage additional new complaints.

12. Fashion and brand cases are always in style.

Every so often, a company turns to the ITC to protect a fashion item or famous brand. This year saw new complaints involving Converse "Chuck Taylor" sneakers (*Footwear Products*, Inv. No. 337-TA-936) (alleging trademark infringement, false designation of origin, and trademark dilution), and Segway personal transporters (*Personal Transporters*, Inv. No. 337-TA-935) (alleging copyright, design patent and utility patent infringement). In *Laser-Abraded Denim*, Inv. No. 337-TA-930, complainant accused multiple purveyors of high fashion jeans of infringing its patents for distressing denim to give it a popular "worn" appearance. These cases serve as a reminder that Section 337 claims can arise in any industry — not just mobile phones and electronics.

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