Would Congress' Proposed ITC Reforms Thwart NPEs?

By **Brian Johnson, Don Wang and Ramya Auroprem** (May 26, 2023)

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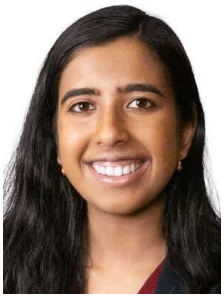

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Nonpracticing entities have been increasingly active at the U.S. International Trade Commission in recent years, bringing a record 32% of Section 337 Investigations in 2022.[1]

In a sense, the rise of NPEs at the ITC was by design. When Congress amended Section 337 in 1988, it did so to allow intellectual property rights-holders that do not manufacture products to obtain remedies, specifically identifying "inventors, universities, [and] start-ups" as NPEs deserving of that opportunity.[2]

However, the current rise has concerned commentators, who argue that the ITC has departed from its roots protecting businesses with a meaningful domestic industry.

In its current effort to track complaints filed by NPEs, the ITC now breaks them down into two categories: Category I NPEs and Category II NPEs. The first category appears to refer to entities that led to the justification of the 1988 amendment, again referring to inventors, universities and startups.[3] As for Category II NPEs, these are entities "whose business model primarily focuses on purchasing and asserting patents."[4]

Certain members of Congress use a different term for some of those Category II NPEs: trolls. In the wake of a rise in NPEs, on May 18, U.S. Reps. David Schweikert, R-Ariz., and Don Beyer, D-Va., reintroduced the Advancing America's Interests Act,[5] proposing reforms to key provisions of Section 337 on domestic industry, early adjudication mechanism, and public interest determination as an effort to curb the growth of "patent trolling."[6]

Trolls, in their view, "buy up patents with the sole intent of using them to extract profits or stifle competition."[7] However, the 2023 version of the AAIA uses language materially identical to language proposed twice before that was never enacted.[8] If successful this time, the question remains as to whether these provisions will be capable of thwarting Category II NPEs.

A closer examination of each of the three provisions shows where the AAIA may be successful and where pitfalls could exist.

Reforms to Domestic Industry Requirement

Out of the three areas of reforms proposed in the AAIA, those regarding the domestic industry requirement appear most tailored toward addressing Category II NPEs.

The AAIA contemplates two key amendments to Section 337. First, it proposes amending Title 19 of the U.S. Code, Section 1337(a) to mandate that only licenses/licensing activities that "lead to the adoption and development of articles that incorporate" can support a domestic industry. Second, it proposes amending Section 1337(b) to require that, for a

complainant to rely on a third-party licensee to establish a domestic industry, the licensee must willingly join the investigation as a co-complainant.

Together, on their face, these amendments appear intended to only permit a licensing-based domestic industry where the complainant is on friendly terms with the licensee and the license itself plays a role in the development or expansion of the domestic industry.

Judging from 2022, this provision is likely to affect a large number of investigations. Last year, 21 out of 54 investigations relied exclusively on licensing or a licensee's domestic activities for domestic industry.[9] Another four relied on licensing at least in part, meaning that close to half of all ITC investigations could be affected.

Potential Impact of the "Adoption and Development" Requirement

The "adoption and development" requirement would no doubt result in changes to ITC jurisprudence. Still, as to the question of whether this could curtail Category II NPEs, the devil is in the details.

In the short term, this amendment may be successful. Currently, Category II NPEs often rely on domestic industry products that were generally developed before the licenses were obtained. Indeed, studies have shown that such NPEs often obtain patents well after they are granted, frequently in the latter half of the life of the patent.[10] By that time, a domestic industry likely already exists, to the extent it ever will.

The long-term effectiveness of this test will likely depend on how the ITC interprets "adoption and development of articles that incorporate the patent."

To the extent this amended language is interpreted to require that the specific practicing feature is incorporated into a domestic industry product after the license is obtained, this provision could remain effective. However, the ITC may find this strict interpretation to be unduly narrow, particularly in the spirit of protecting small inventors and universities.

For example, if a company developed a product based on a small inventor's technology, but only later agreed to a license, that small inventor might be unable to avail themselves of the ITC.

If, by contrast, the language were interpreted more broadly to merely require the licensee's continued investments in the domestic industry product or the creation of a new version/model of an existing product, the language may eventually lose its effectiveness. In many cases, after issuance of a license, Category II NPEs could simply wait for such investments or a new version/model to naturally occur until its fact pattern supports the domestic industry requirement.

Potential Impact of the Co-Complainant Requirement

The proposed requirement that a licensee whose activities are relied upon for domestic industry join voluntarily as a co-complainant is also likely to be effective in deterring Category II NPEs in the short term. Today, that rarely occurs; it happened only four times in 2022.[11]

Typically, discovery on third-party domestic industry is obtained through subpoena. While it is impossible to tell from public records which of these subpoenas are "friendly" interactions, it is safe to presume many are not. Many Category II NPEs obtain their license through

litigation. Such a relationship does not lend itself well to being a willing co-complainant.

As for the long-term effectiveness, it remains to be seen whether this requirement could be subject to manipulation. For example, as Category II NPEs continue to obtain licenses through litigation, we could soon see a wave of license terms requiring "willing" participation as a co-complainant in the event of a future ITC investigation.

Even taken together, these requirements are unlikely to preclude Category I NPEs from bringing investigations. In some cases, the proposed reforms could affect a Category I NPE's ability to bring an investigation, but that risk would be mitigated by the nature of the entity's business.

Specifically, the proposed text for Section 337(a)(3)(C) takes care to preserve "exploitation" of the patent through "engineering," "research" and "development" as an independent ground for finding domestic industry, which is commonly relied upon by Category I NPEs.[12]

Further, current ITC precedent also allows a complainant to count certain investments in engineering and R&D under Section 337(a)(3)(C) as investments in plant, equipment, labor or capital under Section 337(a)(3)(A) and (B), therefore providing multiple avenues for a Category I NPE to meet the domestic industry requirement outside of licensing alone.[13]

Non-NPE foreign manufacturers could also be affected. For example, in Certain Beverage Dispensing Systems and Components Thereof, the ITC in 2020 agreed that Heineken, a well-known Dutch brewing company, satisfied the domestic industry requirement under Section 337(a)(3)(A) and (B) by relying primarily on the domestic investments in plants and equipment, and labor and capital, made by its U.S. licensee, Hopsy.[14]

Even though Heineken is not an NPE, because it relied on the activities of its licensee, the AAIA would nonetheless require a showing that its license led to the adoption and development of articles. Depending on the particulars of a licensor-licensee relationship, some foreign manufacturers may be unable to make this showing.

Reforms to Early Adjudication Mechanism

The AAIA also proposes codifying existing efforts with a requirement that the commission identifies potentially dispositive issues at the beginning of the investigation and directs the administrative law judge to conduct an expedited procedure on that issue.

It is unclear whether this amendment would have a substantial effect on Category II NPEs, either in the short or long term, for two reasons. First, the amendment does little more than support the ITC's existing early disposition procedures. Second, it is unclear whether early disposition disproportionately impacts Category II NPEs at all.

Currently, both the 100-day early disposition program and interim ID pilot program authorize ALJs to resolve Section 337 investigations by expediting a determination on potentially dispositive issues. However, these proceedings are rare. Typically, the commission will find that the proposed issues are too complex to be decided within 100 days of institution.[15] Likewise, ALJs have largely rejected attempts by parties to use the interim ID pilot program. So far, there has only been one use of the interim ID program.[16]

Given how rarely these proceedings are implemented, codification could promote more

frequent use. However, even if that occurs, it is unclear how these procedures might affect Category II NPEs. According to the ITC, these programs are intended to "facilitate settlement," something that is beneficial to NPEs and non-NPEs alike.[17]

Reforms to Public Interest Determination

Finally, the AAIA includes new provisions that increase the role of public interest. Whether this change affects cases brought by NPEs depends on how it is implemented, because the language itself offers little guidance on how public interest should be used for gatekeeping. Still, hints within the statutory language and the ITC's treatment of public interest to date offer some clues.

The AAIA requires the ITC to affirmatively determine that an exclusion order serves the public interest before issuing one. Essentially, exclusion orders would no longer be the default remedy in response to a violation and the AAIA flips the burden to the complainant to demonstrate that public interest supports such a remedy.

However, the AAIA gives the ITC wide discretion on how to achieve that. For instance, even if the burden of demonstrating exclusionary remedy were to fall on the complainant, it remains up to the ITC how high or low that burden may be.

Take cease-and-desist orders, for example. Notably, for CDOs the ITC already has discretion whether such a remedy is appropriate after a violation is found. Section 337 permits the ITC to issue a CDO "[i]n addition to, or in lieu of" exclusionary remedy, with little guidance.[18]

Still, the hurdle that ITC precedent has placed on securing a CDO is rather low. The ITC will generally issue a CDO if a respondent who violates Section 337 also maintains commercially significant U.S. inventories or has significant domestic operations.[19]

To the extent the ITC would impose a meaningful barrier on public interest, we can make some inferences as to where it might focus.

First, the statute itself introduces a consideration of the "nature of the articles concerned," suggesting that the article sought to be excluded is important to analysis. Second, under the current statute, the ITC can and often does delegate public interest to the ALJ, which gives us some insight into which investigations the ITC believed public interest deserved greater consideration.

With those clues in mind, a review of the investigations instituted in 2022 shows an interesting trend. More than half of the investigations where public interest was delegated to the ALJ share striking characteristics.[20] Each includes complainants relying exclusively on licensing activities for domestic industry using patents directed to semiconductor chips and accusing consumer products developed by major tech companies containing those chips. In short, the ITC has focused public interest on NPEs that use chip technology to exclude broader products.

Somewhat surprisingly, the ITC delegated public interest just once for products focused on medical applications. Instead, nearly all of the remaining investigations where public interest was delegated still involve technology patents with accusations against some combination of phones, tablets and laptop computers.

Ultimately, if the ITC is compelled to consider "the nature of the articles concerned" before issuing an exclusionary remedy, we may see greater scrutiny toward licensing-based NPE

complainants asserting chip technology and/or accusing large portions of the mobile device market. Accordingly, Category II NPEs could be disproportionately affected.

Takeaways

The proposed reforms of the AAIA are likely to result in at least a short-term decline of Category II NPEs. The domestic industry amendments in particular are well tailored to address that issue. It remains to be seen, however, whether those entities can later develop facts or retool their strategies to find their way back to the ITC.

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[1] Section 337 Statistics: Number of Section 337 Investigations Brought By NPEs (Updated Annually), available at https://www.usitc.gov/intellectual_property/337_statistics_number_section_337_investigations.htm.

[2] Juliana Confrancesco, U.S. Int'l Trade Comm'n, Facts and Trends Regarding USITC Section 337 Investigation at 2 (Apr. 15, 2013), available at http://www.usitc.gov/press_room/documents/featured_news/sec337factsupdate.pdf.

[3] Section 337 Statistics, supra note 2.

[4] Id.

[5] Proposed Bill Text of the Advancing America's Interests Act, available at https://schweikert.house.gov/wp-content/uploads/2023/05/SCHWEI_019_xml.pdf.

[6] Press Release, Schweikert, Beyer Introduce Legislation to Modernize ITC, Protect American Industry, Workers, and Consumers From Patent Trolls, available at https://schweikert.house.gov/2023/05/18/schweikert-beyer-introduce-legislation-to-modernize-itc-protect-american-industry-workers-and-consumers-from-patent-trolls/.

[7] Id.

[8] Lauren Berg, Bipartisan Bill Again Pushes to Keep "Patent Trolls" Out of ITC, Law360.com, available at https://www.law360.com/articles/1679391/bipartisan-bill-again-pushes-to-keep-patent-trolls-out-of-itc.

[9] Our analysis was conducted from complaints identified on DocketNavigator.

[10] See, e.g., Brian J. Love, An Empirical Study of Patent Litigation Timing: Could a Patent Term Reduction Decimate Trolls Without Harming Innovators?, 161 U. Pa. L. Rev. 1309,

1312, 1334 (2013).

[11] Of the 21 ITC proceedings filed in 2022 where a complainant relies on licensing or a domestic licensee's activities for domestic industry, only 4 complaints list a patent licensee as a co-complainant and each of these listed co-complainants is either an exclusive licensee or a corporate subsidiary of the patent owner.

[12] See, e.g., Certain Filament Light-Emitting Diodes and Products Containing Same, 337-TA-1172, Compl. at 44-46 (July 30, 2019); Certain Filament Light-Emitting Diodes and Products Containing Same (II), 337-TA-1220, Compl. at 54-57 (Aug. 30, 2021).

[13] See, e.g., Certain Filament Light-Emitting Diodes and Products Containing Same (II), 337-TA-1220, Initial Determination at 202-26 (Nov. 19, 2021) (relying on University of California's R&D investments to find domestic industry under 337(a)(3)(A), (B), and (C)).

[14] Certain Beverage Dispensing Systems and Components Thereof, Inv. No. 337-TA-1130, Initial Determination at 85 (Sept. 5, 2019).

[15] See, e.g., Certain Dermatological Treatment Devices, Inv. No. 337-TA-1356, Order Denying Early Disposition (Mar. 31, 2023) ("The suggested economic prong analysis may be too complex to be decided within 100 days of institution."); Certain Cabinet X-Ray and Optical Camera Systems, Order Denying Early Disposition, Inv. No. 337-TA-1348 (Dec. 27, 2022) ("The suggested infringement issue may be too complex to be decided within 100 days of institution."); Semiconductor Devices Having Layered Dummy Fill, Order Denying Early Disposition, Inv. No. 337-TA-1342 (Nov. 23, 2022) ("The suggested invalidity issue may be too complex to be decided within 100 days of institution.").

[16] See Certain Replacement Automotive Lamps, Invs. No. 337-TA-1291, -1292, Order No. 3 (Jan. 25, 2022) (Cheney, J.).

[17] Pilot Program on Initial Determinations, https://www.usitc.gov/press_room/featured_news/337pilotprogram.htm;

[18] 19 U.S.C. § 1337.

[19] See, e.g., Certain Magnetic Tape Cartridges and Components Thereof, Inv. No. 337-TA-1058, Comm'n Op. at 65 (Apr. 9, 2019).

[20] Our analysis was conducted from complaints identified on DocketNavigator as well the ITC"s statistics on delegated public interest found at https://www.usitc.gov/337_stats_delegating_public_interest.