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# International Trade Commission Offers Guidance on Satisfaction of Domestic Industry Requirement

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The International Trade Commission has developed a new 10-factor test to determine whether activities tied to licensing a patent portfolio can satisfy Section 337's domestic industry requirement. The Commission's new test decreases the likelihood of summary judgment, and increases the likelihood that complainants will need to offer evidence that products licensed by the complainant meet the claims of the asserted patent in order to satisfy the requirement.

On July 22, 2011, the International Trade Commission (the Commission) offered guidance to parties seeking to satisfy Section 337's domestic industry requirement through their licensing activities, establishing a new 10-factor test for determining whether any investments made in licensing are tied to the asserted patent and a six-factor test for determining whether such investments are "substantial." Inv. No. 337-TA-694, *Certain Multimedia Display and Navigation Devices and System Components Thereof and Products Containing Same*.

**Background**

Section 337(a)(2) (19 U.S.C. § 1337(a)(2)) of the Tariff Act of 1930 requires that, in order to prove a violation of Section 337, a complainant demonstrate that an industry relating to articles protected by the patent either exists or is in the process of being created. This is commonly referred to as the "domestic industry requirement." Section 337(a)(3) provides three methods by which domestic industry can be demonstrated by a complainant: a "significant investment in plant and equipment" (section (a)(3)(A)), a "significant employment of labor or capital" (section (a)(3)(B)), or a "substantial investment in [] exploitation, including engineering, research and development, or licensing" (section (a)(3)(C)). Significantly, while the first two methods require proof that either the patentee or one of its licensees manufactures an article that meets one or more of the asserted patent's claims (the so-called "technical prong" of the domestic industry requirement), the third method has historically not required such proof. Instead, the complainant needed to show proof of investment in the exploitation of the asserted patent, that the investment related to licensing and that the investment occurred in the United States. Given the added time and expense of proving the technical prong, complainants have increasingly relied on their licensing activities to satisfy the domestic industry requirement.

The complainant in this investigation, a large multinational consumer electronics company, sought to satisfy the domestic industry requirement based on investments made in its portfolio licensing program, where the portfolio included the asserted patents. The initial determination, authored by Administrative Law Judge (ALJ) Charneski, found that the complainant's portfolio licensing program satisfied the domestic industry requirement of 19 U.S.C. § 1337(a)(3)(C). Specifically, the complainant's investments in employing engineers and licensing attorneys, purchasing products for evaluation and testing, and consulting with outside counsel, were considered a substantial investment under the statute. The Commission determined to review the domestic industry requirement among other issues, and explicitly requested briefing from the public on the domestic industry issues.

**The Commission's Opinion**

The Commission's opinion first explicitly rejected a suggestion by members of the public that the Commission establish a rule that all licensing investments be allocated in their entirety among all patents in a portfolio, finding that neither the statute nor its legislative history supported such a rule. Instead, the Commission ruled that any nexus to be established between investments and the asserted patent(s) must be done on a patent-by-patent basis. The Commission then listed 10 factors that should be examined to determine the strength of any nexus that may exist:

1. Whether the licensee's efforts relate to a product protected by the asserted patent
2. The number of patents contained in the portfolio
3. Whether the asserted patent has relative importance in the licensed portfolio
4. Whether the asserted patent was discussed during the license negotiation process, and the prominence of the patent in those discussions
5. The scope of technology covered by the portfolio compared to the scope of the asserted patent
6. Whether the asserted patent has been successfully litigated
7. Whether the asserted patent relates to a technology industry standard
8. Whether the asserted patent is a base or pioneering patent
9. Whether the asserted patent was infringed or practiced in the United States
10. Whether the asserted patent has been recognized by the market in some way

The Commission additionally noted that any nexus may be stronger where the licensed portfolio includes fewer patents, has a narrow scope of technology compared to the asserted patent and the patents in the portfolio are all related.

The Commission provided significantly less guidance on how to determine if any investments made are related to licensing or occur in the United States. First, the Commission noted that activities need not be solely related to licensing, but that the extent of that relation affects the strength of the nexus between the investments and the asserted patent. Second, the Commission noted that investments occur in the United States so long as the licensing activities are performed and directed within the United States.

The Commission next adopted a flexible approach to determining if, once a complainant establishes that there has been an investment in licensing, that investment is “substantial,” allowing a weak nexus between the investments and the asserted patents to be overcome by activities and/or expenses of a large magnitude relative to the complainant’s size. The Commission offered five additional factors that should be examined to determine if a complainant meets the “substantiality” requirement: existence of other types of exploitation (research, development and engineering); existence of ancillary licensing activities (auditing licensees, training licensees); whether licensing activities are continuing; whether licensing activities are referenced favorably in the legislative history of section 337(a)(3)(C); and the complainant’s return (or lack thereof) on its licensing investment.

With respect to the facts in the investigation before the Commission, the Commission found that any nexus between licensing investments and the asserted patents was weak because the complainant’s portfolio included hundreds of patents, its licensing efforts were directed toward the entire portfolio, many of the patents were not U.S. patents and there was no evidence of how the asserted patents fit together congruently with the other patents in the portfolio. The Commission also held that legal invoices that appeared to relate to the asserted patents were not solely an investment in licensing, and therefore significantly reduced the amount of investments claimed. As to whether there were “substantial investments,” the Commission found that the complainant was a large international company with significant resources, and did not have any engineering, development or research activities, or any exploitation or license-related ancillary activities, in the United States. The Commission also gave complainant’s licensing activities less weight because those activities on the whole, reflect a revenue-driven licensing model targeting existing production rather than the industry-creating, production-driven licensing activity that Congress meant to encourage. Given the relatively weak nexus and the lack of “substantial” investment, the Commission held that the complainant had not satisfied the domestic industry requirement.

**Implications for Litigants Before the Commission**

The Commission’s new nine-factor test for determining if there is a nexus between any investments in licensing and the asserted patent has a number of implications for those complainants that prefer to license their patents as a portfolio rather than on an individual basis. Fully half of the factors listed by the Commission (factors (1), (3), (6), (7) and (9)) directly or indirectly seek to tie the asserted patent to a manufactured product. While the Commission explicitly declined to consider if a "technical prong" should be required for proof of domestic industry based on licensing, as a practical matter, much of the proof that a complainant might put forward to demonstrate that these factors favor the complainant would also demonstrate that the technical prong of sections 337(a)(3)(A) and (B) are satisfied as well, particularly if the complainant chooses to rely on the product of a licensee to satisfy the technical prong for these sections rather than, or in addition to, its own products.

Second, the Commission's test favors those complainants who engage in pre-suit licensing discussions. Factor (4) specifically asks if the asserted patent was discussed "during the license negotiation process." In addition, while the Commission did not completely reject expenses in preparation for litigation as relevant "investments," in this specific case it found those expenses to have a highly attenuated nexus to the patents. Thus, where doing so is not inconsistent with the complainant's business strategy, pre-suit discussions, or at least preparation for those discussions even if they do not come to fruition, can be useful.

Third, for those complainants with large patent portfolios, the Commission's focus on the size of the portfolio and its scope compared to the asserted patent suggests, to the extent it is consistent with business strategy, dividing their portfolio into pieces based on technology area and licensing these portfolios to licensees under separate agreements. By so doing, the potential licensor in the event of litigation simultaneously lowers the overall size of any one portfolio, and narrows its scope to more closely match the scope of the patent asserted.

Fourth, the Commission's statement that it would give "revenue-driven" licensing models, which it defined as "tak[ing] advantage of the patent right solely to derive revenue by targeting existing production, less weight than "industry-creating, production-driven" models, which it defined as "encourag[ing] adoption and use of the patented technology to create new products and/or industries," in determining whether investments are substantial, is likely to be the subject of a great deal of litigation in the future. Respondents are likely to characterize the act of filing suit as evidence that the complainant's licensing program is using a "revenue-driven" model, while complainants will argue that the infringing product, particularly if it is new to the market, represents the new products that are being created by its "production-driven" model. This portion of the Commission's opinion is also likely to be the most vulnerable to change at the appellate level, so both complainants and respondents would do well to be aware of further developments in this area.

Finally, both complainants and respondents should expect summary determination of domestic industry, either for or against, to be much less common and for determination of the requirement to consume more resources at both the pre-hearing and hearing stages. The Commission's multifactor, highly fact-driven tests lends themselves to disputes between the parties on material issues of fact critical to one or more of the factors much more than past practice among many of the ALJs. As such, parties should expect the domestic industry requirement to be one of the more disputed topics at the hearing, and may want to consider using an economics and/or technical expert to testify as to the value of the asserted patents to the portfolio.