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DOMESTIC INDUSTRY

Recent Developments and Practical Analysis

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OVERVIEW – THE DOMESTIC INDUSTRY STANDARD IN IP-BASED INVESTIGATIONS

- **Section 337 is a trade statute – protecting U.S. industries through exclusion of unfair imports**
  - Prior to 1988, required a showing that infringing imports caused injury to the domestic industry
  - After 1988, harm presumed from infringement
- **Two facets to the DI Requirement:**
  - Technical prong – a licensed domestic industry article that practices the asserted IP
  - Economic prong – sufficient economic activities or investments related to the domestic industry articles
- **"Industry" includes licensees and contractors**

SECTION 337 – DOMESTIC INDUSTRY REQUIREMENT

19 U.S.C. §1337(a)(3)

[A]n industry in the United States shall be considered to exist if there is in the United States, with respect to the articles protected by the patent, copyright, trademark, mask work or design concerned –

(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.

(emphasis added)

TECHNICAL PRONG'S "ARTICLE" REQUIREMENT – APPLICATION TO LICENSING

- **Historically, ITC excepted DI based on "licensing" from technical prong requirement**
- ***Certain Computers and Computer Peripheral Devices*, Inv. No. 337-TA-841 (Jan. 9, 2014)**
  - Commission ended this exception
  - *InterDigital v. ITC*, 707 F.3d 1295 (Fed. Cir. Jan. 10, 2013) and *Microsoft v. ITC*, 731 F.3d 1354 (Fed. Cir. Oct. 3, 2013) read as requiring showing of technical prong for all DI based on subparagraph C (exploitation through "engineering, research and development, or licensing")

TECHNICAL PRONG'S "ARTICLE" REQUIREMENT – APPLICATION TO LICENSING

- ***Certain Computers and Computer Peripheral Devices*, Inv. No. 337-TA-841 (Jan. 9, 2014) (cont'd)**
  - Commission rejected Respondents' further argument that licensing DI must be "production-driven" (i.e., licensing before rather than after product release)
  - Commissioner Aranoff dissented from holding of requirement of "article" for DI based on licensing.
  - Final determination not appealed by complainant

TECHNICAL PRONG'S "ARTICLE" REQUIREMENT – PRACTICE OF AN INVALID CLAIM

- ***Certain Soft-Edged Trampolines,* Inv. No. 337-TA-908, Comm'n Op. (May 1, 2015)**
  - ID found the DI products practiced claim 13, but further found claim 13 invalid; therefore, concluded that the technical prong requirement was not met
  - Commission *sua sponte* reversed the ID's finding that technical prong not met because based on practice of an invalid claim
  - Appears inconsistent with Commission opinion in *Certain Microprocessors,* Inv. No. 337-TA-781, Comm'n Op. at 20 (Mar. 4, 2013) ("we affirm the ALJ' s threshold determination that it was appropriate to examine whether the domestic industry patent claims are valid where challenged")

REQUIREMENT FOR "NEXUS" OF INVESTMENTS TO ASSERTED PATENT

- ***Certain Integrated Circuit Chips and Products Containing the Same*, Inv. No. 337-TA-859, Comm'n Op. (Aug. 22, 2014)**
  - Holding: "exploitation" under subparagraph C requires showing of a nexus between subparagraph C activities (R&D, engineering, and licensing) to the claims of the asserted patent, not just to the DI article
  - Finding: Complainant's R&D related to chip design not sufficiently related to the patented bond-pad technology

REQUIREMENT FOR "NEXUS" OF INVESTMENTS TO ASSERTED PATENT

- ***Certain Integrated Circuit Chips,* Inv. No. 337-TA-859, Comm'n Op. (Aug. 22, 2014) (cont'd)**
  - Distinguished prior cases which presumed a sufficient nexus to the asserted patent if the R&D related to some aspect of the article practicing the patent
  - Emphasized that its decision did not change the analysis under subparagraphs A or B
  - Because complainant had abandoned any claim of a domestic industry under subparagraphs A or B, Commission did not address them

REQUIREMENT FOR "NEXUS" OF INVESTMENTS TO ASSERTED PATENT

- ***Certain Electronic Imaging Devices*, Inv. No. 337-TA-850, Comm'n Op. (Apr. 2, 2014)**
  - Recognized R&D activities as qualifying under subparagraph B (employment of labor), which only requires nexus to the article
- ***Certain Optoelectronic Devices*, Inv. No. 337-TA-860, Comm'n Op. (May 9, 2014)**
  - Requested briefing on whether R&D activities can be analyzed under subparagraphs A and B as well as C
  - Upheld finding of DI under subparagraph C; therefore, declined to reach the issue of alternative analysis

STANDARD FOR DETERMINING WHETHER THE INVESTMENT IS "SIGNIFICANT"

- ***Certain Kinesiotherapy Devices*, Inv. No. 337-TA-823, Comm'n Op. (July 12, 2013)**
  - Upheld domestic industry based on U.S. expenditures for components and materials used in article assembled overseas
    - Not required that components "be developed or produced specifically for the domestic industry products."
    - Not required that expenditures be linked to specific statutory categories (e.g., investment in plant and equipment)
  - Upheld expenditures as "qualitatively" significant, even though components accounted for less than 5% of product cost

STANDARD FOR DETERMINING WHETHER THE INVESTMENT IS "SIGNIFICANT"

- ***LELO v. ITC,* Slip Op. (Fed. Cir. May 11, 2015) (appeal from *Kinesiotherapy Devices*)**
  - Reverses Commission's finding of significance of investments based solely on qualitative importance of components
  - Holds that "plain text" of Section 337 requires quantitative analysis of amount of investment or employment under subparagraphs (A) and (B)
  - Suggests need for further scrutiny of suppliers' U.S. activities where complainant relies on expenditures for components

STANDARD FOR DETERMINING WHETHER THE INVESTMENT IS "SIGNIFICANT"

- ***Certain Soft-Edged Trampolines,* Inv. No. 337-TA-908, ID (Dec. 5, 2014), *aff'd*, Comm'n Op. (May 1, 2015)**
  - ID rejected complainant's claim that installation services were qualitatively significant because critical to safety
  - ID also rejected claimed amount of labor and plant and equipment as quantitatively significant
    - Cited lack of explanation why the amount was significant
  - Commission affirmed the ID's analysis, including complainant's failure to establish "the significance of the amount of its investment in terms of this industry or in general"

TRENDS IN DOMESTIC INDUSTRY DEVELOPMENTS UNDER SECTION 337

- **Background: some sectors seeking to curb infringement actions brought by Non-Practicing Entities (NPEs)**
  - Legislation proposed in 2013 to limit ability of NPEs to file complaints in district courts or in ITC
- **ITC provided statistical analysis of NPE share of Section 337 activity**
  - ITC's collection of statistics on NPEs and PAEs, through December 2013 (posted June 2014): http://www.usitc.gov/press_room/documents/featured_news/337facts2014.pdf

TRENDS IN DOMESTIC INDUSTRY DEVELOPMENTS UNDER SECTION 337

- **Domestic industry allegations increasingly subject to challenge by respondents**
- **Trend toward tightening of domestic industry requirements by the ITC**
  - Extension of "article" requirement to domestic industry based on licensing
  - Requiring demonstration of a nexus between R&D activities under subparagraph C and asserted patents
  - Increasingly complicated standard for qualifying licensing activities as sufficient under Section 337

TRENDS IN DOMESTIC INDUSTRY DEVELOPMENTS UNDER SECTION 337

- **Yet Commission has rejected arguments for further restricting qualifying domestic industry activities**
  - In *Certain Multimedia Display and Navigation Devices,* Inv. No. 337-TA-694 (Aug. 8, 2011), the Commission recognized "revenue-driven" licensing as qualifying under the statute, but suggested it be given "less weight"
  - In *Certain Optical Disk Drives*, Inv. No. 337-TA-897 (Sept. 3, 2014), the Commission rejected two limitations:
    - That an NPE could rely only on its own licensing activities, and not on the activities of its licensees
    - That "revenue-driven" licensing should preclude the NPE's reliance on its licensees' activities