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Domestic Industry Continued To Evolve At ITC In 2014

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The domestic industry requirement at the U.S. International Trade Commissioncontinued to evolve in three significant opinions in 2014. In one opinion, the commission set forth a nexus requirement for establishing that domestic investments exploit the asserted intellectual property right. In two other opinions, the commission instituted a requirement that domestic articles must exist to support a licensing-based domestic industry, but declined to require that this licensing drive production of the domestic articles. We review these recent developments and identify a number of questions that remain to be answered.

Background of the ITC's Domestic Industry Requirement

The ITC is a federal administrative body that adjudicates cases under Section 337 of the Tariff Act involving importation of articles which allegedly constitutes unfair competition. To establish a violation of Section 337 based on the importation of articles allegedly infringing a patent, a complainant must show that "an industry in the United States, relating to the articles protected by the patent, … exists or is in the process of being established."[1] This is known as the domestic industry requirement and has two prongs: a technical prong and an economic prong.

Under the technical prong, the claimant must identify "domestic articles" that practice or exploit the patents at issue. A complainant can meet the economic prong by proving: (A) significant investment in plant and equipment relating to the domestic articles; (B) significant employment of labor or capital relating to the domestic articles; or (C) substantial investment in exploitation of the patent, including engineering, research and development, or licensing.[2]

Complainants most frequently rely on subsection (C) of the domestic industry requirement, which offers the greatest flexibility. Subsection (C) can be satisfied, for example, by nonpracticing entities and foreign entities that are principally located outside the United States. This article focuses on the ITC's significant decisions in 2014 involving subsection (C) of the economic prong of the domestic industry requirement and looks ahead to the issues that the ITC and Federal Circuit may confront in 2015.

The ITC's Three Significant Decisions in 2014 Regarding Subsection (C) of the Economic Prong of the

Domestic Industry Requirement

In Certain Integrated Circuit Chips and Products Containing the Same, the commission outlined the contours for establishing a nexus between the domestic investments and the asserted patent, as required to prove "exploitation" of the patent under subsection (C).[3] The commission explained that this nexus requirement ordinarily will be met where the patent arises from inventive work in the United States. However, complainants frequently rely on subsequent domestic investments because the inventive activity occurred long ago or took place outside the United States.

The commission adopted a sliding scale for evaluating whether such investments are "substantial" enough to satisfy subsection (C), giving more weight to activities that are more closely related to the asserted patent and less weight to those less directly connected to the asserted patent. The commission noted that in past investigations where the patents covered the domestic articles as a whole, for example cell phone cases or sandals, complainants were able to rely on domestic investments relating to the entire domestic articles.

On the other hand, a complainant asserting a patent relating to a feature of a product must establish a specific link between the domestic investments and the patented feature. Complainant Realtek in Certain Integrated Circuit Chips asserted a patent relating to bond pad technology for integrated circuits, and the inventive work leading to the patent had been performed overseas. Realtek relied on its domestic investments in other technologies for enabling integrated circuits to achieve faster communication, but those investments did not relate to the patented bond pad feature.

Although Realtek's domestic investments unquestionably related to the domestic articles, the commission found there was no nexus between Realtek's domestic investments and its patented bond pad technology. The commission did not reach the question of whether Realtek's domestic investments were "substantial," applying its sliding scale analysis, since Realtek had failed to establish a nexus between the investments and the asserted patent. Realtek appealed to the Federal Circuit, but the appeal was voluntarily dismissed.

In 2014, the commission also specifically addressed the standards for satisfying subsection (C) based on investments in licensing in two opinions. In Certain Computers and Computer Peripheral Devices,[4] a majority of the cCommission held that a complainant relying on domestic investments in licensing activities must prove that domestic articles practice the patents and cannot meet this requirement by identifying the allegedly infringing articles.

In reaching this decision, the majority acknowledged that its past practice had not been to require a complainant to identify domestic articles when relying on domestic investments in licensing. The majority believed that the Federal Circuit had recently announced a requirement that there must be "articles protected by the patent" under subsection (C), requiring the Commission to change its approach.[5] The Federal Circuit had held that this requirement was satisfied because the patented technology was found in both the licensed products and the accused products, concluding: "As long as the patent covers the article that is the subject of the exclusion proceeding, and as long as the party seeking relief can show that it has a sufficiently substantial investment in the exploitation of the intellectual property to satisfy the domestic industry requirement of the statute, that party is entitled to seek relief under section 337."[6]

While the commission acknowledged that the Federal Circuit's statements could be read to suggest that a complainant can rely on the accused products to satisfy the domestic industry requirement, the majority of the Commission rejected this interpretation. The commission instead held that other domestic articles are required, for example domestic articles offered by licensees, but rejected the respondents' argument that licensing investments must drive production of these domestic articles to satisfy subsection (C). Since the nonpracticing complainant Technology Properties Limited ("TPL") failed to identify any licensee's domestic articles practicing the asserted patents, the Commission found no domestic industry. TPL did not appeal.

In a dissent, former Commission Chairwoman Shara Aranoff argued that Congress enacted subsection (C) in 1988 to permit a complainant to obtain relief in the ITC by relying on domestic investments that exploit the asserted intellectual property right without having to show the existence of domestic articles. She argued that the Federal Circuit had not imposed a requirement that a complainant relying on investments in licensing show the existence of domestic articles.

In the second opinion, Certain Optical Disc Drives,[7] the commission reversed an administrative law judge's initial determination, reaffirming that a complainant's licensing investments need not relate to adoption and development of domestic articles to satisfy subsection (C). The cCommission nevertheless noted that licensing that drives adoption and development could be "potentially relevant," but did not explain how this would affect the analysis.[8] This investigation remains pending before the ALJ.

Looking Ahead to 2015 and Beyond

As the commission continues to refine the contours of the domestic industry requirement under subsection (C), a number of questions remain to be addressed. With respect to the nexus requirement, it remains to be seen how the commission will apply its sliding scale mode of analysis to domestic investments that have some relationship to the patented technology but that are not exclusively focused on the patented technology. For example, how much weight will the commission give to domestic investments in broad aspects of product design which include the specific patented technology? If the asserted patent claims a product that incorporates both the innovative feature and prior art elements, can a complainant rely on its investment directed to the prior art elements because the asserted claims cover the product as whole?

In the context of domestic industries based on licensing, the key question will be whether the Federal Circuit in a future case will agree with the commission's majority view that the Federal Circuit created a requirement that domestic articles must exist and that those articles cannot be the imported articles accused of infringement. As explained above, a former commission chairwoman disagreed with the majority's view, and the majority even acknowledged that the Federal Circuit's statements could be understood to mean that the accused articles could satisfy the requirement.

Furthermore, assuming that there is a domestic articles requirement, is there any floor for the amount of domestic articles which can support a domestic industry? Can a complainant license a small participant in the marketplace and rely on that licensee's articles? What is the relevance of the fact that such licensing may be focused on generating revenue after the patented technology has proven successful, rather than on driving its adoption?

Moreover, are entities that have been unable to license their patents despite substantial effort foreclosed from seeking relief in the ITC? This would seem to constitute a "production" requirement in effect, even though the commission repeatedly rejected arguments that licensing must drive production. For example, if a university seeking to exclusively license patents on a new material is unable to come to terms with a partner because a foreign infringer is importing the material, is the university unable to obtain relief in the ITC? If university researchers had made a sample of the new material, could the university then rely on its substantial licensing efforts?

In addition, it is unclear whether there are any timing restrictions on the existence of the domestic articles. For instance, if the foreign infringer was previously licensed, can the complainant rely on the existence of the licensed products prior to their becoming unlicensed infringing products, or must licensed products continue to exist at the time the complaint is filed? In other words, must the patent owner find a new licensee before it can file a complaint in the ITC?

We can expect that the domestic industry requirement will continue to evolve in 2015 and beyond, hopefully providing answers to some of these open questions.

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[1] 19 U.S.C. § 1337(a)(2).

[2] See 19 U.S.C. § 1337(a)(3).

[3] Inv. No. 337-TA-859 (U.S.I.T.C. Aug. 22, 2014).

[4] Inv. No. 337-TA-841 (U.S.I.T.C. Jan. 9, 2014).

[5] See InterDigital Communications LLC v. ITC, 707 F.3d 1295, 1297-98 (Fed. Cir. 2013).

[6] Id. at 1304.

[7] Inv. No. 337-TA-897 (U.S.I.T.C. Sept. 29, 2014).

[8] Id. at 7.

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