

**The Pro's and Con's of Patent Litigation
Before the International Trade Commission**

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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.

I. THE NUMBER OF SECTION 337 INVESTIGATIONS INSTITUTED AT THE ITC HAS RISEN IN RECENT YEARS.

- A. **Statistics show a steady increase.** During the fiscal years 1995 to 2000, an average of 12 investigations were instituted annually. However, the number of complaints instituted during fiscal years 2001 to 2006 has exceeded that average, and, in fact, reached an all time high in FY '06. 34 new investigations were instituted in the fiscal year which ended September 30, 2006.
- B. **Increase may be due to increase in number of consumer products imported into U.S. in recent years.** The Commerce Department 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. Similar increases occurred in 2004 and 2005. 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.
- C. **Increase may also be due to increase in number of foreign companies with standing to bring a Section 337 investigation.** 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 labor. 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.

- D. Increase may also be due to increased knowledge and awareness of benefits of litigating before ITC.** A corollary to the increase in the number of investigations is that there is an increased awareness of the ITC. As more and more entities, and their counsel, litigate in the ITC, the benefits of the ITC become more well known.

II. THERE ARE A NUMBER OF ADVANTAGES TO LITIGATING AT THE ITC.

- A. 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.
- B. 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. With respect to discovery, the ITC’s authority to issue subpoenas covers the entire US and its territories.
- C. 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. Because the ITC is a federal agency, its proceedings are governed by the Administrative Procedures Act, as well as the Commission’s rules of procedures, 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.

- D. 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 consult 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.
- E. 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.

III. THERE ARE ALSO A NUMBER OF POTENTIAL DISADVANTAGES TO LITIGATING AT THE ITC.

- A. Front-end loaded costs.** 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 license 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.
- B. 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.

- C. **Unavailability of § 271(g) defenses.** 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 defenses to an allegation of infringement. A product that is made by a patented process will not be considered to be made after it is materially changed by subsequent processes or it becomes a trivial and non-essential component of another product. This defense 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) defenses to apply in an ITC proceeding, and this determination has been upheld by the Federal Circuit.
- D. **Domestic Industry Requirement.** To establish standing at the ITC, the complaining party must prove 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. 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 labor 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.