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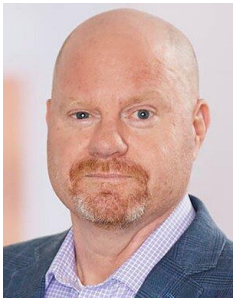
Stats Show Lack Of Risk In ITC's Domestic Industry Approach

By **Michael Renaud and Jonathan Engler** (March 8, 2022, 4:43 PM EST)



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The U.S. International Trade Commission has long been one of the world's most important intellectual property litigation fora. Few courts in the world can compete with the ITC's combination of rapid adjudication — investigations are typically resolved within 18 months — and powerful injunction-like remedies.

The importance of the U.S. market to global technology companies, and global supply chains, means that the ITC's importation-based jurisdiction can be invoked for many disputes involving U.S. patents and trademarks.

Nevertheless, one substantive ITC legal issue often raises concerns for would-be patent holders and complainants: the statutory economic prong domestic industry requirement.

A perception has emerged recently that this requirement can be hard to satisfy and that the commission is becoming more stringent. This perception is wrong. Unambiguous data show that there is no growing risk that ITC complainants will be unable to meet the domestic industry requirement.

By way of background, the ITC's domestic industry requirement, under Section 337 of the Tariff Act, has two prongs. A complainant must show that it offers for sale in the U.S. an article that practices a claim of the asserted intellectual property — essentially, that the complainant or its U.S. licensee infringes the asserted patent or patents. This is known as the technical prong.

The complainant must also satisfy the so-called economic prong of the domestic industry requirement, our focus here. This analysis asks whether the complainant or its U.S. licensee has significant or substantial U.S. economic activities, with respect to the protected articles, beyond those of a mere importer. Complainants can satisfy this requirement through, inter alia, U.S. manufacturing, research and development, technical support, and other U.S.-based activities. Both prongs must be met for the commission to order relief.

A review of ITC investigations going back to 2019 shows that the commission has found, and continues to find, the economic prong of the domestic industry requirement met in the overwhelming majority of cases.

For example, as of this writing, the commission so far in 2022 has found the economic prong of the domestic industry requirement to have been met in every single investigation in which it reached a final determination and addressed the issue on the merits.[1]

And 2022 is no outlier. In 2021, the commission found the economic prong of the domestic industry requirement satisfied in 94% of all patent-based investigations that reached the issue on the merits.

In only one patent-based investigation — Certain Smart Thermostats, Smart HVAC Systems, and Components Thereof,[2] brought by EcoFactor Inc. — did the commission find no violation because the economic prong was not satisfied. In the four 2021 patent-based investigations in which the commission found no violation, the outcome was based on noninfringement and invalidity — and the commission declined to reach the economic domestic industry issue.[3]

Similarly, in 2020, the commission found the economic prong requirement to have been met in a remarkable 100% of all statutory IP investigations in which the economic prong issue was addressed on the merits. In each of the 2020 investigations in which the commission found no violation, it was based on noninfringement or invalidity and did not reach the domestic industry issues.

The numbers were similar in 2019 — the commission found the economic prong of the domestic industry requirement satisfied in 87% of patent cases in which it reached the domestic industry issue on the merits. In the 2019 investigations in which the commission found no violation, it was based in noninfringement or invalidity and did not reach the economic domestic industry issue.

In short, the data for the past three years show that the commission is finding the economic domestic industry requirement to have been met in almost every investigation that reaches the issue. The picture that emerges is one of continuity and stability. The commission remains highly supportive of complainants that show significant investments in activities that encourage U.S. innovation by patent holders or their licensees.

A case in point is the commission's January opinion in Certain Percussive Massage Devices.[4] There, the commission affirmed the ALJ's finding that complainant Hyper Ice Inc. proved it had significant domestic industry investments in labor, where the domestic industry devices were made by an Asian contract manufacturer. Hyper Ice is a U.S.-based company that designs and develops massage electronics in the U.S.

The commission affirmed the administrative law judge's initial determination the domestic industry requirement was met but took the unusual step of writing its own opinion, amplifying and elaborating on the ALJ's supportive findings.

The commission majority did not join the dissenting analysis of ITC Commissioner Jason Kearns, who argued that:

> the domestic industry product has been manufactured in China (through a contract manufacturer), and most of Complainant's domestic activities at the time of the filing of the complaint, such as supply chain and operation management for foreign manufacturing, sales, marketing, and customer service, do not appear distinguishable from those of a mere importer.[5]

Instead, the commission majority found that Hyper Ice satisfied the economic prong requirement based on the company's historical product development investments and recent employee growth, including

sales and marketing professionals.[6]

The commission opinion in the 1206 Investigation is consistent with other cases in which the commission opened the economic prong door even wider than did the ALJ.

For example, in the 2018 Certain Solid State Drives[7] decision, the ALJ found — in a disputed accelerated 100-day proceeding focused on the economic prong — that the nonpracticing entity complainant, BitMicro LLC, met the economic domestic industry requirement based on the activities of its small U.S. licensee. The commission, as in the 1206 investigation, substantially broadened the ALJ's basis for finding economic domestic industry, expanding the types of expenses that constitute qualifying research and development investments.

Given this backdrop, why might potential ITC complainants misperceive increased risk at the ITC when it comes to the economic domestic industry issue? Three possible explanations emerge, based on our experience as ITC practitioners for both complainants and respondents.

First, the economic prong domestic industry issue is now often hotly litigated, in contrast to 10 years ago, when parties commonly stipulated to the existence of a domestic industry or filed unopposed summary determination motions.

This may be because domestic industry is one of the few issues where an ITC respondent can take the fight to the complainant's side of the field. Domestic industry discovery involves the domestic industry's finances, operations and personnel in a way that infringement and invalidity do not.[8]

Second, following from the first point, expert witnesses are now commonly used to address the economic prong issue. Only a few years ago it was not uncommon for a complainant to put in its economic case directly through financial statements and direct witness testimony. Today, such homemade domestic industry presentations have become the exception.[9] The ALJs in their initial determinations, accordingly, are now forced to address ever-more detailed arguments offered by expert witnesses on both sides.

All this heat, however, is generating little light. The data show that the likelihood that the commission will find the economic prong met remains very high.

A third factor that may contribute to unjustified unease by would-be complainants is the role of the ITC's procedures, which may be unfamiliar to those more familiar with U.S. district court.

The relationship between the ALJ and the commission is particularly poorly understood. The role of the ALJ in an ITC Section 337 investigation — consistent with the Administrative Procedure Act — is to make highly detailed factual and legal findings on all issues argued by the parties.

The ALJ then issues an initial determination to the commission — basically, a highly detailed recommendation. The ALJ creates a complete record to allow the commission — the ultimate arbiter — to make a final determination on the factual and legal merits. The commission is the final decision maker and owes the ALJ no deference.[10] Commission rubber stamps of ALJ final initial determinations are rare.

Nevertheless, most time spent by counsel in ITC investigations is before the ALJ, with little or no contact with the commission. This creates cognitive dissonance, aggravated by the sometimes inconsistent

approaches of the ALJs to the economic domestic industry requirement.

Also, the commission rarely holds hearings in Section 337 investigations, normally making its final determinations on the papers, aided by the ITC office of general counsel. This last, decisive phase of ITC investigations in far less public and therefore may be underappreciated.

Once the fog of war clears, however, the data are clear: At the decisive commission level, the ITC has been very consistent in its approach to the economic domestic industry requirement. The commission continues to find the economic prong satisfied in the overwhelming majority of Section 337 investigations.

The key for complainants is to remember that the commission's economic prong domestic industry determination, while quantitative in nature, is not simply a matter of accounting. A well-pled domestic industry case will explain to the commission in clear terms why the claimed economic activities are significant and add value in the U.S.

The commission knows that many innovative U.S. companies — large and small — often do not make their products in the U.S. The commission consistently recognizes that Congress intended Section 337 to protect and incentivize U.S. innovation and creativity irrespective of where the domestic industry products are made.

When considering whether to bring a case to the ITC, there is no basis on which to view the commission's economic prong domestic industry test as creating significant additional litigation risk. ITC investigations, like district court cases, are almost always won or lost on the issues of infringement and invalidity.

The considerable advantages ITC litigation holds for complainants remain, including powerful exclusion and cease and desist orders, speed, and the high percentage of investigations that make it to trial compared to district court.[11]

In the final analysis, the numbers speak for themselves. It is very rare for the commission to arrive at a finding of no violation based on an adverse economic domestic industry finding. The commission's approach to the economic prong of the domestic industry requirement remains consistently favorable to ITC complainants.

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Disclosure: In his former role at Adduci Mastriani and Schaumberg LLP, Engler represented the complainant in the 2018 Certain Solid State Drives litigation.

[1] This means through a final determination of violation, whether with a written commission opinion,

adoption of the ALJ's initial determination, or default. The commission found no violation in Certain Electronic Stud Finders, Metal Detectors, And Electrical Scanners; Inv. No. 337-TA-1221, in a confidential opinion that issued on February 15, 2022. No public opinion had issued as of this writing. It is not yet clear from public documents whether the commission reached the economic domestic industry issue.

[2] Inv. No. 337-TA-1185.

[3] Including nonpatent investigations — in which the economic prong requirement is different and, unlike statutory IP cases, includes an injury requirement — the commission's affirmative rate for economic domestic industry in 2021 was 83% percent overall.

[4] Certain Percussive Massage Devices, Inv. No. 337-TA-1206 (Comm'n Op.) (Jan. 4, 2022).

[5] Id. at footnote 10.

[6] Id at 14. ("In addition to product design, Hyperice's domestic workforce is engaged in, inter alia, 'engineering, supply chain and operation management, sales, marketing, warranty, customer service, executive, intellectual property protection, and other business operations' in support of the DI Products.").

[7] Certain Solid State Drives, Inv. No. 337-TA-1097.

[8] This pressure can be largely neutralized by careful prefiling preparation in many cases.

[9] Many small ITC complainants, it must be noted, still consistently and successfully manage to put in their domestic industry cases without the use of expert witnesses. The recent 1206 Hyper Ice investigation, discussed above, and WAC Lighting, Inc. in Certain LED Landscape Lighting Devices and Components Thereof, 337-TA-1261 (date), both successfully obtained exclusion orders in 2022 without relying on expert witnesses.

[10] The commission, for its part, must defend its own Final Determinations before the U.S. Court of Appeals for the Federal Circuit: All commission determinations must be supported by substantial evidence and in accordance with law.

[11] Moreover, the ITC's very high affirmance rate at the Federal Circuit in Section 337 investigations must be viewed in the context of recent Federal Circuit decisions — including the recent decision to throw out the California Institute of Technology's billion-dollar patent damages award against Apple Inc. and Broadcom Inc. — that are making it very difficult for patent owners to make damages awards "stick" in district court cases.