BASICS OF PATENT, TRADEMARK AND COPYRIGHT PROCEEDINGS BEFORE THE INTERNATIONAL TRADE COMMISSION (ITC)

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Overview

First we will provide a description of the ITC proceedings and how it places defendants at a disadvantage.

Then we will provide a summary of strategies for companies who are sued there. We will describe in detail how to structure defenses to achieve the desired business objective.

Lastly, we will describe the types of orders that may arise.

Jurisdiction – Subject Matter

"Unfair methods of competition and unfair acts in the importation of articles"

19 U.S.C.A. § 1337

ITC Proceedings

- Rapid proceeding with certainty of schedule
- Can effectively reach foreign defendants and multiple defendants in one proceeding
- Broad effective discovery including foreign discovery
- No Damages – but the various orders the ITC can issue give the plaintiff effective leverage for settlement, licensing and market share
- No Jury – but very experienced patent judges
- Requires showing of importation and domestic industry
- ITC may be more likely to grant Preliminary Injunction (PI) than a U.S. Federal District Court

Examples of Unfair Acts

- Infringements of patents, trademarks, copyrights
- Passing Off
- Misappropriation of trade secrets
- False Labeling
- False Advertising
- Antitrust Violations, *e.g.,* predatory pricing, monopolization

There Are Always Three Parties at the ITC

Complainant

Respondent

Office of Unfair Import Investigations (OUII)

The OUII
Has Patent Attorneys – are frequently Pro-Patent

Defendant at ITC

A well prepared plaintiff's case places defendant(s) immediately at a disadvantage for Preliminary Injunction (PI) or Temporary Exclusionary Order; experts claim construction

THERE ARE ESSENTIALLY 3 SEPARATE PHASES FOR THE ITC § 337 ACTION:

Phase 1: Before the Administrative Law Judge (ALJ)

Phase 2: Before the Commission

Phase 3: Before the President of the United States

PHASE 1: ADMINISTRATIVE LAW JUDGE

- Discovery Period: 3 Months on Average
- Briefing and Trial
- Fast Pace
- Motion Practice
  - Motion to Compel
  - Motion for Summary Determination

PHASE 2: COMMISSION

- Overall Short Phase: 2 Months
- Upon receiving the Initial Determination(ID) from the ALJ, the Commission can review the ID and must make a final determination of violation of Section 337, Remedy and Public Interest
- Parties can submit their views to the Commission on the merits of the ALJ's ID, Remedy and Public Interest
- Hearing
- The Commission has a lot of discretion

PHASE 3: THE PRESIDENT

The U.S. President can overturn the Commission's Ruling.

Rarely occurs.

So at completion of case, decision is sent to the President.

1. SECTION 337 IS A MEANS TO RESTRICT IMPORTS INTO THE U.S.

2. IMPORTS ARE INCREASINGLY OF THE VALUE ADDED TYPE, INCORPORATING MORE SOPHISTICATED TECHNOLOGY THAT MAY BE PROTECTED BY EXISTING U.S. IP RIGHTS.

3. SECTION 337 ACTIONS ARE RELATIVELY EASY TO USE, PUT THE DEFENDANT AT A DISADVANTAGE, AND RESULT IN A TOTAL BAN OF THE IMPORTS CONCERNED INTO THE U.S. FOR THE DURATION OF THE IP RIGHT.

UNITED STATES INTERNATIONAL TRADE COMMISSION
ITC PROCEDURAL EVENTS
(12-15 MONTHS)

Complaint Filing
↓
30 Days
Institution of Investigation
Service of Complaint by Mail
↓
20 Days – after service
↓
Answer Due
↓
Preliminary Conference
↓
45 Days – after Institution
↓
Target Date Set
↓
Discovery – Oral and Written
↓
Approximately 6 Months

Pretrial Conference
↓
Hearing (1-2 weeks)
↓
3 months
↓
Initial Determination
(target date)
↓
60 Days – Presidential Review Period
↓
Final Determination
↓
Final Determination Becomes Final if not Disapproved

The Complaint looks like a set of preliminary injunction papers

It is a speaking complaint with required parts and supporting declarations showing *prima facie* tort

Once filed it sits there for at least 30 days with nothing more that the Complainant can do.

Institution of the investigation should be assumed.

Service is by regular mail.

Answer is due in 20 days from service.

For the Defendant the 50 days from filing to when the answer is due is critical.

In that time period you must:

Obtain experienced ITC counsel who will Evaluate the Complainant's Papers

As soon as the Complaint has been filed, you must decide on your business strategy –

(a) Defend and Fight to Win;

(b)Prepare defenses to allow you the time to design around and/or settlement or license on favorable terms; or

(c) Fold/Default, but be aware of the legal effect and consequences.

If (a) or (b), then you must develop affirmative defenses quickly.

What Business Strategy is Best For Your Company

If large market, good profits and patent is attackable, fight to win.

If small market and/or profit, position yourself to default by not answering. This will result in a default order excluding your products from importation.
If you see a business opportunity to make money, look to a) design around or b) mount a vigorous defense which can cause the patentee to settle with you on terms favorable to your company.

Good Defenses

a) non-infringement either of product or second generation design around

b) Patent invalidity

c) Lack of a Domestic Industry

Let's Look at these Defenses in More Detail

- **Non-infringement of product or process requires that the patent claims must be interpreted so that you have a strong argument that there is neither literal nor Doctrine of Equivalence infringement for existing product or process or if not possible, for a design around product or process, if possible; you will need a scientific expert to testify.**

- **Patent Invalidity – This defense requires finding new prior art which was not considered by the USPTO when it issued the patent; this can be patents and/or publications; two other grounds of invalidity are lack of written description or lack of enablement for full scope of claim(s) of patent asserted (35 U.S.C. § 112); you will need a scientific expert – may be the same or different than the one on non-infringement.**

Let's Look at these in More Detail

- **Lack of written description means there is no description in the specification of the alleged invention in the same scope as the claims.**

- **Lack of enablement means that one of ordinary skill in the technical area of the patent could not practice the full scope of claim(s) without undue experimentation.**

- **Lack of Domestic Industry – No U.S. domestic industry in the subject matter of the patent claim(s) asserted.**

Domestic Industry is defined as "an industry in the United States relating to the articles protected by the patent . . . concerned, [that] exists or is in the process of being established." 19 USC § 1337

The domestic industry requirement of Section 337 is interpreted as having two prongs: (1) technical and (2) economic.

The domestic industry requirement does not require that there exists a "*bona fide*" U.S. industry producing the articles subject to the complaint in the United States.

(1) In a patent based case, the technical prong requires that the complainant or one of its licensees practice at least one claim of the asserted patent (which may not even be the one asserted against the defendant).

(2) The economic prong is satisfied if one of the three economic criteria is met: significant investment in plant and equipment; significant employment of labor or capital; or substantial investment in exploitation of the patent.

Concretely, the domestic industry requirement does not require much to be satisfied:

1. Even if all products subject to the asserted patent are made overseas, investments and activities in the United States related to exploiting the patent are sufficient for a finding of domestic industry. The activities can include: engineering and developing of the patent, design-related assistance, and information provided to the U.S. companies that allowed them to practice the patents.

2. Licensing activities alone may be sufficient to satisfy the economic prong, but they must be specifically related to the patent at issue.

3. In case of multiple patents, the economic prong may be analyzed on a patent-by-patent basis and thus separate domestic industries may be defined for each patent.

The domestic activities must be sufficient to satisfy the economic prong.

The "sufficiency" of the domestic activities is analyzed on a case-by-case basis.

(1) **When a complainant manufactures a product partly in the United States and partly overseas, the "sufficiency" of the domestic activities is assessed by comparing the relative importance of such activities to total activities conducted in connection with the product.**

(2) **In the comparative analysis approach, only the activities of the U.S. complainant and of its related overseas companies are considered.**

(3) **The comparative analysis approach does not apply to activities conducted in the United States in exploitation of the patent.**

So we looked at various defenses. Now let's look at some levels of participation at the ITC.

Limited Participation

- In some cases, the plaintiff expects the defendant to give up early. Plaintiff's strategy may be based on such an expectation particularly with respect to medium-sized or smaller companies.
- Limited participation can serve two useful purposes:
  - Test the merits of the Plaintiff's case; and
  - Seek a settlement on more favorable terms.

- **Limited participation involves going through the discovery period (3-4 months) during which evidence supporting the defenses can be put forward and weaknesses in the complainant's case can be uncovered.**

- **At the end of, or during the discovery period, the defendant can improve its position by filing motions for summary determination.**

- **Not all issues can be successfully addressed by such motions. The most likely to prevail include jurisdictional issues (no importation of accused products) and issues relating to the validity of the patents on prior art ground.**

- **The timing of a successful settlement depends upon how quickly discovery can be conducted on issues highlighting the weakness(es) of the plaintiff's case.**

- **Limited participation may be a successful strategy if the goal is to seek a settlement or license on more favorable terms than an exclusion order.**

Full Participation

- The discovery period is an important phase of a Section 337 because it is very limited in time and intensive.
- It is important for a defendant to shift momentum during the discovery period by aggressively seeking and defending discovery.
- A Section 337 investigation requires the parties to limit themselves to their essential claims or defenses. There is very little time for "fishing expeditions"

- **This means that a defendant must assess very quickly the strength and weakness of plaintiff's claim.**

- **The defendant must concentrate on a few good defenses that can win the case.**

- **A defendant is at a disadvantage when the case starts because plaintiff will have prepared discovery requests even before the case is initiated and mapped out a strategy. As a result, the first two months are essential for a defendant to shift momentum or simply to catch up.**

- **That is why selection of ITC counsel and retention of experts as soon as possible is crucial.**

What the Plaintiff Patentee May Obtain from the ITC in a Section 337 Action

There are only three types of remedies available in a 337 Action:

1. Limited Exclusion Order
2. General Exclusion Order
3. Cease and Desist Order

There are no other remedies available under Section 337.

Limited Exclusion Order

- A limited exclusion order is applicable only against the infringing products of the respondent found to be in violation of Section 337.
- An exclusion order bars the importation of the infringing products into the United States for the duration of the patent or of the IP right.
- This ban applies not only to the products which exist at the time of the investigation, but to all future products and/or models that are covered by the same patent processes or IP rights.

Limited Exclusion Order

- The exclusion order is enforced by the Customs Service at the border, that can seize all infringing goods described in the order.

- An exclusion order can be rescinded and/or modified (for re-designing for example) only after application to the U.S. ITC and further process to determine that there is no longer infringement.

General Exclusion Order

A general exclusion order directs the Customs Service to exclude for entry into the United States all articles which infringe the IP right concerned, regardless of the source.

General exclusion orders are the exception rather than the norm. A two-prong test must be satisfied before an exclusion order is issued.

(1) Necessity to prevent circumvention of a limited exclusion order; and

(2) A pattern of violation when it is difficult to identify the source of the infringing product.

In addition, a general exclusion order can be issued if (1) no person appears to contest an investigation; (2) a 337 violation is established by substantial, reliable and probative evidence; and (3) there is the necessity to prevent circumvention and there is a pattern of a violation.

Cease and Desist Order

A U.S. respondent is ordered to stop selling the infringing product from existing U.S. inventories.

The basic requirement is that there must be "commercially significant" inventories of the infringing product in the United States. What is commercially significant is determined on a case-by-case basis.

SUMMARY

When you are sued at the ITC, the most important things to do are

1. **Retain knowledgeable and experienced ITC counsel;**
2. **Determine with your ITC attorney the best business strategy for your company: (a) default and allow an exclusionary order to issue; no damages; (b) limited participation to obtain settlement and/or license on favorable terms or to allow time to design around; or (c) full participation; and**
3. **Fight for success: (a) non-infringement; (b) invalidity; (c) lack of written description or lack of enablement; and (d) no domestic industry.**

Thank You

- **Eugene C. Rzucidlo**

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The End

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