

ITC Growing As a Forum for IP Disputes

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Hardly a day goes by without some mention of the United States' demand for imported products. Domestic and foreign companies are responding to that demand by opening manufacturing plants overseas and establishing trade partners throughout the world. Not surprisingly, the number of active investigations of unfair imports instituted by the International Trade Commission (ITC) has increased in recent years: 44 in 2004, 57 in 2005, and 70 in 2006. ("U.S. International Trade Commission Year in

Review," Fiscal Years 2004, 2005, and 2006.) The trend is expected to continue in 2007. The ITC has operated for years to protect U.S. industry from unfair competition of infringing imports. But more recently, this independent federal agency has moved into the spotlight, catching the attention of both patent owners and competitors alike. This attention is perhaps attributable to the fact that more U.S. companies are finding themselves responding to an investigation in this forum. Or,

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perhaps this could be because the ITC is known for its speed as well as its patent-savvy judges. Whatever the reason, companies should be aware of the advantages and disadvantages of proceeding before the ITC.

Initiating Actions in the ITC Versus District Court

The ITC provides a forum for intellectual property (IP) owners who want to stop infringing imports from entering the United States under 19 U.S.C. § 1337 (“Section 337”).¹ The ITC functions much like a court, with administrative law judges (ALJs) presiding over evidentiary hearings. However, significant jurisdictional, procedural, and substantive differences exist between traditional infringement actions in district-court and ITC proceedings under Section 337. This article highlights the unique challenges faced by parties in an ITC proceeding and provides strategies for businesses to use in evaluating the ITC as an alternative or additional forum for resolving IP disputes.

The Parties

Like a district-court proceeding, one of the parties in an ITC proceeding is the IP owner. In the ITC, the IP owner is referred to as the “complainant.” The complainant can be a U.S. or foreign entity (discussed later).

The individual or business responding to the charges of infringement or unfair competition is referred to as the “respondent.” Like the complainant, the respondent may be a U.S. or foreign individual or business. Often, respondents are foreign manufacturers, but they also may be the importers or even retailers involved in sales in the United States after importation. Because the ITC has in rem jurisdiction over the accused imports, personal jurisdiction over the respondents is not required. In fact, a complainant can file for an investigation even if the importer, seller, or consignee of the accused products is unknown.

(Practice tip: In considering the appropriate respondents, do not overlook U.S. entities involved in the sale of the product after importation. Because the ITC has nationwide service of process, any U.S. entity is subject to personal jurisdiction.)

In ITC proceedings, a third party also participates: the Office of Unfair Import Investigations (OUII), represented by a staff attorney. The OUII acts to protect the public interest. Like the complainant and the respondent, the OUII pursues discovery, submits motions and briefs, and participates at the evidentiary hearing. The inclusion of the OUII in these proceedings is a significant procedural difference between district court litigation and proceedings before the ITC.

(Practice tip: It is not uncommon for the ALJ to rely heavily on the OUII’s position when it comes to sorting out discovery disputes and the like. The OUII acts almost as a “friend of the court” on some issues.

The pace of ITC investigations requires both sides to commit significant resources in a short period of time.

Therefore, it is advisable to get to know the OUII, just as you would any other counsel in your case. Although the OUII may have reviewed the complaint before it was filed, that does not mean the OUII will necessarily side with the complainant as the evidence develops. It is not uncommon for the OUII to support the respondent on certain issues.)

The Complaint

Unlike district court, the mere filing of an ITC complaint does not guarantee the complainant its day in court. An ITC complaint is a request that the ITC institute a formal investigation against the respondents and the accused import.

The complaint itself is different from a district court complaint. Fact, not notice pleading, is the rule. ITC Rule 210.12(a) sets out the specific requirements for a complaint and the accompanying exhibits.

In the case of patent infringement, the complaint must include, among other things, a description of the invention and an indication of the claims allegedly infringed. It must also include a claim chart showing how at least one claim reads on the accused device. This is not required in a district court complaint. In addition, the complaint must include facts showing a domestic industry (discussed later), including sensitive business, financial, and technical information of the complainant. Because of this requirement, the ITC rules provide a complainant with the ability to file confidential and nonconfidential versions of the complaint. Nonconfidential versions are available to the public through the ITC docket system.

(Practice tip: Compared to district court complaints, ITC complaints require an extensive amount of preparation. In most cases, the complainant will rely on a technical expert to assist in preparing the infringement and domestic industry claim charts. Complainants often rely on the assistance of economic or financial experts to assist in evaluating and presenting the evidence of importation and domestic industry as well. These activities translate into substantial time and money for a complainant. While this type of pre-filing activity puts the complainant well ahead of the respondent in terms of preparedness as the case proceeds, a complainant should be aware of the significant upfront costs involved in preparing an ITC case.)

Once a complaint is filed, the ITC reviews it to determine if it adequately outlines a cause of action. Within 30 days after the complaint is filed, the ITC decides whether to institute a formal investigation. 19 C.F.R. § 210.10(a)(1). If the complaint is deficient, the ITC will not institute an investigation and will not act unless the complaint is amended. While this procedure may seem to “stack the deck” in complainant’s favor, it should be noted that the ITC only reviews the sufficiency, not the merits, of the complaint. Therefore, initiation of a complaint is by no means a guarantee that the ITC will ultimately rule in favor of complainant on the merits.

(Practice tip: A complainant has the option of submitting a draft complaint to staff attorneys in the OUII for pre-filing review to ensure sufficiency of the complaint. The consultations are generally considered confidential, and the named respondent is not given notice while this

pre-filing review is in progress. A complainant would be wise to seek feedback from the OUII and revise its complaint to maximize the chance that the ITC would institute an investigation.)

Differences Between Section 337 Proceedings and District Court Litigation

Section 337 is designed to prevent “unfair methods of competition and unfair acts” in the importation of articles (products) into the United States. The vast majority of recent Section 337 investigations are based on allegations of infringement of patent rights. However, Section 337 provides relief from other types of unfair methods of competition and unfair acts, such as theft of trade secrets, false designation of origin, false advertising, trademark dilution, and common law trademark infringement, as well as infringement of registered trademarks, copyrights, and semiconductor mask works. 19 U.S.C. §1337(a)(1).

Importation

The primary concern of Section 337 is not protecting the patent owner from infringement of its patent, but rather protecting U.S. industry from unfair imports. This difference in philosophy gives rise to substantive differences between traditional patent infringement claims and Section 337 actions. While both require proof of infringement, Section 337 actions also require proof of importation and domestic industry. 19 U.S.C. §1337(a)(1), (a)(2). The first element, importation, is necessary to establish subject matter jurisdiction for the ITC. Importation covers a wide range of activities, including, for example, the importation of accused articles originally made in the United States. It also covers the sale of accused articles abroad with the knowledge that the articles will be subsequently exported to the United States, and the sale of accused articles within the United States after importation.

(Practice tip: Consider whether there are economically viable alternative sources in the United States for the accused product. If so, an enforcement action through the ITC may not provide permanent relief to infringement. It may only direct the respondent to source the product from within the United States until relief can be obtained in district court.)

Domestic Industry

A second element that is unique to Section 337 proceedings is the requirement of a

domestic industry relating to articles protected by the asserted IP right. Unlike in district court, in the ITC, the IP owner must show that it or its licensee is actually exploiting the asserted IP right in the United States—and that means more than just selling the claimed invention in the United States. There are two aspects, or “prongs,” to the domestic industry element: an economic prong and a technical prong. To satisfy the economic prong, the IP owner must show significant investment in plant and equipment, or significant employment of labor and capital, or substantial investment in the exploitation of the IP right, including engineering research and development or licensing. In addition, to satisfy the technical prong, the patent owner must be able to prove (and include in its complaint) evidence that it (or its licensee) is actually using the patent in the United States, either by practicing the patented technology or licensing the patent. Patent owners must be willing and able to disclose their sensitive technical and financial information at the outset to prove the existence of a domestic industry.

(Practice tip: If a patent owner or its licensee is not practicing the invention in the United States, it cannot assert the patent as a basis for its Section 337 proceeding. However, the patentee and the accused product may practice different claims of the same patent.)

Infringement/Unfair Competition

Infringement (or another act of unfair competition) is an element that patent owners must prove in both district court and in Section 337 proceedings, and the underlying substantive law is generally the same. However, Section 337 is worded somewhat differently from Section 271 of Title 35 (Patents) of the United States Code, and as a result, may be interpreted differently when evaluating certain infringement claims. For example, Section 271(g) recognizes an exception to infringement for a product made by a patented process if subsequently the product has been materially altered. No such exception currently exists under Section 337.

The Lightning Speed of the ITC

In many ways, Section 337 proceedings follow a path similar to that of district-court cases but on a much more expedited schedule. If an investigation is instituted, the case is assigned to an ALJ, and a respondent typically has 20 days to respond to the complaint, including any affirmative

defenses and counterclaims.²

(Practice tip: Because investigations are routinely instituted after a complaint is filed, it is advisable for a respondent to begin preparing its substantive response to the complaint at the earliest opportunity. Copies of newly filed complaints are usually available on the ITC’s website before investigations are initiated.)

Each ALJ has a protective order and a standard set of ground rules that govern the case. These rules are designed to avoid delay. The ground rules cover the procedural aspects of the investigations, such as discovery and motion practice (including dispositive motion practice) and methods for asserting privilege.

(Practice tip: The ITC’s protective order permits only outside counsel of record with access to confidential business information of the opposing parties. The ALJs will generally not entertain a motion to amend this order, although the parties may enter into private agreements to permit in-house counsel access to confidential information.)

The ALJ will issue an order setting the target date for completion of the investigation, typically 15 months from the start of the investigation. 19 C.F.R. § 210.51(a). To meet this target completion date, the ALJ schedules an evidentiary hearing on the merits for about 9 to 11 months from the start of the investigation, with a discovery cutoff of about 6 months. Few district courts can push their dockets to accommodate civil trials under such a tight schedule.

The scope of discovery generally parallels that of district-court cases, with two significant exceptions. First, there are generally no limits on the amount of discovery that can be taken. Second, the time for responding to written discovery is significantly shorter in the ITC—generally 10 days as opposed to 30 days in district court. As a result, the pace of discovery is much faster than in district courts.

The real limit on discovery is time. Discovery disputes are resolved swiftly by the ALJ (often by phone). The parties are expected to cooperate fully to meet the short deadlines imposed by the discovery schedule. Foreign respondents are expected to participate in discovery from the start of the case (without the usual delays associated with service of process) or risk sanctions. In addition, because the ITC does not require personal jurisdiction and has authority for nationwide process, third

party discovery is more readily available in Section 337 investigations than in district courts.

Following discovery and dispositive motions, the ALJ conducts a hearing on the merits, often including live testimony of fact and expert witnesses, although some ALJs prefer to have direct testimony presented by written statement. The hearing is generally equivalent to a bench trial in federal district court. After the hearing, the parties may be required to file written findings of fact supported by the record. About two or three months after the hearing, the ALJ issues an “initial determination” on whether a violation has occurred and, if so, recommends a remedy.

The ITC can review the ALJ’s initial determination. The ITC can affirm, reverse, modify, set aside, or remand to the ALJ for further proceeding, in whole or in part, the initial determination. The ITC then issues its final decision, called a “final determination,” and any necessary orders—all within 12 to 15 months from the filing of the complaint. Although an ITC decision is not binding in federal court, the decisions are generally accorded great deference.

Remedies in the ITC

The ITC provides only injunctive remedies. A successful complainant can obtain exclusion orders to bar importation of the infringing articles and/or cease-and-desist orders to prohibit sale of previously imported infringing goods. Exclusions orders include “limited exclusion orders” and “general exclusion orders,” both of which are enforced by agents of the U.S. Customs and Border Protection. A limited exclusion order excludes infringing articles imported by specific respondents. A general exclusion order excludes all infringing articles from entering the United States, regardless of their source. Because the scope of a general exclusion order is much broader, the ITC will only issue such an order if it determines that it is necessary to prevent circumvention of a limited exclusion order or that there is a pattern of violation and it is difficult to identify the source of infringing products. Both limited and general exclusion orders can apply to the importation of downstream products that include the infringing articles.

A cease-and-desist order prohibits specific entities from further engaging in unfair methods or acts, such as selling and distributing previously imported infringing products, and further from importing

or selling for importation infringing products. Unlike exclusion orders, a cease-and-desist order requires in personam jurisdiction over the target entity. Violations of cease-and-desist orders can carry stiff penalties, up to \$100,000 per day or twice the domestic value of the articles imported or sold per day.

Benefits and Drawbacks of the ITC

An ITC proceeding affords several advantages over federal district court litigation:

- The ALJ and the OUII staff attorneys routinely handle IP cases, which results in a very experienced bench and bar in this specialized area of law.
- The ITC is required by statute to conclude its investigation and issue a determination “at the earliest practicable time,” so speed is a dominant trait. 19 U.S.C. § 1337(b). Compared to a 15-month ITC investigation, many infringement suits in district court require 28 to 30 months to reach a decision.
- The in-rem nature of the ITC proceeding and its nationwide service of process eliminate some of the service and jurisdictional problems encountered when dealing with foreign manufacturers.
- A standard protective order and strict ground rules on conduct reduce the discovery battles and delay tactics often encountered in district court.

Still, an ITC proceeding does have its disadvantages:

- The ITC only addresses disputes involving unfair competition arising from imports. All other disputes, including domestically manufactured product disputes, between the parties must be resolved in federal or state court.
- The ITC has no authority to award damages for infringement. To seek damages, a complainant must file a parallel case in federal district court.
- The complainant must be able to show that there is a domestic industry for the IP. If the complainant is not exploiting the IP in the United States, it may only seek redress for infringement in district court.
- The pre-filing activities necessary to prepare a case for the ITC are substantial.

- The speed of an ITC proceeding can be a significant disadvantage, particularly for respondents. Often, building an invalidity or unenforceability case requires time. Still, the speed can work to the disadvantage of all parties. The ITC is not a forum in which the IP owner can file a case and wait. Keeping up with the pace of ITC investigations requires both sides to commit significant resources in a short period of time. This includes increased demands on in-house counsel and witnesses. The shortened schedule also means the expense of expert witnesses comes earlier in the case. Moreover, there are few discovery limitations in the ITC, so the cost of foreign discovery and depositions can climb quickly, especially when multiple respondents are involved.

As the list of pros and cons suggests, the ITC (either alone or in conjunction with a federal district court case) can provide an effective path for protecting a company’s IP, particularly when time is of the essence and/or jurisdiction over the accused infringers is difficult. From a respondent’s perspective, notice of an ITC proceeding should not be ignored, but neither is it time to throw in the towel. Unlike some district court juries, the ITC is not an overtly plaintiff-friendly forum. The ALJs are skilled at interpreting and applying patent claims to products covering a wide variety of technologies, and neither party has a “hometown advantage” in the ITC. ●

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Endnotes

¹ The ITC is generally responsible for administering U.S. trade laws. In addition to Section 337 investigations, the ITC has authority to conduct antidumping and countervailing duty cases under Title VII of the Tariff Act of 1930 and other unfair trade practice investigations. The ITC also maintains the Harmonized Tariff Schedule of the United States.

² Section 337 requires a respondent to remove any counterclaims to a federal district court where venue is proper. 19 U.S.C. § 1337(c).