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R SHEET ON

ITC PATENT REFORM

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BACKGROUND

The U.S. International Trade Commission (ITC) is an independent federal agency that performs a variety of trade-related tasks, one of which is to investigate complaints of unfair competition and block offending imports under Section 337 of the Smoot–Hawley Tariff Act of 1930. Section 337 prohibits a broad range of "unfair" acts, but the vast majority of ITC investigations involve allegations of patent infringement.

Because Section 337 is a trade-remedy law designed to prevent unfair foreign competition, it is only applicable if a "domestic industry" practices the patent. And, even then, if the ITC believes it would be contrary to the "public interest" or the U.S. Trade Representative vetoes a remedy for "policy reasons," an exclusion order can be denied.

Despite these peculiarities, the agency has become an increasingly popular venue for patent complaints because it renders decisions more quickly than federal district courts and because an import ban is very powerful and effective.

Current Debate

Despite such increasing popularity, a trade commission is an awkward venue for patent litigation. While it is possible under certain circumstances for a foreign infringer to evade the jurisdiction of U.S. courts or to circumvent an adverse judgment, such cases are extremely rare. In fact, most ITC investigations involve parties that can and do sue each other in district court.

Due to this overlapping jurisdiction, the ITC functions primarily as an administrative patent court that allows some patent holders to impose a second layer of liability and legal costs on some alleged infringers. In fact, under this system, the administrative agency is allowed to make legal determinations and issue a trade remedy even before the dispute is finished being litigated in a court of law. This dual-track system interferes with the proper work of Article III judges while disrupting the effectiveness of the U.S. patent system in noticeable ways.

SUMMARY

- The ITC's power to block unfairly traded imports has made the agency a popular venue for patent complaints.
- However, most ITC investigations merely supplement an existing federal lawsuit between the same parties, which imposes a second layer of liability and legal costs.
- The ITC's patent powers have diminished the role of Article III judges while enabling forum shopping, patent holdup and abusive litigation.
- Congress can alleviate these problems by updating the ITC's statute to better align its practices and remedies with courts.
- Congress should scale back the ITC's redundant jurisdiction to eliminate unnecessary litigation and protect patent rights against foreign infringers.

Forum Shopping

The ITC's nationwide jurisdiction enables the kind of forum shopping ostensibly prohibited by the Supreme Court in *TC Heartland v. Kraft Foods*. While it may be harder now to file every infringement lawsuit in the Eastern District of Texas, defendants can still be dragged to Washington, D.C., regardless of where they are based or where the alleged infringement occurred. Even if a patent holder loses an infringement case at the trade agency, a lawsuit involving the same dispute could have the opposite outcome in court, because the ITC's patent decisions are not considered binding on courts.

Patent Holdup

There are numerous situations when banning the sale of an infringing product is unjust or overly harmful to third parties—such as when the infringed patent covers only a tiny portion of the end product's value or when the patent owner initially agreed to offer its technology to all users as part of an industry-wide standard. A court of law can

ensure that patent holders' rights are enforced in these situations—without unduly harming others—by awarding monetary damages for past infringement and mandating ongoing royalties.

In *eBay v. MercExchange*, the Supreme Court held that injunctive relief should be awarded only in special situations when plaintiffs have suffered irreparable harm and monetary damages are inadequate. But *eBay* does not apply at the ITC, where an import ban is the only remedy available. And, although it is required by Section 337 to consider certain "public interest" factors before issuing a remedy, the agency has not used that test to deny an exclusion order in over 30 years.

Abusive Litigation

Congress and the courts have wrestled for a long time with the problem of abusive litigation by entities who acquire obscure, vague or improperly granted patents and then threaten to sue actual innovators in order to extort licensing payments. These patent trolls have been hamstrung by decisions like *eBay* and *TC Heartland* and by certain provisions of the America Invents Act. But because those changes have only applied to district courts, they have made the ITC a relatively more favorable venue for trolls.

The primary safeguard against abusive cases at the ITC is Section 337's domestic-industry test, which does not require domestic manufacturing but does require complaining patent holders to show that they or their licensees have made significant investments in U.S.-based operations. Some patent assertion entities, however, are able to pass this test by relying on U.S.-based "licensing" activities or by relying on the domestic operations of a company that became a "licensee" when it agreed to pay royalties in order to avoid a lawsuit.

ACTION ITEMS

To prevent continued abuse of the U.S. patent system, Congress must update Section 337 to reflect the realities of modern patent law and economic globalization. One way to do this is by adopting the statutory reforms proposed in the Trade Protection Not Troll Protection Act, which would curtail abusive litigation at the ITC in a number of ways.

First, it would reduce the likelihood of an excessive remedy by requiring the agency to more actively consider whether an exclusion order is in the public interest while broadening the factors of the public-interest test.

Second, it would close loopholes in the ITC's domestic-industry test that currently allow patent trolls to access trade relief based on U.S.-based "licensing" operations that do not contribute to the development of a product or based on the operations of a company from which they previously extorted a licensing agreement.

And third, the bill would reduce the cost of abusive ITC complaints by instructing the agency to make early determinations when a complainant is unable to satisfy threshold requirements like standing or domestic industry. Early determinations from the ITC on select issues will make it harder to file frivolous Section 337 complaints simply to impose litigation costs and gain leverage in settlement negotiations.

Congress should also consider cutting back the ITC's jurisdiction. Eliminating jurisdictional overlap between the ITC and Article III courts would ensure the protection of patent rights against unreachable foreign infringers without disrupting the proper functioning of the U.S. patent system. One way to accomplish this would be to reverse the rule that currently entitles defendants to delay a district court lawsuit until a parallel ITC investigation is completed. Instead, the ITC should be prohibited from initiating any investigation against a party that has deliberately subjected itself to the jurisdiction of U.S. federal courts—where private legal disputes belong.

CONTACT US

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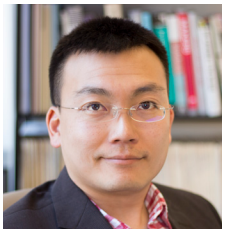

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