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**“The U.S. International Trade Commission, Section 337,
and Patents – Looking Back and Looking Forward”**

The ITC Comes to Silicon Valley

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**Shara L. Aranoff
Chairman**

Introduction

Good morning.

I am pleased to be here today and am looking forward to a very interesting and timely program.

I would like to thank Professor Menell, the Berkeley Center for Law and Technology, and the University of California for organizing today's program, as well as the sponsors of this event. Thanks also to Ms. Louise Lee for her logistical support to our ITC staff.

Before I go on, let me say that the views that I express today are my own, and they do not necessarily represent the views of the U.S. Int'l Trade Commission.

Background on the USITC

I'm going to try to cover a lot of ground this morning. My goal is to provide some background and history that will give you a context for the rest of today's program. I will start with a brief description of the Commission and its multiple missions. Then I will look back in time to the origins of section 337 and its evolution to the process we know today. I'll touch on the enormous growth we've seen in section 337 litigation over the last decade and the challenges that growth creates, and I'll conclude with a few thoughts about the future.

The United States International Trade Commission is an independent, quasi-judicial Federal agency with broad investigative responsibilities on matters of trade. We are independent because, although part of the executive branch, the agency is structured to be immune to many

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political influences so it can function in a nonpartisan and objective manner. The Commission is made up of six Commissioners, nominated by the President and confirmed by the Senate for staggered 9-year terms. No more than three of us can be members of the same political party and the Chairmanship changes every 2 years to a member of the other party.

The Commission has five distinct missions. First, it conducts classic trade remedy investigations under the antidumping and countervailing duty laws, as well as under the global and China safeguards legislation. Second, the Commission adjudicates cases involving imports that allegedly infringe intellectual property rights, under section 337 of the Tariff Act of 1930. Third, the Commission provides objective economic analysis on international trade and competitiveness issues. Fourth, we maintain the Harmonized Tariff Schedule. And finally, we provide trade policy support to trade negotiators and policymakers in the legislative and executive branches. We do all this with about 370 employees.

Listening to that list, there may be a tendency to think of section 337 as something utterly unrelated to the other functions of the Commission. I confess that such a view is common, even sometimes among Commission employees. In fact, the original section 337 and section 316 that preceded it were very much like the modern trade remedy investigations that we conduct under the antidumping, countervailing duty, and safeguards laws. Congress has historically viewed section 337 as a trade remedy, not an IP law.

Over time, however, patent-based actions have come to dominate the section 337 docket.

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To understand how that happened, and what it means for section 337 today, requires a little background on typical trade remedy investigations.

In general terms, trade remedy proceedings share three common elements: the importation of merchandise that is unfairly traded; a requirement that merchandise injure or threaten to injure a domestic industry; and imposition of remedies in the form of an offsetting tariff. Safeguards are a little different, since the goods are fairly traded and the final decision on remedy is left to the discretion of the President.

Although these classic trade remedies may be unfamiliar to practitioners of section 337 law, in fact they and section 337 share a common origin and still retain important common features, despite the distance that has grown between them over time.

Section 316 of the Tariff Act of 1922

Section 337 began as section 316 of the Tariff Act of 1922. Section 316 declared illegal unfair methods of competition and unfair acts in the importation of articles into the United States “... if the unfair act would destroy or substantially injure an efficiently and economically operated U.S. industry or restrain or monopolize commerce in the United States.”

To modern section 337 practitioners, perhaps the most surprising aspect of the provision is that it does not even mention patents or any other form of intellectual property. The failure to mention patents or intellectual property was not an oversight, but rather an accurate indication that these concerns were not in Congress’s mind when it passed the legislation.

In the years prior to the passage of section 316, Congress directed the Commission, then called the United States Tariff Commission, to conduct a study on unfair foreign competition in

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American markets. The Tariff Commission's report to the House Ways and Means Committee in 1919 indicates that survey participants reported 146 instances of unfair competition, out of which five asserted infringements of trademarks, and only one concerned a patent. The rest involved practices such as customs undervaluation, the imitation of goods and advertising, deceptive labeling, and threats and bribery.

The Commission's report went on to assert that forms of unfair competition other than dumping could not be addressed through the Antidumping Act of 1916 and should be addressed in a separate legislative enactment. Three years later, Congress passed section 316 as part of the Tariff Act of 1922.

Thus, it is pretty clear that Congress originally saw section 316 as an all-purpose trade remedy flexible enough to cover a wide range of unfair import competition.

In fact, it took a decision of the U.S. Court of Customs and Patent Appeals in 1930 to settle the question whether section 316 covered patent infringement at all, and that decision was not unanimous.

Apart from its failure to mention intellectual property rights, the other notable aspect of section 316 is how very similar it was to the typical modern trade remedy provision.

First, the imposition of relief was contingent upon a finding that the unfair practice was causing injury to the domestic industry, just as in antidumping, countervailing duty, and safeguards cases.

Second, just as in our modern safeguards legislation, the Commission was not authorized to impose relief in a section 316 investigation. Instead, it was merely empowered to make

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findings that were forwarded along with the record to the President, who was the final decision maker.

Third, the form of the relief afforded under section 316 was to impose a tariff ranging from 10 to 50 percent on the imported goods, in order to offset the unfair method or act. The imposition of an offsetting tariff is exactly like the remedy in a modern trade remedy investigation. Only in extreme cases was the President empowered to exclude the goods from the country entirely under section 316.

So we see that section 316 was not originally aimed at patents or intellectual property, and that it shared many key features with modern trade remedy actions. It did not take long, however, for section 316 to be invoked in protection of patents -- or for patent holders to realize that, while helpful, section 316 was not ideally suited to that purpose.

From Section 316 to Section 337

I'll move ahead now to 1929, when Congress was working on the legislation that would become the Tariff Act of 1930. In preparation, the Chairman of the House Committee on Ways and Means -- Congressman W.C. Hawley of Smoot-Hawley fame -- asked the Commission to comment on difficulties found in the administration of section 316.

In its report to Representative Hawley, the Commission pointed out that section 316 was the only law available to protect domestic owners of patents from violation of their rights through the importation and sale of infringing articles.

The Commission also indicated that section 316 was not ideally suited to remedy the infringement of patent rights, because the remedy offered was a tariff. The Commission argued

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that excluding the infringing articles would be a better remedy.

Eight years after it was enacted, section 316 was incorporated into the Tariff Act of 1930, and given its familiar section number: 337. Compared to section 316, the major change was that the President could no longer impose an offsetting tariff in response to a violation, leaving exclusion as the sole remedy.

1931 through 1973

For many years after 1930, the Commission's investigative focus was on the injury requirement. For that reason, section 337 investigations featured the use of inter-disciplinary teams of Commission Staff, including an industry specialist, an attorney, an economist, and often an accountant. The team issued questionnaires to producers and importers of the products at issue, to collect data on industry performance, but gave little attention to patent issues. The process also included a preliminary inquiry, which was used to screen out assertions of unfair trading that were clearly unsubstantiated. If the case went forward, there was a hearing presided over by the Commissioners that was less formal than a court hearing. In all these respects, a section 337 investigation was very similar to an antidumping investigation today.

In fact, because the Commission would not assume a role in injury determinations in safeguard and antidumping duty cases until the late 1940s and early 1950s, the practices developed under section 337 probably served as a model when those other responsibilities were ultimately transferred to the agency.

Moving forward in time to the decades that followed the enactment of section 337 in 1930, what we see is that there were not many successful applications of the provision.

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A report issued in 1941 indicated that the great majority of the cases filed under section 337 were found to be without merit and were disposed of after an initial inquiry. In fact, this report indicates that the Tariff Commission did not have enough work to justify hiring a patent expert. The fact that the Commission did not have a single patent expert during the late 1930s is shocking when we consider that the Commission now employs more than 30 people with patent and IP expertise.

A later study indicated that over the period 1949 to 1961, the Commission investigated 25 cases. Of the 23 that were resolved by the time of the study, 19 were dismissed after a preliminary inquiry. Of the four that were decided on the merits, in three the complainant failed to satisfy the domestic industry requirement. The sole case that resulted in an affirmative finding was forwarded to the President, but the parties settled before he could reach a decision.

The reason that section 337 was so little used is not clear. One observer writing in 1961 believed the Commission would only find merit in cases that raised public interest issues and did not want to hear private patent rights disputes.

Others claimed the Commission “made frequent pleas that it be relieved of its work under section 337,” perhaps because it involved a technical expertise that was very unlike that required to perform its other duties. In fact, one commentator suggested in 1941 that it might be preferable to reassign section 337 the Federal Trade Commission.

1974 Amendments

The next big milestone in the history of section 337 was the Trade Act of 1974, which made section 337 proceedings subject to the Administrative Procedure Act.

Prior to 1974, section 337 was perceived, at least by some observers, as putting respondents at a procedural disadvantage. Since the APA did not apply, Complainants could essentially build a case as to injury based on information that was not available to respondents.

The 1974 amendments to section 337 meant that from then on, Administrative Law Judges would conduct the investigation, the record would be clearly defined and available to complainants and respondents alike, and the parties would be able to conduct discovery. In addition, the Commission, for the first time, had the authority to itself issue exclusion orders, subject, of course, to disapproval by the President.

These reforms had several effects. First, the Commission would now have a corps of administrative law judges that would rapidly gain expertise in patent law and other areas of intellectual property. These judges may have also brought a new level of professionalism and enthusiasm for the subject matter. And by providing the Commission the authority to issue exclusion orders directly, the legislation may have imbued the agency with a greater sense of ownership and purpose in relation to section 337 than it had beforehand.

Second, the insertion of an ALJ into the investigatory process distinguished section 337 from all other trade remedies handled at the Commission. It removed the Commissioners from the front lines and placed them into a review posture, which is also unique in Commission trade remedy investigations.

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Nevertheless, section 337 retained other features in common with other trade remedies.

First, it was still necessary to show injury to an industry that was efficiently and economically operated.

Second, while the Commission gained the authority to issue exclusion orders, Congress added two limitations. The Commission could not exclude the articles, without first “considering the effect of such exclusion upon the public health and welfare, competitive conditions in the United States economy, the production of like or directly competitive articles in the United States, and United States consumers . . .” These are the so-called statutory “public interest factors.” In addition, Congress gave the President a 60-day period during which the President may disapprove the Commission’s remedy “for policy reasons.”

These two requirements – consideration of the public interest and referral to the President – are still broadly similar to the process involved in Safeguards determinations.

1988 Amendments

A last major change to the statute came in the Omnibus Trade and Competitiveness Act of 1988. That Act eliminated the injury requirement for most section 337 investigations, including those based on patent, copyright, and trademark. For these cases, the requirement was no longer that the industry be “*efficiently and economically operated,*” and that such an industry be *injured*, but merely that the industry *exist*.

A committee report on the legislation explains Congress’s view that the section 337 injury requirement, designed for the broad context originally intended in the statute, didn’t make sense in the intellectual property arena. Because the owner of intellectual property has

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been granted a temporary, statutory right to exclude others from making, using or selling the protected property, Congress believed that the importation of any infringing merchandise derogates from the statutory right, diminishes the value of intellectual property, and harms the public interest. In essence, injury could be presumed in cases involving a statutory IP right.

In sum, this amendment was another attempt to shape section 337 to the reality that it had evolved into a remedy utilized mostly for the enforcement of IP rights.

I should add that according to the Duvall treatise on Unfair Competition and the ITC, prior to 1988, "it was estimated that over one-half of the high cost of section 337 litigation . . . was attributable to the legal costs of satisfying the economic criteria." This may have been another motivation for the legislative change.

Even after the 1974 and 1988 amendments, I would argue that section 337 retains important features of a trade remedy. First, the injury requirement is alive and well for cases that are not brought on patent, copyright, trademark, or mask works. In fact, in just the last year, the Commission performed a domestic industry injury and efficient and economic operation analysis in *Cast Steel Railway Wheels*, which was brought on an assertion of the misappropriation of a trade secret. Second, public interest and policy issues must be addressed by both the Commission and the President before an exclusion order becomes final.

In 2007, the Commission held a two-day hearing and an extra round of briefing on the public interest in *Baseband Processor Chips*. In that case, the Commission found that chips made by Qualcomm infringed a Broadcom patent. The Commission also found that the vast majority of the infringing chips were imported inside downstream products, like cell phones,

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smart phones, PDAs, and laptop data cards.

One key issue before the Commission was whether broadly excluding downstream devices containing the infringing chips would adversely affect the public health and welfare by making it harder for first responders to communicate with each other or locate those in need of help. Ultimately, the Commission shaped the remedy, which excluded some but not all downstream products containing infringing chips, in order to minimize possible adverse effects on public safety.

Although the Commission's determination as to downstream products was overturned on other grounds by the Federal Circuit, the Baseband Processor case has renewed the Commission's interest in creating a robust factual record to support its consideration of the public interest factors in future cases.

Section 337 Today

Overall, while section 337 remains a trade remedy and not a pure IP statute, it has evolved to the point that is much better suited to addressing the needs of IP rights holders than was once the case. The most obvious evidence of this is the Commission's growing section 337 caseload.

In fiscal year 2000, there were 25 active section 337 matters pending at the ITC. That was already a hefty caseload compared to the numbers seen historically. By fiscal year 2005, the number of active matters had more than doubled to 57. And during fiscal year 2009, our active matters had increased to 85. So in the space of a decade, our caseload has more than tripled.

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At first glance, 85 pending matters, although a big number by historical standards, may not seem like a lot. After all, nearly 2900 patent infringement lawsuits are filed in the U.S. District Courts every year. And that doesn't even include trademark, copyright, or trade secrets matters which can also come up occasionally in section 337 cases.

I don't have to tell you, though, that many of those District Court cases never go to trial. By contrast, about 60 percent of ours do. Even so, it may surprise you to learn that in the past 2 years one in every 7 to 8 patent trials held in the United States has taken place at the Commission.

This caseload surge came well after the legal changes in 1974 and 1988, so I don't think that is the explanation. Here are some educated guesses about what is going on.

We think that changes in some high tech industries may explain part of the increase. Many high tech producers have shifted all or part of their production overseas. That means that the United States imports more and more technology-intensive products. As a result, patent holders may be turning to section 337 more often because more high technology products are imported than before.

Another factor that may affect our filings is the increasing pace of innovation. As that pace accelerates, intellectual property holders have less time to commercially exploit a patented technology. That means in turn that patent holders have an increasing need to resolve disputes expeditiously. Most section 337 complaints are fully adjudicated, including a trial before the ALJ and Commission review, in 18 months or less, making the Commission something of a rocket docket.

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Another advantage for section 337 investigations is that they are tried before ALJs with considerable expertise with patent law and who are accustomed to high technology cases. As patented technologies become increasingly complex, the Commission becomes more attractive for this reason as well.

Another possible explanation for our increasing caseload is the Supreme Court's holding in eBay, which makes it more difficult to obtain a permanent injunction in district court. Since the Commission can't award damages, the relief we afford is always injunctive in nature. I should add, however, that our filings were already on an upward path before eBay issued, so it is difficult to assess the extent to which eBay has had an independent effect on our filings.

Another trend we see is that foreign-based holders of U.S. intellectual property rights are realizing that section 337 may be a good forum for them as well. As long as the foreign-based entity is able to satisfy the domestic industry requirement, which is often not a major impediment, it can file a section 337 case just like anyone else. We found that during a recent period almost 25 percent of our new investigations had a foreign complainant. These foreign complainants were located in nine different countries, which suggests that word is really getting around.

While rising caseload translates directly into a rising workload for the Commission, there are other factors at work as well. In particular, it is important to note that our caseload has grown not only in number, but also in complexity. Over time, we have seen an increase both in the average number of patent claims at issue in an investigation as well as in the number of respondents involved. And although the number of respondents was increasing already, we saw

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a further increase after the Federal Circuit's decision issued in Kyocera, holding that a limited exclusion order cannot cover downstream goods of manufacturers not named as respondents in the complaint.

To give you some statistics, on average the number of patents per complaint has grown from about 2 in FY 2001 to about 3 in FY 2009. The average number of respondents has increased from about 4 to about 7.5 per complaint. While about 80 percent of cases continue to involve 4 or fewer patents and 8 or fewer respondents, about 20 percent have much larger numbers of patents and respondents. And the more respondents, the less likely the case is to settle before trial.

For the past several years, the Commission, with the support of Congress, has added significant resources to its section 337 operations, doubling the number of Administrative Law Judges from 3 to 6, increasing staffing in all Commission offices that support section 337 investigations, and acquiring additional space in our building for a third ALJ courtroom that we hope will be ready for use by the end of 2010. While the case load continues to grow, we believe we now have the physical and human resources in place to support it for the next year or two. We have also launched a pilot mediation program, modeled on the Federal Circuit's very successful mediation program. While many of our cases already do settle (about 40% on average), we believe mediation is an additional tool that may help save both party and government resources. The program is free and designed not to slow down the underlying investigation. I strongly encourage parties and their counsel to consider participating in this program and give us your feedback.

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The Future

By way of conclusion, let me offer a few thoughts about the future. For over 80 years section 337 has evolved into an increasingly effective means of enforcing intellectual property rights. So we might ask whether we are at the end of the road or there are more major changes in the offing.

I don't have a particular gift for predictions, but I do see four current issues that could lead to future changes. First, there are several legislative proposals circulating to overturn the Federal Circuit Kyocera decision on exclusion of downstream products. Second, there is periodic discussion about ways to improve the enforcement of Commission exclusion orders by Customs and Border Protection. Third, the Commission is currently grappling with the licensing aspect of the domestic industry requirement, and the extent to which the domestic industry requirement serves as a barrier to complaints brought by non-practicing entities. Depending on how the Commission resolves these issues and how our decisions fare on appeal, there could be calls for legislative action. And finally, as practitioners are aware, we have seen an increasing tendency of complainants to file cases both at the ITC and in District Court on the same patents. There is some discussion among practitioners and academics on whether this practice is efficient or should be limited.

Conclusion

To sum up, section 337 has come a long way since the Commission hinted decades ago that it might prefer that its jurisdiction be transferred elsewhere. Today, the Commission is

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very focused on the success of the section 337 regime and the people and architecture that support it. And I can assure you that we are committed to keeping it that way.

Thank you.