

ESSAY

The International Trade Commission and the Nonpracticing Entity: Reviving the Injury Requirement for Domestic Industries Based on Licensing

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ABSTRACT

The International Trade Commission (“ITC”) has recently become a popular venue for nonpracticing entities to enforce their patent rights. Traditionally, section 337 of the Tariff Act required ITC complainants to be engaged in domestic manufacturing and demonstrate injuries to their manufacturing activities. Today, both requirements have been eliminated, dramatically increasing the presence of nonpracticing entities at the ITC. This Essay challenges the ITC’s role in enforcing the patent rights of such entities. The Essay proceeds as follows: After an introduction to the ITC, Part I discusses the ITC’s recent rise in popularity and provides a history of section 337. Part II describes the domestic industry requirement and how it has evolved through statutory changes and ITC decisions, explaining in particular the 1988 Amendments that both allowed licensing to constitute a protectable domestic industry and eliminated the injury requirement for all complainants. Part III outlines the ITC’s standards in determining whether a complainant’s licensing activities are sufficient to meet the domestic industry requirement. Finally, Part IV argues that section 337 should be amended to require licensing complainants to demonstrate an injury to their domestic industry before obtaining

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an exclusion order. Part IV also provides the rationales behind the proposed amendment, as well as the benefits that would result.

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INTRODUCTION

The International Trade Commission (“ITC” or “Commission”) has become a popular forum for nonpracticing entities¹ to enforce

¹ This Essay uses the term “nonpracticing entity” to refer to parties that license intellectual property rights to patents without themselves manufacturing a product covered by the licensed patent.

their patent rights, and for good reason. Commission investigations proceed rapidly with the possibility of a sweeping exclusion order barring importation of all infringing articles into the United States. This Essay challenges the ITC's role in enforcing the patent rights of such entities.

The ITC's patent enforcement authority stems from section 337 of the Tariff Act of 1930.² Under section 337, the Commission is charged with investigating unfair imports, such as imports that infringe U.S. patents.³ Unlike the patent laws, section 337 was not enacted to protect the rights of private parties, but to protect U.S. industries from unfair foreign competition.⁴ To ensure that Commission investigations remain focused on this goal, section 337 requires complainants to establish that a statutory domestic industry exists before the Commission may issue a remedy.⁵

Historically, section 337 required both (1) a protectable domestic industry and (2) proof of substantial injury to that industry.⁶ Later, the injury requirement was eliminated⁷ because Congress concluded that an injury could be presumed when imports infringed the complainant's patent rights.⁸ This made sense when complainants were engaged in production activities because the infringing imports directly competed with the domestic products and thus injured the domestic industry.

Although eliminating the injury requirement makes sense with respect to domestic manufacturers, Congress has also allowed complainants to establish a domestic industry through nonmanufacturing activities such as licensing.⁹ Moreover, the Commission has gradually relaxed the domestic industry standard for a licensing-based domestic industry to the point that no domestically manufactured article is required.¹⁰ Although infringing imports almost always injure a manufacturing-based domestic industry engaged in producing the patented

² 19 U.S.C. § 1337 (2006).

³ *Id.*

⁴ See Eric L. Lane, *Keeping the LEDs On and the Electric Motors Running: Clean Tech in Court After eBay*, 2010 DUKE L. & TECH. REV. 013, ¶ 49 n.120.

⁵ 19 U.S.C. § 1337(a)(3).

⁶ See Tariff Act of 1922, ch. 356, § 316, 48 Stat. 858, 943–44 (1922) (repealed 1930).

⁷ See Terry Lynn Clark, *The Future of Patent-Based Investigations Under Section 337 After the Omnibus Trade and Competitiveness Act of 1988*, 38 AM. U. L. REV. 1149, 1160 (1989).

⁸ S. Alex Lasher, *The Evolution of the Domestic Industry Requirement in Section 337 Investigations Before the United States International Trade Commission*, 18 U. Balt. Intell. Prop. L.J. 157, 158 (2010).

⁹ 19 U.S.C. § 1337(a)(3).

¹⁰ See *infra* Part III.A.

product, the same cannot be said for a licensing-based domestic industry.¹¹ For licensors, infringing imports often injure only their private patent rights and inflict no harm to any domestic industry.¹² Patentees already have a forum to address injury to private rights: the federal district courts.¹³

This Essay proposes that Congress amend section 337 to require nonpracticing entities to demonstrate a substantial injury to their licensing industry before the ITC can grant a remedy. The Essay proceeds as follows: After an introduction to the ITC, Part I discusses the ITC's recent rise in popularity and then provides a history of section 337. Part II describes the domestic industry requirement and how it has evolved through statutory changes and Commission decisions, explaining in particular the 1988 Amendments that both allowed licensing to constitute a protectable domestic industry and eliminated the injury requirement for all complainants. Part III outlines the Commission's standards in determining whether a complainant's licensing activities are sufficient to meet the domestic industry requirement. Finally, Part IV argues that section 337 should be amended to require licensing complainants to demonstrate an injury to their domestic industry before obtaining an exclusion order. Part IV also provides the rationales behind the proposed amendment, as well as the benefits that would result from its enactment.

I. OVERVIEW OF THE INTERNATIONAL TRADE COMMISSION

The ITC is an independent, quasi-judicial federal administrative agency with investigative powers over trade matters.¹⁴ Specifically, the Commission is charged with promoting the competitiveness of the United States in the global economy.¹⁵ The Commission describes its mission as to (1) administer U.S. trade remedy laws; (2) provide the President, U.S. Trade Representative, and Congress with information and analysis on matters relating to international trade; and (3) maintain the Harmonized Tariff Schedule of the United States.¹⁶

In creating the Commission, Congress sought "to provide adequate procedures to safeguard American industry and labor against

¹¹ See *infra* Part IV.A.

¹² See *infra* Part IV.A.

¹³ See 35 U.S.C. § 271 (2006) (creating judicial remedies for patent infringement).

¹⁴ *About the USITC*, U.S. INT'L TRADE COMM'N, http://www.usitc.gov/press_room/about_usitc.htm (last visited May 19, 2012).

¹⁵ 19 U.S.C. § 2102 (2006).

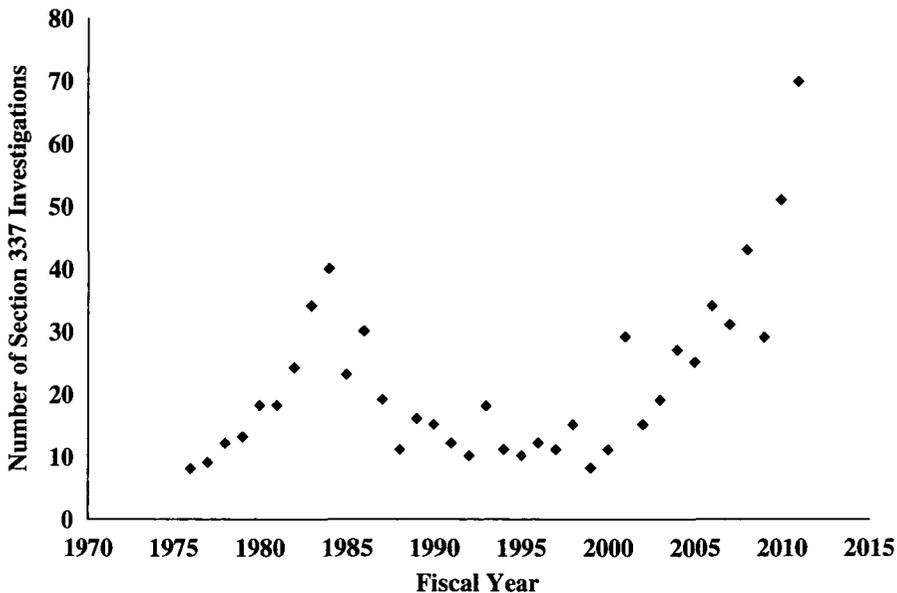
¹⁶ *Mission Statement*, U.S. INT'L TRADE COMM'N, http://www.usitc.gov/press_room/mission_statement.htm (last visited May 19, 2012).

unfair or injurious import competition.”¹⁷ One of the Commission’s responsibilities is to adjudicate cases involving imports that allegedly infringe U.S. intellectual property rights.¹⁸ Such cases are handled by the Office of Administrative Law Judges and governed by the provisions of 19 U.S.C. § 1337, commonly known as “section 337.”¹⁹

A. *The Increasing Popularity of the International Trade Commission*

Recently, the number of section 337 investigations has increased dramatically. In the 1990s, the average number of section 337 actions was ten per year.²⁰ Between 2000 and 2007, the average number of investigations grew to twenty-three per year.²¹ This dramatic rise has continued. The following graph depicts the number of investigations each year since 1974.²²

GRAPH. NUMBER OF SECTION 337 INVESTIGATIONS BY YEAR



¹⁷ 19 U.S.C. § 2102(4).

¹⁸ *Id.* § 1337.

¹⁹ U.S. Int’l Trade Comm’n Ann. Rep. 30–31 (1999).

²⁰ Christopher A. Cotropia, Patent Remedies at the International Trade Commission: An Empirical Look at *Kyocera* 6 (Jan. 13, 2011) (unpublished paper) (on file with the George Washington Law Review).

²¹ *Id.*

²² *Number of Section 337 Investigations Instituted by Calendar Year*, U.S. INT’L TRADE COMM’N, http://www.usitc.gov/intellectual_property/documents/cy_337_institutions.pdf (last visited May 19, 2012).

The ITC's role in enforcing U.S. patent laws is unique, and this has contributed to the recent growth in its popularity. Significantly, the Supreme Court's 2006 decision in *eBay Inc. v. MercExchange, L.L.C.*²³ limited the ability of district courts to grant injunctions.²⁴ *eBay* held that courts must use the traditional four-factor test for equitable relief when deciding whether to grant injunctive relief.²⁵

Subsequently, in *Spansion, Inc. v. ITC*,²⁶ the Federal Circuit unequivocally held that "*eBay* does not apply to Commission remedy determinations under Section 337."²⁷ Thus, the Commission continues to issue exclusion orders upon finding a violation of section 337, regardless of whether the four-part equitable test for injunctions required in district courts is satisfied.

Together, the *eBay* and *Spansion* decisions greatly increased the ITC's attractiveness to nonpracticing entities. In district court litigation, nonpracticing entities find it difficult to satisfy the equitable test required for injunctive relief.²⁸ Thus, the ITC is often the only forum available for nonpracticing entities to obtain an injunction. This makes the ITC attractive to nonpracticing entities because injunctions are often necessary as leverage to extract royalties from practicing entities.²⁹

The ITC also has several other advantages over district court litigation. It provides broad injunctive relief in the form of exclusion orders.³⁰ Upon finding that an imported article infringes U.S. intellectual property rights, the Commission directs U.S. Customs to bar all such imports from entering the United States.³¹ This remedy is auto-

²³ *eBay Inc. v. MercExchange, L.L.C.*, 547 U.S. 388 (2006).

²⁴ *See id.* at 391–92.

²⁵ *Id.* Under the *eBay* test, a plaintiff seeking injunctive relief must demonstrate that (1) it suffered an irreparable injury; (2) remedies available at law, such as monetary damages, are inadequate to compensate for that injury; (3) considering the balance of hardships between the plaintiff and defendant, a remedy in equity is warranted; and (4) the public interest would not be disserved by a permanent injunction. *Id.*

²⁶ *Spansion, Inc. v. ITC*, 629 F.3d 1331 (Fed. Cir. 2010).

²⁷ *Id.* at 1359.

²⁸ *See e.g.*, *z4 Techs., Inc. v. Microsoft Corp.*, 434 F. Supp. 2d 437 (E.D. Tex. 2006) (holding that patentee was not entitled to injunctive relief despite finding infringement).

²⁹ Shailendra Maheshwari & Mark Hogge, *Will the ITC Give Patent Trolls Injunctions Not Available from Federal Courts?*, Greenberg Traurig (May 2010), http://www.gtlaw.com/portalsource/lookup/wosid/contentpilot-core-401-16524/pdfCopy.name=/GTAAlert_ITC%20on%20Patent%20Troll%20Injunctions_May2010.pdf?view=attachment.

³⁰ *See* William P. Atkins & Justin A. Pan, *An Updated Primer on Procedures and Rules in 337 Investigations at the U.S. International Trade Commission*, 18 U. BALT. INTELL. PROP. L.J. 105, 110–11, 130 (2010).

³¹ 19 U.S.C. § 1337(d) (2006).

matic.³² If appropriate,³³ the Commission may issue a general exclusion order excluding all articles containing the infringing article, regardless of whether the manufacturer of the final product was a party to the investigation.³⁴

The power to issue such sweeping remedies lies in the Commission's broad jurisdictional reach. Importation is a privilege granted by Congress, and exclusion orders "operate[] against goods, not parties."³⁵ Thus, the Commission does not need in personam jurisdiction to issue exclusion orders because its section 337 jurisdiction is tied to the imported articles.³⁶ Therefore, even if an alleged infringer does not have sufficient contacts with the United States for personal jurisdiction, the products they import are still subject to the ITC's jurisdiction and can be excluded.³⁷

Finally, Commission investigations move much more quickly than district court litigation. Patent litigation in district courts typically takes around thirty-one months to complete.³⁸ By contrast, ITC actions are mandated by statute to be concluded "at the earliest practicable time" after the investigation is initiated.³⁹ Within forty-five days after institution⁴⁰ of an investigation, the administrative law judge must set a target date for completion.⁴¹ If the target date is more than sixteen months after the institution of the investigation, the Commissioners must approve the target date.⁴²

Because of its rising popularity, the ITC has become an increasingly important forum for patent holders. The following Section provides a history of the ITC's enforcement of section 337 and the statute's unique domestic industry requirement.

³² *Id.*

³³ A general exclusion order is warranted if (1) it is necessary to prevent circumvention of a limited exclusion order, or (2) there is a pattern of violation and it is difficult to identify the source of infringing products. *Id.* § 1337(d)(2).

³⁴ *See id.*

³⁵ Certain Steel Rod Treating Apparatus and Components Thereof, Inv. No. 337-TA-97, at 5 (June 30, 1981) (Commission Memorandum Opinion) (quoting *Sealed Air Corp. v. U.S. Int'l Trade Comm'n*, 645 F.2d 976, 985 (Fed. Cir. 1981)).

³⁶ *Sealed Air Corp.*, 645 F.2d at 985-86.

³⁷ *See id.*

³⁸ Bronwyn H. Hall et al., *Prospects for Improving U.S. Patent Quality via Post-Grant Opposition* 6 n.5 (May 2003), <http://elsa.berkeley.edu/~bhhall/papers/BHH%20IPE%20May03WP.pdf>.

³⁹ 19 U.S.C. § 1337(b)(1) (2006).

⁴⁰ The Commission Rules define "institution" as the date when notice of an investigation is published in the Federal Register. 19 C.F.R. § 210.10(b) (2011).

⁴¹ *Id.* § 210.51(a).

⁴² *Id.*

B. *The History of Section 337*

The origins of section 337 date back to 1922, when a protectionist-minded Congress passed the Fordney-McCumber Tariff Act.⁴³ Concerned with the lower production costs of foreign manufacturers, the Act sought to encourage budding industries in the United States by regulating foreign imports.⁴⁴ Section 316 of the Act, the predecessor to section 337, granted the President power to penalize imports that “destroyed, injured, or impaired the development of industry” within the United States.⁴⁵ The aim was to protect U.S. production investments and jobs, i.e., domestic industries.

Prior to 1922, patent owners had little recourse against infringing foreign imports.⁴⁶ Their only response against importers of the infringing articles was to bring multiple, duplicative suits against each individual retailer.⁴⁷ Section 316 remedied this ineffectiveness by giving patent holders a single forum to obtain remedies against all infringing imports in a single proceeding.⁴⁸

Congress revisited the Tariff Act in 1930, immediately prior to the beginning of the Great Depression.⁴⁹ Section 316 was largely unchanged, but became known as section 337 in the Smoot-Hawley Tariff Act.⁵⁰ Since its enactment, section 337 has been significantly amended three times. The Trade Act of 1974⁵¹ granted the ITC authority to issue exclusion orders and cease-and-desist orders, and made all legal and equitable defenses available in Commission investigations.⁵² The Omnibus Trade and Competitiveness Act of 1988⁵³ eliminated the injury requirement when intellectual property infringement was alleged and explicitly recognized licensing as a protectable domestic industry.⁵⁴ Finally, the Uruguay Round Agreements Act of

⁴³ Tariff Act of 1922, ch. 356, 42 Stat. 858 (repealed 1930); *see also* Lasher, *supra* note 8, at 158.

⁴⁴ Lasher, *supra* note 8, at 158.

⁴⁵ *Id.* at 159; *see also* § 316, 42 Stat. at 943–44.

⁴⁶ Neil F. DuChes, Note, *Synopsis of the Extraterritorial Protection Afforded by Section 337 as Compared to the Patent Act*, 14 Mich. Telecomm. & Tech. L. Rev. 447, 448 (2008).

⁴⁷ *See id.*

⁴⁸ *See id.*

⁴⁹ *Id.*

⁵⁰ Robert G. Krupka, Philip C. Swain & Russell E. Levine, *Section 337 and the GATT: The Problem or the Solution?*, 42 AM. U. L. REV. 779, 787 (1993).

⁵¹ Trade Act of 1974, Pub. L. No. 93-618, 88 Stat 1978 (codified as amended at 19 U.S.C. §§ 2101–2497 (2006)).

⁵² *See* Lasher, *supra* note 8, at 163.

⁵³ Omnibus Trade and Competitiveness Act of 1988, 19 U.S.C. § 1337 (2006).

⁵⁴ *See* Ting-Ting Kao, *Section 337's General Exclusion Order—Alive in Theory but Dead in*

1994⁵⁵ allowed respondents to assert counterclaims and required district courts to stay parallel proceedings upon the respondents' request.⁵⁶

Today, section 337 enables the Commission to instigate an administrative proceeding to investigate improper importation of goods into the United States.⁵⁷ "Improper importation" includes the importation of goods that violate U.S. intellectual property laws.⁵⁸ After finding that an import infringes a valid U.S. patent, the Commission directs Customs to exclude infringing articles from entering the United States.⁵⁹ Exclusion orders may exclude only the article in question, or they may exclude all products containing the infringing article, regardless of whether the manufacturer of the final product was a party to the investigation.⁶⁰

While the Commission has the power to issue far-reaching remedies, complainants must prove that a domestic industry exists with respect to articles protected by the asserted patent.⁶¹ This requirement stems from section 337's role as a trade remedy designed to protect U.S. industries.⁶² The domestic industry requirement, discussed below, ensures that the Commission is protecting industries rather than private patent rights.⁶³

II. THE DOMESTIC INDUSTRY REQUIREMENT

The domestic industry requirement was part of the original section 316 of the Tariff Act of 1922, and was later incorporated into section 337. The ITC's interpretation regarding what constitutes a protectable domestic industry has evolved tremendously over the years. The following Sections discuss the requirement as it has been applied by the Commission.

Fact: A Proposal to Permit Preclusion in Subsequent ITC Enforcement Proceedings, 36 AIPLA Q.J. 43, 48 n.22 (2008).

⁵⁵ Uruguay Round Agreements Act of 1994, Pub. L. No. 103-465, 108 Stat. 4809.

⁵⁶ See Joel W. Rogers & Joseph P. Whitlock, *Is Section 337 Consistent with the GATT and the TRIPs Agreement?*, 17 Am. U. Int'l L. Rev. 459, 479-80 (2002).

⁵⁷ See 19 U.S.C. § 1337(b) (2006); see also Robert E. Bugg, *The International Trade Commission and Changes to United States Patent Law*, 76 BROOK. L. REV. 1093, 1094 (2011).

⁵⁸ See 19 U.S.C. § 1337.

⁵⁹ See *id.* § 1337(d).

⁶⁰ See *id.* § 1337(d)(2).

⁶¹ *Id.* § 1337(a)(3).

⁶² See Lane, *supra* note 4, ¶ 49 n.120.

⁶³ See *id.*

A. Early Interpretations of the Domestic Industry Requirement

Section 316 of the Tariff Act of 1922, the predecessor to section 337, was designed to protect U.S. manufacturers from the “post–World War I revitalization of European industry.”⁶⁴ The statutory text of section 316 required complainants to demonstrate that they are part of an “industry, efficiently and economically operated, in the United States,” but provided no guidance with regard to what constituted a protectable U.S. industry.⁶⁵

In the early years of section 316, “industry” was thought to be synonymous with domestic manufacturing.⁶⁶ Under section 316, the domestic industry requirement was not a heavily disputed issue. For example, in *Ex parte Bakelite Corp.*,⁶⁷ a rare case arising under section 316 that was appealed to the courts, it was undisputed that the complainant had a protectable domestic industry.⁶⁸ There, the complainant clearly alleged that infringing imports injured “its domestic business of *manufacturing*” similar articles.⁶⁹

After section 337 was enacted in 1930, Congress still declined to define “industry” expressly.⁷⁰ Even so, for the first fifty years of section 337, it was more or less undisputed that “domestic industry” referred to manufacturing activities, i.e., the utilization of domestic labor, capital, and infrastructures to produce some tangible product.⁷¹ The Commission confirmed this view in 1965 when it terminated the investigation in *Walkie-Talkie Units*⁷² because the complainant obtained the patented articles from foreign manufacturers rather than producing them in the United States.⁷³ *Walkie-Talkie Units* strongly suggested that the Commission viewed section 337 as a production-oriented statute.⁷⁴

⁶⁴ J. Stephen Simms, *Scope of Action Against Unfair Import Trade Practices Under Section 337 of the Tariff Act of 1930*, 4 Nw. J. Int'l L. & Bus. 234, 240 (1982).

⁶⁵ Tariff Act of 1922, ch. 356, § 316(a), 42 Stat. 858, 943–44 (1922).

⁶⁶ See Martin B. Schwimmer, *Defining Domestic Industry in the Tariff Act of 1930: Removing the Gremlins from Section 337*, 11 Fordham Int'l L.J. 165, 171 n.45 (1987).

⁶⁷ *Ex parte Bakelite Corp.*, 279 U.S. 438 (1929).

⁶⁸ See *id.* at 446–48.

⁶⁹ *Id.* at 447 (emphasis added).

⁷⁰ See 19 U.S.C. § 1337 (2006).

⁷¹ See Schwimmer, *supra* note 66, at 171.

⁷² *Walkie-Talkie Units*, 30 Fed. Reg. 15,243 (U.S. Tariff Comm'n Dec. 1, 1965) (notice of dismissal of complaint).

⁷³ *Id.*

⁷⁴ See Schwimmer, *supra* note 66, at 171 n.44.

B. The Domestic Industry Requirement After the 1974 Amendments to Section 337

Congress finally provided some guidance about what constituted a protectable domestic industry when it passed the 1974 Amendments to section 337.⁷⁵ Although "industry" was still undefined in the statutory text, the legislative history of the Amendments seemed to confirm that industry was synonymous with production or manufacturing.⁷⁶ In discussing the Amendments, the House Committee on Ways and Means stated that "the patent must be exploited by *production* in the United States."⁷⁷

Shortly after the 1974 Amendments, companies tested the limits of what constituted a protectable industry.⁷⁸ In *Certain Cast-Iron Stoves*,⁷⁹ a foreign manufacturer sought to establish a domestic industry through various nonmanufacturing domestic activities performed in the United States.⁸⁰ There, the Commission found that evidence of domestic "repair, testing, installation, and distribution services" relating to the foreign-manufactured products was sufficient to establish a domestic industry.⁸¹ *Cast-Iron Stoves* significantly expanded section 337's reach to include *foreign* manufacturers engaged in nonmanufacturing activities in the United States.⁸² This reflected the Commission's recognition that America was transitioning from a manufacturing-driven to a service-driven economy.⁸³

Two years later, however, the Commission limited the applicability of *Cast-Iron Stoves* and reined in its definition of domestic industry. In *Miniature, Battery-Operated, All Terrain, Wheeled Vehicles ("Toy Cars")*,⁸⁴ the Commission found no domestic industry when the complainant manufactured the patented products abroad but advertised, licensed, and sold the articles in the United States.⁸⁵ The Commission found that, because the complainant's manufacturing activity did not primarily relate to production, no protectable domestic indus-

⁷⁵ Lasher, *supra* note 8, at 164.

⁷⁶ *Id.*

⁷⁷ H.R. REP. NO. 93-571, at 78 (1973) (emphasis added).

⁷⁸ See Lasher, *supra* note 8, at 164.

⁷⁹ *Certain Cast-Iron Stoves*, Inv. No. 337-TA-69, USITC Pub. 1126 (Dec. 31, 1980) (Commission Opinion).

⁸⁰ *Id.* at 10-11.

⁸¹ Lasher, *supra* note 8, at 164.

⁸² *Id.*

⁸³ *Id.* at 165.

⁸⁴ *Certain Miniature, Battery-Operated, All Terrain, Wheeled Vehicles*, Inv. No. 337-TA-122, USITC Pub. 1300 (Oct. 15, 1982) (Commission Opinion).

⁸⁵ *Id.* at 10-11.

try existed.⁸⁶ It distinguished *Cast-Iron Stoves* by noting that the domestic activities in *Cast-Iron Stoves* were “integrally related” to the patented article while the activities in *Toy Cars* were “more akin to an ‘assist’ which are often provided by a buyer of imported merchandise.”⁸⁷ In his Additional Views, Commissioner Haggart opined that “[t]his Commission, from the very beginning of its administration of section 337, has defined industry by referring to *production*, particularly in cases involving patents.”⁸⁸

Other decisions in the mid-1980s also suggested that, despite *Cast-Iron Stoves*, domestic production and manufacturing activities were still the cornerstones of a protectable domestic industry. In *Certain Products with Gremlins Character Depictions*,⁸⁹ Warner Brothers alleged that the respondents imported products that depicted copyrighted characters from the movie *Gremlins*.⁹⁰ To support the existence of a domestic industry, Warner Brothers pointed to the various licensing activities related to the *Gremlins* copyrights.⁹¹ Although the Commission ultimately found that the complainant had a protectable domestic industry, it focused on the complainant’s production rather than licensing activities.⁹² In particular, the Commission credited the production of books, nightshirts, and toys bearing the copyrighted images by the complainant’s licensees for the existence of a domestic industry.⁹³ The Commission again noted that domestic industry has consistently been defined by “the domestic *production* of products covered by the intellectual property rights in question.”⁹⁴

A few years later, in *Certain Soft Sculpture Dolls Popularly Known as “Cabbage Patch Kids,” Related Literature and Packaging Therefor*,⁹⁵ the Commission specifically rejected the use of licensing

⁸⁶ *Id.* at 11.

⁸⁷ *Id.* at 6 n.9.

⁸⁸ *Id.* at 41 (Additional Views of Commissioner Haggart) (emphasis added).

⁸⁹ *Certain Products with Gremlins Character Depictions*, Inv. No. 337-TA-201, USITC Pub. 1815 (Jan. 16, 1986) (Commission Opinion).

⁹⁰ *Id.* at 1.

⁹¹ *Id.* at 4. These included “marketing, financial, and legal activities related to the lease and legal protection of the [copyrights].” *Id.*

⁹² *See id.* at 3–4 (finding that “licensing activities . . . do not constitute a domestic industry under section 337 [and] that there is a domestic industry in the United States that includes the domestic production-related activities of Warner’s licensees involving the *Gremlins* copyrights”).

⁹³ *Id.* at 12.

⁹⁴ *Id.* at 5 (emphasis added).

⁹⁵ *Certain Soft Sculpture Dolls Popularly Known as “Cabbage Patch Kids,” Related Literature and Packaging Therefor*, Inv. No. 337-TA-231, USITC Pub. 1923 (Nov. 7, 1986) (Commission Opinion).

activities to establish a domestic industry.⁹⁶ Similar to the *Gremlins* investigation, however, the Commission ultimately found that a domestic industry existed because of the complainant's domestic *manufacturing-related* activities, such as assembly, cleaning, and packaging the patented articles.⁹⁷ Thus, the Commission reaffirmed the position that whether a protectable domestic industry exists turned on production, rather than licensing activities.

Although the Commission struggled to define a coherent standard for domestic industry in the 1980s, the pre-1988 investigations seem to suggest that a protectable domestic industry required *some* quantum of domestic production or manufacturing activity. This all began to change in 1988 when the domestic industry requirement was finally codified. The following Section discusses the 1988 Amendments to section 337 and their effect on the domestic industry requirement.

C. *The 1988 Amendments to Section 337*

The 1988 Amendments were motivated in part by Congress's recognition that the United States' economic strength was transitioning from manufacturing to technology and innovation⁹⁸—something that the Commission alluded to in the *Cast-Iron Stoves* decision.⁹⁹ Because of this shift, the Amendments altered the domestic industry requirement in two ways. First, they expressly expanded the definition of domestic industry to cover licensing activities.¹⁰⁰ Second, they eliminated the requirement that complainants must demonstrate a substantial injury to the domestic industry.¹⁰¹ These two changes are discussed below.

1. *Licensing and the Domestic Industry*

The 1988 Amendments redefined "industry" under section 337 to include research and licensing activities.¹⁰² The text of the Amendments defined "domestic industry" in part as follows:

with respect to the articles protected by the patent, copyright, trademark, mask work, or design concerned—

⁹⁶ *Id.* at 15 (emphasis added).

⁹⁷ *See id.* at 16.

⁹⁸ *See Lasher, supra* note 8, at 166–67.

⁹⁹ *Certain Cast-Iron Stoves, Inv. No. 337-TA-69, USITC Pub. 1126, at 9–10 (Dec. 31, 1980) (Commission Opinion).*

¹⁰⁰ 19 U.S.C. § 1337(a)(3) (2006).

¹⁰¹ *See Clark, supra* note 7, at 1160.

¹⁰² 19 U.S.C. § 1337(a)(3)(C).

- (A) significant investment in plant and equipment;
- (B) significant employment of labor or capital; or
- (C) *substantial investment in its exploitation, including engineering, research and development, or licensing.*¹⁰³

The amended definition of “domestic industry” expanded section 337 protection to activities such as licensing.¹⁰⁴ However, it did not necessarily follow that licensing without any corresponding production was sufficient to demonstrate a protectable domestic industry. In fact, early investigations after the 1988 Amendments suggested that a licensing domestic industry required either the complainant or its licensees to be producing articles covered by the asserted patent domestically.¹⁰⁵

The Amendments were intended to protect entities who were engaged in innovation-driven activities.¹⁰⁶ As Representative Robert Kastenmeier explained: “[S]uch a change will enable universities and small businesses who do not have the capital to actually make the goods in the United States to still have access to the ITC forum for the protection of their rights.”¹⁰⁷

Although the Amendments opened the doors of the ITC to innovation-driven and inventive entities, eventually it also laid the groundwork for opening the doors of the ITC to revenue-driven nonpracticing entities. The 1988 Amendments began the shift that ultimately resulted in the current state of section 337. Today, patent holding companies that derive revenue solely from licensing their intellectual property to companies *already engaged in existing production* may establish a protectable domestic industry.¹⁰⁸ Such a business model is vastly different from the model that Congress originally intended the Amendments to reach—a model based on developing technology and licensing the resulting intellectual property to manufacturers who have the capabilities to bring the technology to market.¹⁰⁹ In addition to redefining the domestic industry requirement,

¹⁰³ *Id.* § 1337(a)(3) (emphasis added).

¹⁰⁴ *Id.* § 1337(a)(3)(C).

¹⁰⁵ *See, e.g.,* Certain Doxorubicin and Preparations Containing Same, Inv. No. 337-TA-300 (Feb. 7, 1991) (Initial Determination) (finding that a domestic industry existed “[a]ssuming complainant’s [product] . . . [was] made” under the asserted patent). For a more detailed discussion, see *infra* Part III.A.

¹⁰⁶ *See* Clark, *supra* note 7, at 1150–52.

¹⁰⁷ 132 CONG. REC. H1784 (daily ed. Apr. 10, 1986) (statement of Rep. Kastenmeier).

¹⁰⁸ *See* Lasher, *supra* note 8, at 173–74.

¹⁰⁹ *Id.* at 169.

the 1988 Amendments also eliminated the injury requirement for patent-based investigations.¹¹⁰

2. *Injury to the Domestic Industry*

Prior to the 1988 Amendments, section 337 required complainants to demonstrate that their domestic industry was substantially injured by the infringing imports.¹¹¹ The rationale behind this requirement was that section 337's primary focus was to protect domestic industries from unfair imports.¹¹² Vindication of individual complainants' patent rights was done through the patent laws, not section 337.¹¹³ Thus, Congress required that complainants separately demonstrate injury to a U.S. industry before the ITC could provide a remedy.¹¹⁴

Congress eliminated the independent injury requirement based on the premise that *any* patent infringement necessarily injures the patent holder's domestic industry.¹¹⁵ Accordingly, complainants alleging patent infringement as the basis for a section 337 investigation after the 1988 Amendments are not required to prove any specific injury to their domestic industry; injury is assumed from the infringement.¹¹⁶

D. *The Domestic Industry Requirement in Practice*

Today, there is a two-pronged test for analyzing the domestic industry requirement for patent-based investigations.¹¹⁷ Complainants must demonstrate both an "economic prong"¹¹⁸ and a "technical prong"¹¹⁹ to establish that a protectable domestic industry exists.¹²⁰

¹¹⁰ See Clark, *supra* note 7, at 1160.

¹¹¹ See *id.* at 1162. Complainants demonstrated injury by various facts including the following: (1) lost sales; (2) increased importation and sale of infringing products; (3) declining production by domestic competitors due to lost sales; (4) declining profits of domestic competitors; (5) lower-price infringing imports; (6) infringing imports forcing complainant's prices lower; (7) decline in employment as a result of the importation of infringing products; (8) loss of potential sales resulting from the importation of infringing products; (9) loss of royalties from licensees or potential licensees as a result of existence of potentially infringing products; (10) capacity of foreign competitors to produce a significant amount of infringing products; (11) significant penetration of domestic market by infringing imports; and (12) competition between complainant's product and infringer's product in the particular domestic industry. *Id.* at 1160–61.

¹¹² See *id.* at 1162.

¹¹³ See *id.*

¹¹⁴ See *id.*

¹¹⁵ See *id.* at 1163–67.

¹¹⁶ See *id.*

¹¹⁷ See Lasher, *supra* note 8, at 169.

¹¹⁸ See 19 U.S.C. § 1337(a)(3) (2006).

¹¹⁹ See *id.* § 1337(a)(2).

Section 337 provides three ways to satisfy the economic prong.¹²¹ Complainants may demonstrate either “significant investment in plant and equipment”¹²² or “significant employment of labor or capital”¹²³ with respect to articles protected by the asserted patents. Complainants may also demonstrate “substantial investment” in the exploitation of the patented articles through “engineering, research and development, or licensing.”¹²⁴

The technical prong is satisfied by demonstrating “that the complainant practices the IP right domestically.”¹²⁵ This requires the complainant to show that he engages in activities covered by the asserted patent.¹²⁶ Inexplicably, the technical prong requirement is now relaxed, or arguably even eliminated, when the complainant’s asserted domestic industry is based on licensing activity.¹²⁷ To establish a licensing domestic industry, the complainant need only demonstrate a nexus between the licensing activity and the asserted detail.¹²⁸ The following Part further discusses the analysis involved in establishing a domestic industry through licensing activities.

III. LICENSING AS A DOMESTIC INDUSTRY

As discussed above, after the 1988 Amendments, complainants could demonstrate a protectable domestic industry through their licensing activities. The standard for establishing a licensing domestic industry, however, is different from establishing a manufacturing domestic industry and has changed substantially since the enactment of the 1988 Amendments. The following Section discusses the evolution of the Commission’s technical prong requirement for licensing domestic industries. Then, the next Section discusses the economic prong for establishing a licensing domestic industry.

¹²⁰ See Lasher, *supra* note 8, at 171.

¹²¹ See 19 U.S.C. § 1337(a)(3).

¹²² *Id.* § 1337(a)(3)(A).

¹²³ *Id.* § 1337(a)(3)(B).

¹²⁴ *Id.* § 1337(a)(3)(C).

¹²⁵ Thomas A. Broughan, III, *Modernizing § 337’s Domestic Industry Requirement for the Global Economy*, 19 FED. CIR. B.J. 41, 49 (2009) (“The technical prong is also satisfied if the complainant is actively engaged in the process of establishing a domestic industry.”).

¹²⁶ See *id.*

¹²⁷ See, e.g., Certain Digital Satellite Sys. (DSS) Receivers and Components Thereof, Inv. No. 337-TA-392, USITC Pub. 3418, at 10 (Apr. 2001) (Final Determination).

¹²⁸ See *id.* at 5, 8.

A. *The Technical Prong for Licensing Domestic Industries*

In early investigations where complainants sought to establish a licensing domestic industry, the Commission continued to require the technical prong.¹²⁹ In other words, the Commission required either the complainant or its licensees to practice the patent domestically.¹³⁰ This was hardly surprising. Complainants seeking to establish a manufacturing domestic industry, for example, have always been required to demonstrate that expenditures on equipment and personnel culminated with a domestically produced article covered by the asserted patent.¹³¹ It logically follows that complainants seeking to establish a licensing domestic industry should also be required to demonstrate that expenditures on licensing activities (e.g., licensing professionals, office space, etc.) result in a domestically produced article covered by the asserted patent.

There is no reason that investigations based on a licensing domestic industry should be treated any differently from investigations based on a manufacturing domestic industry. In fact, in 1993, an administrative law judge ("ALJ") summarily rejected a complainant's argument that the existence of a licensing domestic industry did not require the complainant or his licensees to practice the asserted patents.¹³² The ALJ noted that the complainant's argument was made without citation and that it was contrary to the Commission's "long-standing practice" of requiring exploitation of the asserted patent to find a domestic industry.¹³³

For undisclosed reasons, however, the Commission began retreating from its long-held practice of requiring the domestic production of a patented product.¹³⁴ As early as 1997, ALJs found, with little elaboration, that neither the complainant nor its licensees needed to manufacture a product covered by the asserted patent to establish a licensing domestic industry.¹³⁵ This is a significant departure from the

¹²⁹ See *Certain Doxorubicin and Preparations Containing Same*, Inv. No. 337-TA-300, at 137 (Feb. 7, 1991) (Initial Determination) (finding that a domestic industry existed "[a]ssuming complainant's [product] . . . [was] made" under the asserted patent).

¹³⁰ *Id.*

¹³¹ See Lasher, *supra* note 8, at 164.

¹³² *Certain Integrated Circuit Telecomm. Chips and Prods. Containing Same, Including Dialing Apparatus*, Inv. No. 337-TA-337, USITC Pub. 2670, at 99 (Mar. 9, 1993) (Initial Determination).

¹³³ *Id.* at 99 n.87.

¹³⁴ See Lasher, *supra* note 8, at 174-75.

¹³⁵ *Certain Digital Satellite Sys. (DSS) Receivers and Components Thereof*, Inv. No. 337-TA-392, USITC Pub. 3418, at 10 (Oct. 20, 1997) (Initial Determination).

Commission's historical requirement that the domestic industry be both linked to an actual product covered by the asserted patent's claims and manufactured in the United States.

In a string of decisions issued in the early and mid-2000s, the Commission confirmed that complainants with a licensing domestic industry need not satisfy the traditional technical prong of the domestic industry analysis. In *Certain Short-Wavelength Light Emitting Diodes, Laser Diodes and Products Containing Same*,¹³⁶ the Commission stated that “[t]he domestic industry analysis under subsection (c), ‘subsumes within it the technical prong aspect’ and thus, only the economic prong needs to be proven.”¹³⁷ In another case, the Commission found that a complainant may establish a licensing domestic industry without showing that *any* articles that practice a claim of the asserted patents are manufactured in the United States.¹³⁸

Today, a complainant attempting to establish a licensing domestic industry only needs to demonstrate that “there is a sufficient nexus between the patent at issue and the alleged domestic licensing industry.”¹³⁹ No domestically manufactured product is needed. This has made it easier for nonpracticing entities to satisfy the domestic industry requirement than entities that actually manufacture a domestic product because the latter is still required to show that they domestically manufacture an article covered by the patent.¹⁴⁰

B. *The Economic Prong for Licensing Domestic Industries*

The standard for a licensing domestic industry's economic prong has also been significantly lowered since the 1988 Amendments. The Commission and the Federal Circuit recently made clear that *all* types of licensing activities may satisfy the economic prong under section 337(a)(3)(C).¹⁴¹ The Commission noted with respect to the protectable licensing activities:

¹³⁶ *Certain Short-Wavelength Light Emitting Diodes, Laser Diodes and Prods. Containing Same*, Inv. No. 337-TA-640 (June 18, 2008) (Order).

¹³⁷ *Id.* at 18 n.3 (June 18, 2008) (quoting *Certain Light Emitting Diodes and Prods. Containing Same*, Inv. No. 337-TA-512, at 134 (May 10, 2005) (Initial Determination)).

¹³⁸ *See Certain Semiconductor Chips with Minimized Chip Package Size and Prods. Containing Same*, Inv. No. 337-TA-432, at 12 (Jan. 24, 2001) (Initial Determination) (“[A]ctual production of the article in the United States is not required if a complainant has made a substantial investment in licensing the patent (or patents) at issue in an investigation.”).

¹³⁹ *Certain Short-Wavelength Light Emitting Diodes, Laser Diodes and Prods. Containing Same*, Inv. No. 337-TA-640, at 5 (May 8, 2009) (Order).

¹⁴⁰ *See Colleen V. Chien, Protecting Domestic Industries at the ITC*, 28 SANTA CLARA COMPUTER & HIGH TECH L.J. 169, 176 (2011).

¹⁴¹ *See John Mezzalingua Assocs. v. ITC*, 660 F.3d 1322, 1327–31 (Fed. Cir. 2011); *Certain*

The examples mentioned in the legislative history . . . share a common thread; namely, the intellectual property right holder is taking steps to foster propagation or use of the underlying intellectual property [T]hey identify instances in which licensing activities encourage practical applications of the invention or bring the patented technology to the market.¹⁴²

Despite recognizing a distinction between production-driven licensing and revenue-driving licensing, the Commission concluded that the plain language of the statute “does not limit the types of licensing activities that the Commission can consider.”¹⁴³ The Commission ultimately found, and the Federal Circuit affirmed,¹⁴⁴ that revenue-driven licensing is a protectable domestic industry under section 337.¹⁴⁵

The Federal Circuit went one step further in the appeal of *Certain Coaxial Cable Connectors & Components Thereof & Products Containing Same*,¹⁴⁶ styled *John Mezzalingua Associates v. ITC*.¹⁴⁷ There, the Court suggested that when litigation-related expenses are sufficiently tied to licensing the asserted patent, such expenses may be used to satisfy the domestic industry requirement.¹⁴⁸ This further lowered the standards for establishing a licensing domestic industry because it implied that even patent litigation—with no corresponding manufacturing activity—may be evidence of a protectable domestic industry.

Today, nonpracticing complainants engaged in licensing arguably face lower hurdles to obtaining a remedy under section 337 than complainants who actually engage in domestic manufacturing.¹⁴⁹ This result is contrary to the original aims of section 337, a trade remedy designed to protect U.S. industry.¹⁵⁰ Furthermore, this result leads to undesirable outcomes. For example, a domestic manufacturer who

Coaxial Cable Connectors and Components Thereof and Prods. Containing Same, Inv. No. 337-TA-650, at 49 (Apr. 14, 2010) (Commission Opinion).

¹⁴² *Certain Coaxial Cable Connectors and Components Thereof and Prods. Containing Same*, Inv. No. 337-TA-650, at 49 (Apr. 14, 2010) (Commission Opinion).

¹⁴³ *Id.*

¹⁴⁴ *See generally John Mezzalingua Assocs.*, 660 F.3d 1322.

¹⁴⁵ *Certain Coaxial Cable Connectors and Components Thereof and Prods. Containing Same*, Inv. No. 337-TA-650, at 50.

¹⁴⁶ *Certain Coaxial Cable Connectors and Components Thereof and Prods. Containing Same*, Inv. No. 337-TA-650 (Apr. 14, 2010).

¹⁴⁷ *John Mezzalingua Assocs. v. ITC*, 660 F.3d 1322 (Fed. Cir. 2011).

¹⁴⁸ *Id.* at 1328.

¹⁴⁹ *See Chien, supra* note 140, at 176.

¹⁵⁰ *See Lasher, supra* note 8, at 158–59.

holds a patent covering a product that it does not produce cannot satisfy the domestic industry requirement under section 337(a)(3)(A) or (B). However, if that same manufacturer sues or threatens to sue other domestic manufacturers who are still practicing the patent, they may be able to satisfy the domestic industry requirement by establishing a licensing industry under section 337(a)(3)(C). Encouraging lawsuits that impede, rather than promote, technological development hardly seems consistent with the Commission's goals of protecting domestic industry. The proposed amendment, discussed below, seeks to address the current problems with the Commission's lax domestic industry requirement for nonmanufacturing complainants.

IV. THE PROPOSED AMENDMENT

Congress should amend section 337 to require complainants who seek to establish a domestic industry through licensing to demonstrate that the effect or tendency of the importation and sale of the infringing articles is to destroy or substantially injure the domestic licensing industry. The amended statute should mirror the pre-1988 injury requirement.¹⁵¹ Specifically, subsection 337 (a)(3)(C) should be amended to provide that an "industry" exists, "with respect to the articles protected by the patent . . . concerned," where there is

*substantial investment in its exploitation through licensing, and the effect or tendency of the importation of articles into the United States by the owner, importer, consignee, or agent of one of these parties is to destroy or substantially injure the licensing industry in the United States.*¹⁵²

In assessing the injury to a licensing domestic industry, the Commission should specifically look at evidence demonstrating loss of royalties from licensees or potential licensees as a result of the infringing imports. For example, a complainant seeking to establish a licensing industry may be a university or small business without manufacturing capabilities, as envisioned by Congress.¹⁵³ Under the amended statute, the complainant could establish an injury by demonstrating that importation of the infringing articles affects or has affected licensing negotiations and driven down the negotiated royalty rates. A complainant with licensees who manufacture products covered by the patent could also demonstrate injury by showing that the infringing imports reduced sales of the complainant's licensees' products and,

¹⁵¹ See Tariff Act of 1922, ch. 356, § 316(a), 48 Stat. 858, 943 (repealed 1930).

¹⁵² The language in italics represents the amendment.

¹⁵³ 132 CONG. REC. H1784 (daily ed. Apr. 10, 1986) (statement of Rep. Kastenmeier).

thus, reduced the royalties paid to the complainant. In either case, if the demonstrated losses were “substantial,” the complainant would demonstrate a sufficient injury to the complainant’s domestic licensing industry.

The following Sections discuss the rationales behind and benefits of the proposed amendment. The first Section argues that, although such an injury from patent infringement may be presumed when the domestic injury involves manufacturing activity, it cannot be presumed for licensing industries. The second Section discusses how the amendment would ensure that nonpracticing entities do not face lower hurdles in satisfying the domestic industry requirement. Finally, the third Section discusses the potential benefits of the amendment, such as providing greater clarity to section 337.

A. *Injury Cannot Be Presumed for Licensing Industries*

As previously explained, the 1988 Amendments eliminated the injury requirement for investigations where the unfair act alleged is intellectual property infringement.¹⁵⁴ The rationale behind eliminating the requirement was that any infringement of a valid patent necessarily injured the patent holder.¹⁵⁵ This rationale, however, is only reasonable when the patentee is actually engaged in manufacturing a product domestically.

Prior to the 1988 Amendments, complainants were nearly always engaged in production and manufacturing, because the domestic industry requirement referred only to manufacturing activities.¹⁵⁶ When assessing whether there was an injury, the Commission considered factors that were mostly directed toward the effect the imports had on articles that the complainant manufactured.¹⁵⁷ These included the complainant’s evidence of lost profits, loss of market share, and reduced domestic production.¹⁵⁸ Because the infringing articles necessarily competed with the products produced by the domestic complainant, the Commission could logically presume that the infringing imports would result in lost profits, increased competition, and reduced production to the domestic manufacturer.

¹⁵⁴ See *supra* Part II.A.

¹⁵⁵ See *Lasher*, *supra* note 8, at 167 (“Congress believed that the injury requirement made no sense in the intellectual property arena inasmuch as the mere importation of infringing goods into the United States harmed the public interest.”).

¹⁵⁶ *Id.* at 164.

¹⁵⁷ *Certain Rotary Wheel Printing Sys., Inv. No. 337-TA-183*, USITC Pub. 1857, at 260 (May 1986) (Initial Determination).

¹⁵⁸ *Id.*

At the same time that Congress eliminated the injury requirement, however, Congress also broadened the scope of domestic industry to include licensing.¹⁵⁹ Initially, the Commission continued to require complainants seeking to establish a licensing domestic industry to demonstrate the domestic production of an article covered by the asserted patent by the complainant or its licensees.¹⁶⁰ In such cases, the elimination of the injury requirement made sense, as the infringing imports competed with the domestically produced article.

By the mid-1990s, however, the Commission no longer required any domestic manufacturing to establish a licensing domestic industry.¹⁶¹ Today, a licensing domestic industry can exist even where no domestic labor, capital, or equipment has ever been used to produce an article covered by the asserted patent.¹⁶² Because complainants establishing a licensing domestic industry no longer need to show that an article covered by the asserted patent is or was produced in the United States, Congress's rationale in eliminating the injury requirement is hardly convincing. While infringing importers directly compete with domestic manufacturers producing the patented article, there is no analogous competition between the infringing *importers* and nonmanufacturing *licensors*.

When neither the complainant nor its licensees actually produce any article covered by the asserted patent in the United States, importation of the allegedly infringing article may not have any detrimental effect on the industry producing the patented article. There is no industry—i.e., jobs, investments, manufacturing facilities—to protect. In such cases, the only injury would be a violation of the patent holder's intellectual property rights. Such injuries are not redressable under section 337, as the patentee already has a means to rectify such injuries—litigation in the district courts under the patent laws.

The absence of an injury requirement coupled with the relaxed standards for establishing a licensing domestic industry creates a significant problem: complainants are able to seek redress from the ITC despite the fact that there is no domestic injury caused by the infringing imports. The proposed amendment would rectify this problem by requiring nonmanufacturing complainants to demonstrate an injury to their domestic industry of the type that Congress originally enacted

¹⁵⁹ See Lasher, *supra* note 8, at 167–68.

¹⁶⁰ See *supra* Part III.A.

¹⁶¹ See *supra* Part III.A.

¹⁶² See *supra* Part III.A.

section 337 to prevent. This will ensure that section 337 stays true to its purpose of protecting domestic industries, not private patent rights.

B. Nonpracticing Entities Should Face a Higher Standard to Satisfy the Domestic Industry Requirement

Congress should hold complainants who establish a domestic industry through licensing activities to a higher standard than complainants who have a manufacturing- and production-based domestic industry. However, the opposite is currently true.¹⁶³ Complainants seeking to establish a licensing domestic industry arguably face fewer hurdles than those establishing a domestic industry through traditional manufacturing and production activities.¹⁶⁴ The proposed amendment would therefore heighten the standard for complainants seeking to establish a licensing domestic industry.

Today, complainants seeking to establish a manufacturing domestic industry under section 337(a)(3)(A) and (B) must satisfy the technical prong of the domestic industry requirement and prove that a domestically manufactured article exists.¹⁶⁵ This ensures that the complainant's alleged domestic industry is tied to the asserted patent and would be harmed by imports that infringe the patent.

Complainants seeking to establish a licensing domestic industry under section 337(a)(3)(C), however, have no such requirement.¹⁶⁶ Instead, they only need to establish a nexus between the asserted patent and licensing activities.¹⁶⁷ Under existing law, no domestically produced article covered by the asserted patent is necessary to establish a licensing domestic industry.¹⁶⁸ Moreover, the economic prong for licensing domestic industries has been defined so broadly that the revenue-driven licensing models that nonpracticing entities follow now constitute a protectable domestic industry.¹⁶⁹

Nonpracticing entities were not the types of entities that the drafters of the 1988 Amendments intended to protect by allowing licensing to establish a domestic industry.¹⁷⁰ Section 337 was historically intended to protect domestic industries, not to protect

¹⁶³ See Chien, *supra* note 140, at 176.

¹⁶⁴ See *id.*

¹⁶⁵ *Id.*

¹⁶⁶ *Id.*

¹⁶⁷ See Certain Short-Wavelength Light Emitting Diodes, Laser Diodes and Prods. Containing Same, Inv. No. 337-TA-640, at 5 (May 8, 2009) (Initial Determination).

¹⁶⁸ See Chien, *supra* note 140, at 176.

¹⁶⁹ See *supra* Part III.B.

¹⁷⁰ See H.R. Rep. No. 100-40, pt. 1, at 157 (1987).

unnecessary hold-up litigation and licensing activities that neither produce nor promote the development of technology within the United States.¹⁷¹ Thus, it is inexplicable that nonpracticing entities face lower standards to access the Commission than entities engaged in utilizing domestic labor, capital, and equipment to produce products.

Requiring proof of injury compensates for eliminating a link between the asserted patent and a domestically manufactured product by requiring a link between the asserted patent and an injury to the domestic industry. The proposed amendment would ensure that complainants seeking to establish a licensing injury face a higher, rather than lower, standard for establishing a protectable domestic industry.

C. *An Injury Requirement Will Further Benefit Section 337 Investigations*

The proposed amendment would provide other benefits to section 337 investigations.¹⁷² For example, the amendment would increase clarity with regard to when a complainant may seek a remedy before the ITC when the asserted patent is one of many in a portfolio.¹⁷³ The amendment would also reduce the risk that an exclusion order will cause domestic consumers to lose access to certain technologies that are only available via the imported products.¹⁷⁴

To establish a licensing domestic industry, a licensee must demonstrate a nexus between the asserted patent and the complainant's licensing activities.¹⁷⁵ This is complicated when the asserted patent is part of a patent portfolio. If the complainant's domestic activities are minimally related to licensing the asserted patent, the Commission will analyze the strength of the nexus between the complainant's activities and licensing the asserted patent.¹⁷⁶ The strength of the nexus is dependent on various factors, including "(1) the number of patents

¹⁷¹ Brief of Amici Curiae Verizon Communications Inc. & Google Inc. in Support of Neither Party & Supporting Affirmance at 2, *John Mezzalingua Assocs., Inc. v. ITC*, 660 F.3d 1322 (Fed. Cir. 2011).

¹⁷² These benefits are similar to the benefits proposed by Professor Chien. *Id.* at 184–85. Professor Chien's article suggests that the Commission consistently apply the technical prong requirement to both manufacturing and nonmanufacturing complainants. *Id.* at 184. Although this is a possible solution to the problem of nonpracticing entities seeking relief from the ITC, this Essay does not address the merits of that approach.

¹⁷³ See Chien, *supra* note 140, at 184–85.

¹⁷⁴ See *id.* at 185.

¹⁷⁵ See *supra* Part III.A.

¹⁷⁶ *Multimedia Display and Navigation Devices and Sys., Components Thereof, and Prods. Containing Same*, Inv. No. 337-TA-694, USITC Pub. 4292, at 8–13 (2011) (Commission Opinion).

in the portfolio, (2) the relative value contributed by the asserted patent to the portfolio, [and] (3) the prominence of the asserted patent in licensing discussions.”¹⁷⁷ There is, however, no statutory standard to determine and assess a nexus’s strength.¹⁷⁸

The proposed amendment would decrease the ambiguity associated with portfolio licensing. The rationale of requiring a nexus is to ensure that the asserted patent is actually associated with the complainant’s domestic industry when there are multiple patents within a portfolio.¹⁷⁹ The proposed amendment would ensure the existence of a nexus, because if the complainant can prove that the infringing imports injured his licensing industry, then the asserted patent must be substantially connected to the domestic industry.

For example, if the asserted patent were merely a minor patent in a portfolio consisting of thousands of patents, articles infringing that patent would likely not affect negotiated royalty rates or payments significantly, because negotiations will center on unasserted patents. On the other hand, if the asserted patent were the dominant patent in the portfolio, imports that infringe the patent would likely have a significant effect on the negotiations, because prospective licensees may be less inclined to pay significant royalties for critical patents that are subject to significant infringement from foreign entities. Accordingly, the infringing imports injure the complainant’s licensing activities when the infringed patent is a critical patent in the licensed portfolio. Focusing on whether the complainant can demonstrate an injury provides greater clarity than attempting to assess the “strength” of a nexus.

The injury requirement would also ensure that U.S. consumers do not lose access to important technologies.¹⁸⁰ Currently, complainants who engage in licensing may obtain an exclusion order against an infringing article, even if articles covered by the asserted patent are not manufactured in the United States.¹⁸¹ In such circumstances, an exclusion order would cut off all sources of the technology to domestic consumers, because the technology is only available from foreign manufacturers.

¹⁷⁷ *Id.* at 10.

¹⁷⁸ *See* Chien, *supra* note 140, at 184–85.

¹⁷⁹ *See id.* at 183.

¹⁸⁰ *See id.* at 185 (noting that the current application of the domestic industry standard carries a “risk that the US will lose access to technology through exclusion orders”).

¹⁸¹ *See id.* at 185–86.

The Commission has recognized that disruptions to the domestic market may preclude an exclusion order.¹⁸² In the only three cases where the Commission declined to issue an exclusion order on public interest grounds,¹⁸³ the Commission was concerned that domestic supply would be unable to meet consumer demand.¹⁸⁴ Reintroducing the injury requirement would prevent exclusion orders from disrupting the domestic markets.

For example, the nonpracticing entity complainant would have to demonstrate a substantial injury to his licensing activities by showing that the infringing articles negatively affect royalty rates and payments. It follows that such rates and payments would only be affected if the complainant's licensing activities result in domestically manufactured products that compete with the infringing articles. In such cases, the Commission's award of an exclusion order would not prevent consumers from obtaining the technology, because there would be a domestically manufactured alternative to the infringing articles.

On the other hand, if a complainant were unable to prove that his royalty rates and payments were negatively affected by the infringing imports, the existence of a domestically manufactured alternative would be unlikely. Accordingly, the technology would only be available to consumers via the infringing imports. An exclusion order would therefore disrupt the domestic markets by denying consumers access to the technology. Thus, the proposed amendment would ensure that exclusion orders do not block access to technology for U.S. consumers.

CONCLUSION

The current state of the law enables nonpracticing entities to establish a domestic industry without even linking the asserted patent to a product produced domestically. Moreover, nonpracticing entities establishing a licensing industry face arguably lower hurdles than manufacturers seeking to establish a production-based domestic industry. Such a result is inconsistent with section 337's basis as a trade remedy designed to protect U.S. industry. Licensees engaged only in licensing should be held to more stringent standards in establishing a protectable domestic industry.

Although Congress previously eliminated the injury requirement by reasoning that injury can be presumed for patent infringement, this

¹⁸² See *id.* at 185.

¹⁸³ Broughan, *supra* note 125, at 71.

¹⁸⁴ See Chien, *supra* note 140, at 185.

rationale only applies with respect to domestic manufacturing industries. Allowing complainants to establish a domestic licensing industry without proving injury is inconsistent with section 337's aim of protecting domestic industry. For the reasons stated above, Congress should amend section 337 to require complainants seeking to establish a licensing domestic industry to demonstrate a substantial injury to their licensing industry.