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THE U.S. INTERNATIONAL TRADE COMMISSION'S GROWING ROLE IN THE  
GLOBAL ECONOMY

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## ABSTRACT

The widespread offshoring of manufacturing operations has created dramatic efficiencies and meaningful cost savings for many U.S. businesses. But as an unintended consequence, the move to foreign manufacturing also has created challenges to the U.S. patent system and its ability to protect American businesses from infringing competition. U.S. District Courts are frequently an inadequate forum for litigating patent infringement suits involving an accused device manufactured abroad because of the difficulties associated with obtaining jurisdiction and proving infringement. Patent holders faced with such a situation, however, are not left without recourse. This article explores the different enforcement mechanisms available in the United States International Trade Commission ("ITC" or "Commission") and addresses the institution's value, relevance, and role in the modern United States patent law system. Particularly in the context of modern electronics markets and supply chains, the ITC offers important and significant tools for protecting U.S. intellectual property rights and business investments.

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# THE U.S. INTERNATIONAL TRADE COMMISSION'S GROWING ROLE IN THE GLOBAL ECONOMY

PATRICIA LARIOS\*

## INTRODUCTION

United States patent holders, particularly in the semiconductor industry, often encounter serious hurdles in the enforcement of their intellectual property rights due to the prevalence of offshore manufacturing.<sup>1</sup> The rapid pace in globalization, overall changes in the American economy, and the need to maintain a competitive advantage, have all contributed to a rise in offshore manufacturing and a corresponding decline in the domestic production of electronic goods.<sup>2</sup>

The global supply chain within the semiconductor industry can generally be divided into four stages of production: development, fabrication, packaging, and product assembly.<sup>3</sup> At each level of the supply chain, there is a high level of specialization, with different companies focusing intently on their particular role in the market.<sup>4</sup>

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<sup>1</sup> Cf. G. Brian Busey, *An Introduction to Section 337 and the U.S. International Trade Commission*, in PATENT LITIGATION 2008, at 13 (PLI Pats., Copyrights, Trademarks, and Literary Prop. Course Handbook Series No. 14,977, 2008), available at WL, 949 PLI/Pat 11 (“Section 337 has become increasingly attractive to U.S. patentholders as one of the principal enforcement tools against infringing imported products and components.”); see also U.S. GOV'T ACCOUNTABILITY OFFICE, OFFSHORING: U.S. SEMICONDUCTOR AND SOFTWARE INDUSTRIES INCREASINGLY PRODUCE IN CHINA AND INDIA 2 (2006) [hereinafter “2006 GAO REPORT”] (“Over the past 40 years, the extent and complexity of semiconductor manufacturing . . . offshoring ha[s] grown as U.S. firms sought low-cost, high-quality workers in response to commercial competition.”)

<sup>2</sup> See Jeffrey T. Macher et al., *Semiconductors*, in INNOVATION IN GLOBAL INDUSTRIES: U.S. FIRMS COMPETING IN A NEW WORLD 101, 128 (Jeffrey T. Macher & David C. Mowery eds., 2008) (stating that “evidence . . . suggests that globalization and structural change in the semiconductor industry ha[s] resulted in significant growth in offshore manufacturing capacity.”); see also 2006 GAO REPORT, at 2–3 (“Although a lower labor cost was initially a key factor that attracted U.S. companies to many offshore locations, other factors such as technological advances, available human capital, and foreign government incentives were also important to the expansion of offshoring.”).

<sup>3</sup> See Peter C. Y. Chow, *From Dependency to Interdependency: Taiwan's Development Path Toward a Newly Industrialized Country*, in TAIWAN IN THE GLOBAL ECONOMY: FROM AN AGRARIAN ECONOMY TO AN EXPORTER OF HIGH TECH PRODUCTS 241, 269 (Peter C. Y. Chow ed., 2002) (noting that the sequential stages of semiconductor production include “design, wafer fabrication, assembly/packaging, and final testing/shipping.”).

<sup>4</sup> See David C. Mowery & Jeffrey T. Macher, *E-Commerce and the Semiconductor Industry Value Chain: Implications for Vertical Specialization and Integrated Semiconductor Manufacturers 2* (East-West Center, Working Papers: Economics Series No. 17, 2001), available at <http://www.eastwestcenter.org/fileadmin/stored/pdfs/ECONwp017.pdf> (“[S]emiconductor manufacturing, especially in the United States, has come to be dominated by specialized manufacturers of semiconductor devices, most of whom develop manufacturing processes (but not

The development phase has been a realm of uniquely American influence and effort.<sup>5</sup> The term “development,” refers to all phases of the innovation endeavor, including the research and development of new and better technologies, and the re-investment and refinement of existing technologies.<sup>6</sup> American engineers and innovation companies continue to lead the way in this most critical stage of the supply chain, and domestic businesses have invested in highly educated, skilled employees capable of creating meaningful technological development.<sup>7</sup>

Once a technology is developed and defined, the manufacturing process can move forward. Fabrication (sometimes referred to as the “front end” of the manufacturing process) generally refers to the manufacture of the semiconductor chip.<sup>8</sup> The circuits of the chips are built up on the surface of a flat, silicon wafer in consecutive layers.<sup>9</sup> Packaging (sometimes referred to as the “back end” of the manufacturing process) involves wrapping the microscopic silicon piece in a protective assembly, which connects the circuitry of the chip to the external world, so that the chip can be used as a component of an electronic device.<sup>10</sup> Finally, packaged chips are installed on circuit boards for particular applications, and integrated as components of an electronic device, such as a cell phone, computer, or digital television.<sup>11</sup>

The widespread offshoring of the manufacturing process, including the last three phases discussed above, has created dramatic efficiencies and meaningful cost savings for domestic businesses, due in large measure to reduced labor expenses.<sup>12</sup> But as an unintended consequence, the move to foreign manufacturing also has

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manufacturing equipment) and device designs in-house, in addition to producing these components for sale on the market.”)

<sup>5</sup> See 2006 GAO REPORT, at 2 (noting that U.S. semiconductor companies originally “maintained capital-intensive, highly-skilled wafer fabrication and design in the United States,” however, “[m]ore recently, U.S. firms have offshored . . . complex research and design activities.”)

<sup>6</sup> See Jason Dedrick & Kenneth L. Kraemer, *Personal Computing, in INNOVATION IN GLOBAL INDUSTRIES: U.S. FIRMS COMPETING IN A NEW WORLD* 19, 26 (Jeffrey T. Macher & David C. Mowery eds., 2008). “Product innovation in the industry occurs through two broad processes—R&D and new product development.” *Id.* “R&D is an ongoing activity that generates knowledge that can be applied to multiple products.” *Id.* “New product development is a multistage process of design, development, and production that creates physical products for target markets.” *Id.*

<sup>7</sup> See 2006 GAO REPORT, at 22 (“Despite having offshored some semiconductor operations, the U.S. semiconductor industry remains a global leader in cutting-edge semiconductor chip design and fabrication.”)

<sup>8</sup> See PETER VAN ZANT, *MICROCHIP FABRICATION* 16 (5th ed. 2004) (“In . . . fabrication, the devices or integrated circuits are actually formed in and on the wafer surface.”)

<sup>9</sup> See *id.* (noting that “[u]p to several thousand identical devices can be formed on each wafer” and that “[t]he area on the wafer occupied by each discrete device or integrated circuit is called a *chip or die*.”)

<sup>10</sup> *Id.* (“Packaging . . . is the series of processes that separate the wafer into individual die and place them into protective packages.”)

<sup>11</sup> *Id.* at 16–17 (stating that “[t]he vast majority of chips are packaged in individual packages . . . [b]ut a growing percentage are being incorporated into hybrid circuits, in multichip modules (MCMs), or mounted directly on printed circuit boards.”)

<sup>12</sup> See 2006 GAO REPORT, at 2 (noting that “[a]s firms experienced cost savings and observed high-quality work in these offshore locations, they expanded offshore operations to include more advanced operations, such as software design and systems integration.”)

created challenges to the U.S. patent system and its ability to protect American businesses from infringing competition.<sup>13</sup>

For example, even where U.S. district courts can establish personal jurisdiction over the manufacturer, an offshore company that manufactures a device, such as a semiconductor chip, that infringes a U.S. patent will generally not be liable for direct infringement absent some involvement in U.S. sales, importation, or other domestic activities.<sup>14</sup> Likewise, liability for indirect infringement, such as inducement, may require a heightened showing regarding knowledge of a patent and intent to infringe, which may severely constrict an offshore manufacturer's liability even where it is clear that the manufacturer has used another's patented technology.<sup>15</sup>

These hurdles in pursuing foreign manufacturers certainly do not leave U.S. patent holders entirely without recourse. Most commonly, U.S. patent rights holders may address domestic infringement via the importers and resellers who traffic in finished goods that incorporate infringing technology.<sup>16</sup> So, for instance, a foreign manufacturer might make the infringing chip sold in a Hewlett Packard computer, but Hewlett Packard, not the manufacturer, is named as a defendant in U.S. district courts.<sup>17</sup>

As a practical matter, however, litigation directed at the end of the supply chain, rather than at its roots, is not always a satisfactory option.<sup>18</sup> What does a U.S. patent holder do when one offshore supplier provides infringing goods to dozens or even hundreds of different end retailers? For example, computer memory has

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<sup>13</sup> Cf. Busey, *supra* note 1, at 35 (stating that a Section 337 investigation before the ITC “allows complainants to reach many foreign producers and distributors that otherwise might be beyond the personal jurisdiction of a federal district court.”).

<sup>14</sup> See 35 U.S.C. § 271(a) (2006) (“[W]hoever without authority makes, uses, offers to sell, or sells any patented invention, within the United States or imports into the United States any patented invention during the term of the patent therefor, infringes the patent.”); Nicholas Oros, *Infringement Twice Removed: Inducement of Patent Infringement for Overseas Manufacture of Infringing Products Imported by Another*, 10 COMP. L. REV. & TECH. J. 163 (2006) (“Manufacturing a device in another country that infringes a United States patent is generally not a violation of United States patent law.”).

<sup>15</sup> See *id.* § 271(b), (c) (establishing liability for inducing and contributory patent infringement); *Hewlett-Packard Co. v. Bausch & Lomb Inc.*, 909 F.2d 1464, 1469 (Fed. Cir. 1990) (“[W]e are of the opinion that proof of actual intent to cause the acts which constitute the infringement is a necessary prerequisite to finding active inducement.”). Cf. Oros, *supra* note 14, at 172 (“With regard to current Federal Circuit law, the safest assumption is that there can be inducement of infringement liability for manufacturing a product overseas.”).

<sup>16</sup> *Id.* § 271(c). Section 271(c) states:

Whoever offers to sell or sells within the United States or imports into the United States a component of a patented machine, manufacture, combination or composition, or a material or apparatus for use in practicing a patented process, constituting a material part of the invention, knowing the same to be especially made or especially adapted for use in an infringement of such patent, and not a staple article or commodity of commerce suitable for substantial noninfringing use, shall be liable as a contributory infringer.

*Id.*

<sup>17</sup> See Oros, *supra* note 14, at 164 (stating that a patentee would prefer to sue a foreign manufacturer of infringing goods rather than the U.S. based importer of the infringing goods, so as to preserve any potential or existing business relationship with the U.S. based importer).

<sup>18</sup> See Oros, *supra* note 14, at 164 (noting that “a patent holder would like to . . . sue the overseas manufacturer of the infringing product for inducement of the patent infringement” rather than sue the importer of the infringing product).

become standardized in many respects, and is incorporated into thousands of disparate applications sold by thousands of different companies.<sup>19</sup> In such circumstances, a U.S. rights holder desiring to exercise its legal right to prevent infringement may have a number of equally unappealing district court options, such as: (a) seeking out and suing hundreds of different importers and resellers, which will likely lead to tens of millions of dollars in litigation expenses;<sup>20</sup> or (b) seeking out and suing the handful of offshore suppliers who sell the infringing goods to those importers, but who will almost certainly claim immunity from U.S. patent law based on their lack of direct involvement in U.S. sales and importation;<sup>21</sup> or (c) simply accepting that some level of infringement is, as a practical matter, unavoidable, and targeting only the largest volume infringers for enforcement.<sup>22</sup> If a property right, like a patent, is only as valuable as it is enforceable, none of these district court options can provide relief commensurate with the scope of rights that is supposed to be granted under U.S. patent law.<sup>23</sup>

Recognizing that the district court paradigm for enforcement of patent rights faces these real-world hurdles and limitations, this article explores the different enforcement mechanisms available in the United States International Trade Commission (“ITC” or “Commission”), and addresses the institution’s value, relevance, and role in the modern United States patent law system. Particularly in the context of modern electronics markets and supply chains, the ITC offers important and significant tools for protecting U.S. intellectual property rights and business investments.

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<sup>19</sup> *But see* Michelle Kessler, *Memory-Chip Industry Ripe for Consolidation*, USA TODAY, Jan. 11, 2002, at 3B (stating that “IC insights analyst Brian Matas expects to see the memory-chip industry whittled to three or four big players—Samsung, Micron, Infineon, and possibly Elpida Memory—from about a dozen today.”).

<sup>20</sup> *See, e.g., In re Certain Semiconductor Chips with Minimized Chip Package Size & Products Containing Same (III)*, Notice of Investigation 2–4, Inv. No. 337–TA–630 (Jan. 3, 2008), 2008 ITC LEXIS 45, at \*1–5 (alleging violations of Section 337 against several respondents).

<sup>21</sup> *See MEMC Elec. Materials, Inc. v. Mitsubishi Materials Silicon Corp.*, 420 F.3d 1369, 1377 (Fed. Cir. 2005) (holding that Japanese manufacturer of silicon wafers was not liable for direct patent infringement because they did not sell, or offer to sell, the wafers in the United States); *see also* Colleen V. Chien, *Patently Protectionist? An Empirical Analysis of Patent Cases at the International Trade Commission*, 50 WM. & MARY L. REV. 63, 73 (2008) (noting that Section 337 investigations afford patentees many advantages including the ability to enforce rights against foreign infringers that lack stateside resources and/or would be able to evade service).

<sup>22</sup> *See, e.g., In re Certain Airless Paint Spray Pumps and Components Thereof, Comm’n Op.*, Inv. No. 337–TA–90 (Nov. 24, 1981), 216 U.S.P.Q. 465, at 473 (stating that “a domestic patentee should not be compelled to file a series of separate complaints against several individual foreign manufacturers as it becomes aware of their products in the U.S. market” because such a practice would waste the resources of the complainant and burden the Commission with redundant investigations).

<sup>23</sup> *See* 35 U.S.C. § 154(a)(1) (2006) (recognizing that a patent confers “the right to exclude others from making, using, offering for sale, or selling the invention throughout the United States or importing the invention into the United States.”).

## I. ITC OVERVIEW

The ITC is a quasi-judicial federal agency that adjudicates and enforces intellectual property rights in international trade through Section 337 of the Tariff Act of 1930, as amended, 19 U.S.C. § 1337 (“Section 337”).<sup>24</sup> Section 337 authorizes the ITC to conduct investigations to address “unfair methods of competition and unfair acts,” in the importation of goods into the United States, the sale of goods for importation into the United States and/or the sale of goods in the United States after importation.<sup>25</sup> Section 337 defines unfair methods of competition and unfair acts to include the infringement of federally registered intellectual property rights.<sup>26</sup> In fact, investigations based on allegations of patent infringement represent approximately 90 percent of recent Section 337 investigations.<sup>27</sup>

Section 337 is a powerful trade statute that provides U.S. patent holders with a number of remedies and procedures that differ from those available in district court.<sup>28</sup> The ITC’s most unique aspect is the remedies that are available to a patent holder. Section 337 remedies are said to be “*in rem*” – that is, they are directed against the infringing goods, rather than “*in personam*,” directed against the infringer.<sup>29</sup> As a corollary, and in stark contrast to district court, in an ITC investigation, *personal jurisdiction is not required over the alleged infringer*.<sup>30</sup> Rather, the ITC obtains jurisdiction over infringing products by virtue of their presence (or attempted importation) into the United States.<sup>31</sup> Enforcement of exclusion orders issued by the ITC is carried out by United States Customs and Border Protection (“Customs”), which is part of the Department of Homeland Security,<sup>32</sup> and can include seizure of items previously imported.<sup>33</sup> Remedies in the

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<sup>24</sup> Virginia L. Carron & F. Leslie Bessenger III, *The ITC vs. Federal District Courts: Comparing the ITC and the Six Fastest District Courts for Patent Litigation*, in PATENT LITIGATION 2008, at 105 (PLI Pats., Copyrights, Trademarks, & Literary Prop., Course, Handbook Ser. No. 14977, 2008), available at WL, 949 PLI/PAT 655.

<sup>25</sup> 19 U.S.C. § 1337(a)(1) (2006).

<sup>26</sup> *Id.*: Tom M. Schaumberg et al., *Advantages of a Section 337 Investigation at the US International Trade Commission*, IP LITIGATOR, May-June 2006, at 33.

<sup>27</sup> Schaumberg et al., *supra* note 26, at 33; Jamie D. Underwood & Ian A. Taronji, *ITC Exclusion is Better Than Litigation: Swift Action, Sweeping Remedies*, EXECUTIVE COUNSEL, January–February 2008, at 1, available at <http://www.adduci.com/uploads/articles/BetterThanLitigation.pdf>.

<sup>28</sup> Schaumberg et al., *supra* note 26, at 32 (“Advantages over US District Court litigation, such as worldwide discovery, expedited hearings and effective remedies enforced by US Customs and Border Protection (Customs), make a Section 337 investigation at the ITC a highly effective vehicle for the enforcement of US intellectual property rights.”).

<sup>29</sup> See Underwood & Taronji, *supra* note 27, at 2 (“The Commission’s jurisdiction stems from the location of the products in question (‘*in rem*’), as opposed to the location of the respondents (‘*in personam*’).”).

<sup>30</sup> Schaumberg et al., *supra* note 26, at 33 (“A Section 337 investigation is often advantageous because it does not require personal jurisdiction over the infringers . . .”).

<sup>31</sup> See 19 U.S.C. § 1337(a)(1)(B) (stating that section 337 requires an “importation” or “sale of importation” in order for the ITC to gain jurisdiction).

<sup>32</sup> Tom M. Schaumberg, *Advantages of International Trade Commission Practice: Gaining an Edge Over Infringing Imports*, 25 COMPUTER & INTERNET LAW. 2, at 4 (2008) (noting that “exclusion order[s] [are] enforced by US Customs and Border Protection (Customs), which is a part of the Department of Homeland Security.”).

ITC are divided into three categories: (1) limited exclusion orders,<sup>34</sup> (2) general exclusion orders,<sup>35</sup> and (3) cease-and-desist orders.<sup>36</sup>

A limited exclusion order (“LEO”) is directed to the products of the parties named in the investigation, and prohibits the importation of certain goods or types of goods found to be infringing.<sup>37</sup> Customs enforces the order on a going forward basis until it is rescinded or the patent expires.<sup>38</sup>

A general exclusion order (“GEO”) is broader, and may apply even against the products of entities that did not participate in the ITC action.<sup>39</sup> A GEO, if granted, prohibits the importation into the United States of all infringing products, regardless of source.<sup>40</sup> The methodology for determining which products are subject to the ban may be specifically set forth in the Order, or it may be the subject of procedures established by Customs, in consultation with the patent holder.<sup>41</sup> Thus, a GEO is not limited to parties named in the investigation, and it is the most sweeping and effective remedy available under Section 337.<sup>42</sup> However, in practice the ITC has granted only a modest number of GEOs, and as a condition to the issuance of a GEO, the ITC generally requires proof that infringement has been widespread and involves numerous third parties, or other indications that an order limited to the parties would be insufficient to protect the patent holder’s interests.<sup>43</sup>

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<sup>33</sup> 19 U.S.C. § 1337(i) (granting the Commission authority to “issue an order providing that any article imported in violation of the provisions of this section be seized and forfeited to the United States.”).

<sup>34</sup> *Id.* § 1337(d)(2) (noting the Commission’s right to issue limited exclusion orders).

<sup>35</sup> *Id.* § 1337(d)(2)(A)–(B), (g) (noting the Commission’s right to issue general exclusion orders).

<sup>36</sup> *Id.* § 1337(f) (noting the Commission’s right to issue cease-and-desist orders).

<sup>37</sup> *Id.* § 1337(d); *see also* Schaumberg, *supra* note 32, at 4 (“A limited exclusion order is directed to respondent(s) specifically found to be in violation of § 337.”).

<sup>38</sup> 35 U.S.C. § 1337(k) (providing the period of effectiveness for Commission remedial orders).

<sup>39</sup> *See* 19 U.S.C. § 1337(d) (“If the commission determines, as a result of an investigation under this section, that there is a violation of this section, it shall direct that the articles concerned, imported by any person violating the provision of this section, be excluded from entry into the United States.”); *see also* Underwood & Taronji, *supra* note 27, at 2 (noting that a general exclusion order is more expansive than a limited exclusion order because it applies to all infringing *products* (regardless of the source), and therefore, “is enforceable against infringing products imported by entities that were not parties to the investigation.”).

<sup>40</sup> Gary M. Hnath, *General Exclusion Orders Under Section 337*, 25 NW. J. INT’L L. & BUS. 349, at 351 (2005) (noting that “a general exclusion order is not limited to the parties named as respondents at the ITC, and is the strongest and most effective remedy available under Section 337.”).

<sup>41</sup> *See* 19 C.F.R. § 12.39 (2008) (regulating U.S. Customs and Border Protection’s enforcement of exclusion orders); *see also* Debra D. Peterson, *The Knowledge to Act: Border Enforcement of Section 337 Exclusion Orders and the Need for Exclusion Order Disclosure Regulations*, 17 FED. CIR. B.J. 607, 613 (noting that attorneys in the IPR Branch of the U.S. Customs and Border Protection (CBP) develop internal documents called “Trade Alerts” that “assist CBP field officers in identifying imported goods subject to an exclusion order.”).

<sup>42</sup> *See supra* text accompanying note 40.

<sup>43</sup> *See* 19 U.S.C. § 1337(d)(2) (2006); Peterson, *supra* note 41, at 610 (“General exclusion orders are issued by the Commission when a broader exclusion is necessary to prevent circumvention of the exclusion order, or when there is a pattern of violation and it is difficult to identify the source of the infringing products.”).

Finally, the ITC may issue a cease and desist order directed to entities over whom it has personal jurisdiction.<sup>44</sup> A cease and desist order is directed to specific respondents that are either domestic companies or conduct significant business in the United States.<sup>45</sup> Cease and desist orders may bar respondents from the further purchase of infringing products from abroad, or from the sale of infringing inventory already in the United States.<sup>46</sup> Violations of a cease and desist order risk severe civil penalties.<sup>47</sup>

In addition to the unique remedies available in the ITC, patent holders may prefer ITC litigation to district court actions based on the ITC's quick time to trial.<sup>48</sup> A complainant before the ITC can expect resolution of its intellectual property dispute within 12 to 16 months, with trials generally occurring six to nine months after the institution of the investigation.<sup>49</sup> In addition, while temporary relief is rather uncommon in practice, an ITC complainant may seek the ITC equivalent of a preliminary injunction, termed a Temporary Exclusion Order ("TEO"), within ninety days.<sup>50</sup>

The patent-heavy ITC caseload has also bred a significant judicial expertise in patent law at the ITC. While Administrative Law Judges ("ALJs") may be appointed to the ITC without significant patent experience, they quickly develop familiarity and experience with patent disputes.<sup>51</sup> Perhaps due to this heavy patent law experience,

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<sup>44</sup> 19 U.S.C. § 1337(f) ("[T]he Commission may issue and cause to be served on any person violating this section . . . an order directing such person to cease and desist from engaging in the unfair methods or acts involved . . .").

<sup>45</sup> See, e.g., *In re Certain Condensers, Parts Thereof and Products Containing Same, Including Air Conditioners for Automobiles*, USITC Pub. No. 3063, Comm'n Op. 24, Inv. No. 337-TA-334 (Remand) (Sept. 1997), 1997 ITC LEXIS 262, at \*35 ("Cease and desist orders direct a person to cease its unfair acts and are generally directed to respondents that maintain inventories of the accused product in the United States.").

<sup>46</sup> See, e.g., *In re Certain Coupler Devices for Power Supply Facilities, Components Thereof, and Products Containing Same, Order to Cease and Desist 2-3*, Inv. No. 337-TA-590 (Dec. 20, 2007). Here, the Commission issued a cease and desist order that prohibited the respondent from: (1) importing or selling for importation into the United States covered products; (2) marketing, distributing, offering for sale, selling, or otherwise transferring (except for exportation), in the United States imported covered products; (3) advertising imported covered products; (4) soliciting U.S. agents or distributors for imported covered products; or (5) aiding or abetting other entities in the importation, sale for importation, sale after importation, transfer, or distribution of covered products. *Id.*

<sup>47</sup> 19 U.S.C. § 1337(f)(2) ("Any person who violates an order issued by the Commission under paragraph (1) after it has become final shall forfeit and pay to the United States a civil penalty for each day on which an importation of articles, or their sale, occurs in violation of the order . . .").

<sup>48</sup> See V. James Adduci II & William C. Sjoberg, *Everybody Comes to the ITC*, LEGAL TIMES, July 11, 2005, at 2 (stating that patents are the main concern in Section 337 investigations and that Section 337 investigations are "famously fast," even when compared to litigation in rocket dockets such as the Eastern District of Virginia or Western District of Texas).

<sup>49</sup> See *id.*

<sup>50</sup> 19 U.S.C. § 1337(e)(2) (permitting the Commission to make a determination regarding a complainant's request for a temporary exclusion order within 90 days "after the date on which the Commission's notice of investigation is published in the Federal Register"); see also Schaumberg, *supra* note 32, at 4 ("The determination or entry of a TEO, by statute, must be issued within 90 days after initiation of the investigation.").

<sup>51</sup> See Schaumberg, *supra* note 32, at 4 (noting that that one advantage of a Section 337 investigation is that the ALJs have "particular expertise in intellectual property disputes.").

traditionally ITC determinations in patent cases have been affirmed on appeal at a higher rate than federal district court cases.<sup>52</sup>

The ITC has become an increasingly popular forum for patent holders.<sup>53</sup> There have only been about 700 ITC investigations since the ITC was founded more than three decades ago.<sup>54</sup> However, in 2008, the ITC instituted 40 investigations, an increase from 36 investigations filed in 2007.<sup>55</sup> The ITC's growing docket is a reflection of the unique advantages that a Section 337 investigation offers a U.S. patent holder seeking to enforce its intellectual property rights.

## II. JURISDICTIONAL CONSIDERATIONS

As noted, Section 337 provides the ITC with *in rem* jurisdiction that allows for the exclusion of all infringing articles imported into the United States regardless of the location of the manufacturer.<sup>56</sup> Thus, under Section 337, a U.S. patent holder can pursue claims against a variety of entities, both foreign and domestic, in a single investigation.<sup>57</sup> This key difference allows a patent holder to address the *root* of infringement – the ultimate source of infringing products that are imported by others.

By contrast, a U.S. patent holder seeking to enforce its intellectual property rights in district court may not have the ability to sue foreign manufacturers that do not “make, use or sell” their products inside the United States,<sup>58</sup> and instead must choose between allowing infringement to continue unremedied, or investing tens of millions of dollars in actions against multiple importers in various locations. In this respect, *in rem* jurisdiction provides a key efficiency for both the patent holder and the courts – while ITC litigation is by no means inexpensive, it does permit a patent holder to address in a single suit the ultimate source (or sources) of infringing

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<sup>52</sup> See DONALD K. DUVALL ET AL., UNFAIR COMPETITION AND THE ITC § 9:1 (Thompson West 2008 ed.) (stating that during the period 1974–1989, the Federal Circuit or its predecessor court, the C.C.P.A., affirmed 87% of ITC final determinations on appeal and that “the Federal Circuit continues to affirm the vast majority of ITC decisions.”). *But see* Robert W. Hahn & Hal J. Singer, *Assessing Bias in Patent Infringement Cases: A Review of International Trade Commission Decisions*, 21 HARV. J.L. & TECH 457, 478–79 (2008). Between 1972 and September 2006, ITC determinations were upheld 65% of the time on appeal. *Id.* at 479. It is estimated that district court decisions in patent cases are affirmed 75–80% on appeal. *Id.* at 478. Accordingly, “it appears that district courts fare better than the ITC on appeal.” *Id.* at 478.

<sup>53</sup> Hahn & Singer, *supra* note 52, at 459 (“The ITC . . . has grown in popularity as a patent litigation venue.”).

<sup>54</sup> U.S. Int’l Trade Comm’n, Section 337 Investigational History, [http://www.usitc.gov/trade\\_remedy/int\\_prop/inv\\_his.htm](http://www.usitc.gov/trade_remedy/int_prop/inv_his.htm) (last visited Mar. 13, 2009) (follow “All 337 Investigations” hyperlink) (noting that the most current investigation is Investigation Number 670).

<sup>55</sup> See *id.* (providing the investigational history of all pending and resolved Section 337 investigations).

<sup>56</sup> See *supra* text accompanying note 29.

<sup>57</sup> See *supra* text accompanying note 39.

<sup>58</sup> See 35 U.S.C. § 271(a) (2006); see also Schaumberg, *supra* note 32, at 3 (stating that Section 337 “jurisdiction is advantageous when seeking to join multiple infringers in one proceeding, particularly if some or all of the infringers are foreign entities with limited contacts with the United States.”).

goods.<sup>59</sup> And it likewise avoids the judicial inefficiency attendant to multiple district court litigations in diverse districts, targeting dozens of different importers and resellers.

A complainant bringing a case before the ITC must, however, satisfy two jurisdictional requirements unique to Section 337, which are not applicable in district court. First, a complainant must demonstrate that there is an importation of infringing articles.<sup>60</sup> Second, because Section 337 is ultimately a trade statute designed to protect U.S. industry against unfair foreign competition, the complainant must show that it has a “domestic industry” related to the asserted intellectual property right.<sup>61</sup> The domestic industry requirement can be demonstrated by actual manufacturing in the U.S. or by demonstrating ongoing research and development, engineering or licensing activity.<sup>62</sup>

### A. Importation

Section 337 requires that importation be established by a showing of actual importation into the United States, a sale for importation, or a sale within the United States after importation of the infringing articles.<sup>63</sup> The Commission has adopted a broad interpretation of “importation” under Section 337<sup>64</sup> and has found that even the importation of a single accused product is sufficient to exercise jurisdiction over a respondent.<sup>65</sup> Moreover, Section 337 may address the activities of domestic companies who conduct their manufacturing offshore and subsequently import their goods into the United States,<sup>66</sup> as well as the activities of foreign manufacturers.<sup>67</sup> The ITC has jurisdiction under Section 337 with respect to both imported and

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<sup>59</sup> Underwood & Taronji, *supra* note 27, at 2 (stating that Section 337 investigations “make[] it cost-effective for a company to pursue claims against a variety of entities from all over the world in a single investigation.”).

<sup>60</sup> 19 U.S.C. § 1337(a)(1)(B).

<sup>61</sup> *Id.* § 1337(a)(2).

<sup>62</sup> *See id.* § 1337(a)(3) (providing that the domestic industry requirement can be demonstrated by a showing of “significant investment in plant and equipment,” “significant employment of labor or capital,” or “substantial investment in its exploitation, including engineering, research and development, or licensing.”).

<sup>63</sup> *Id.* § 1337(a)(1)(B).

<sup>64</sup> *See* Schaumberg, *supra* note 32, at 2 (stating that the ITC “has interpreted the importation element liberally.”).

<sup>65</sup> *Id.* (“A single sample or a contract for *future* sale for importation into the United States has been deemed sufficient to establish importation.”) (footnote omitted); *see also In re Certain Trolley Wheel Assemblies*, USITC Pub. No. 1605, Views of the Comm’n 8, Inv. No. 337-TA-161 (Nov. 1984), 1984 ITC LEXIS 142, at \*11 (finding that the importation of one sample wheel satisfied the statutory “importation or sale” requirement).

<sup>66</sup> *See, e.g., In re Certain Plastic Encapsulated Integrated Circuits*, USITC Pub. No. 2574, Order 1, Inv. No. 337-TA-315 (Nov. 1992), 1992 ITC LEXIS 738 (part 1 of 6), at \*5–6 (finding a violation of Section 337 with respect to domestic companies who manufactured integrated circuits abroad and imported the infringing circuits into the U.S.).

<sup>67</sup> *See, e.g., In re Certain Encapsulated Integrated Circuit Devices and Products Containing Same*, Order No. 61, at 4–5, Inv. No. 337-TA-501 (June 2004), 2004 ITC LEXIS 451, at \*5–6 (finding that the Commission had jurisdiction when a foreign manufacturer imported and sold accused devices in the United States).

domestically manufactured articles that are exported then subsequently imported into the United States.<sup>68</sup>

The *In re Certain Plastic Encapsulated Integrated Circuits*<sup>69</sup> (“Encapsulated Circuits I”) investigation illustrates the ITC’s jurisdictional breadth and its extension with regard to domestic entities. In this investigation, all of the respondents were domestic computer chip makers who engaged in partial overseas manufacturing of their products.<sup>70</sup> The respondents designed integrated circuits that were then encapsulated in plastic abroad and subsequently imported for completion of the manufacturing and production process.<sup>71</sup> The encapsulation step allegedly utilized a patented process.<sup>72</sup> The integrated circuits were manufactured in the respondents’ foreign facilities or in facilities where they hired subcontractors or assemblers.<sup>73</sup> Under *Encapsulated Circuits I*, any entity whether domestic or foreign that manufactures their allegedly infringing products offshore, who then re-imports their products into the United States, is subject to the Commission’s jurisdiction.<sup>74</sup>

In *In re Certain Sputtered Carbon Coated Computer Disks and Products Containing Same, Including Disk Drives*,<sup>75</sup> (“Sputtered Disks”) the Commission held that the importation of a product is sufficient to confer ITC jurisdiction regardless of the location of the alleged infringing act.<sup>76</sup> *Sputtered Disks* established Commission jurisdiction over computer disks manufactured in the United States, exported, and then subsequently imported back into the United States to complete the allegedly infringing process.<sup>77</sup> In reaching this conclusion, the Commission rejected the respondents’ argument that Section 337 was limited to articles of foreign manufacture, and instead held that Section 337 covered all forms of “importation” and made no distinction between “imported” and “re-imported” articles.<sup>78</sup> Accordingly, despite that the allegedly infringing process was performed in the United States, the Commission determined that its jurisdiction was nonetheless established.<sup>79</sup>

The Commission has also determined that a complainant satisfied the importation requirement even when the sale was made outside of the United States

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<sup>68</sup> See, e.g., *In re Certain Sputtered Carbon Coated Computer Disks and Products Containing Same, Including Disk Drives*, USITC Pub. No. 2701, Comm’n Op. 4–5, Inv. No. 337-TA-350 (Nov. 1993), 1993 ITC LEXIS 893, at \*10 (finding that the Commission had jurisdiction under Section 337 over domestically-manufactured articles because the statute does not limit jurisdiction to articles of foreign manufacture).

<sup>69</sup> USITC Pub. No. 2574, Inv. No. 337-TA-315 (Nov. 1992), 1992 ITC LEXIS 738.

<sup>70</sup> *Id.*, Order 1, 1992 ITC LEXIS 738 (part 1 of 6), at \*5–6.

<sup>71</sup> *Id.*, 1992 ITC LEXIS 738 (part 1 of 6), at \*5–6.

<sup>72</sup> *Id.*, 1992 ITC LEXIS 738 (part 1 of 6), at \*5–6.

<sup>73</sup> *Id.*, 1992 ITC LEXIS 738 (part 1 of 6), at \*5–6.

<sup>74</sup> *Id.*, 1992 ITC LEXIS 738 (part 1 of 6), at \*5–6.

<sup>75</sup> USITC Pub. No. 2701, Inv. No. 337-TA-350 (Nov. 1993), 1993 ITC LEXIS 893.

<sup>76</sup> *Id.*, Comm’n Op. 5, 1993 ITC LEXIS 893, at \*12. “[T]he statutory language does not encompass some importations while excluding others. *Id.* “The statute, by its terms, covers all ‘importations’ of infringing articles into the United States.” *Id.*

<sup>77</sup> *Id.*, 1993 ITC LEXIS 893, at \*12.

<sup>78</sup> *Id.*, 1993 ITC LEXIS 893, at \*12 (“We see no basis for respondents’ position that the statutory term ‘importation’ excludes goods that have been ‘reimported.’”).

<sup>79</sup> *Id.*, Comm’n Op. 9, 1993 ITC LEXIS 893, at \*18 (“Because the statute contains no jurisdictional limitation of the type advocated by the respondents, we find that the Commission does have jurisdiction over the imported domestically-manufactured articles.”).

by a foreign manufacturer to an intermediary.<sup>80</sup> In *In re Certain Battery-Powered Ride-On Toy Vehicles and Components Thereof*,<sup>81</sup> the Commission held that importation had been demonstrated when a respondent knew that its infringing goods sold to a foreign trading company would be subsequently exported to the United States.<sup>82</sup> The evidence included the respondent's own admission of the foreign trading company's subsequent exportation into the United States and a facsimile sent by the respondent to a U.S. importer stating that it knew its goods were being exported to Miami, San Francisco, Long Beach, and various other locations.<sup>83</sup> The Commission held that the respondent's knowledge of subsequent exportation into the United States was enough to satisfy the importation requirement despite the fact that the respondent had no business relationship with U.S. importers.<sup>84</sup>

The Commission likewise has jurisdiction over foreign manufacturers that import allegedly infringing articles.<sup>85</sup> In the *In re Certain Encapsulated Integrated Circuit Devices and Products Containing Same*<sup>86</sup> ("Encapsulated Circuits II") investigation, the complainant presented evidence that the respondents: (1) manufactured integrated circuit packages in Malaysia and imported the integrated circuit packages into the United States;<sup>87</sup> (2) sold the integrated circuit packages after importation through their U.S. sales offices;<sup>88</sup> (3) sold the integrated circuit packages to third parties with knowledge that these products would be installed into products for importation into the United States;<sup>89</sup> and (4) allegedly admitted such importations and sales during discovery.<sup>90</sup> In opposition, the respondents contended that they did not sell any products for importation into the United States and instead sold a service.<sup>91</sup> The respondents further alleged that they did not have the knowledge that their goods would be subsequently exported to the United States.<sup>92</sup> The Commission rejected the respondents' arguments and held that the importation requirement was satisfied by the respondents' admissions of importation, the invoices

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<sup>80</sup> See *In re Certain Battery-Powered Ride-On Toy Vehicles and Components Thereof*, USITC Pub. No. 2420, Comm'n Op. on the Issue Under Review, and on Remedy, the Public Interest, and Bonding 3, Inv. No. 337-TA-314 (Aug. 1991), 1991 ITC LEXIS 1011, at \*14.

<sup>81</sup> *Id.*, 1991 ITC LEXIS 1011.

<sup>82</sup> *Id.*, Comm'n Op. on the Issue Under Review, and on Remedy, the Public Interest, and Bonding 4-5, 1991 ITC LEXIS 1011, at \*16.

<sup>83</sup> *Id.*, Comm'n Op. on the Issue Under Review, and on Remedy, the Public Interest, and Bonding 4, 1991 ITC LEXIS 1011, at \*15.

<sup>84</sup> *Id.*, Comm'n Op. on the Issue Under Review, and on Remedy, the Public Interest, and Bonding 4-5, 1991 ITC LEXIS 1011, at \*16.

<sup>85</sup> See *In re Certain Encapsulated Integrated Circuit Devices and Products Containing Same*, Order No. 61, at 4-5, Inv. No. 337-TA-501 (June 2004), 2004 ITC LEXIS 451, at \*5-6 (finding that the Commission had jurisdiction when a foreign manufacturer imported allegedly infringing articles into the United States).

<sup>86</sup> *Id.*, Order No. 61, 2004 ITC LEXIS 451.

<sup>87</sup> *Id.*, Order No. 61, at 2, 2004 ITC LEXIS 451, at \*2.

<sup>88</sup> *Id.*, 2004 ITC LEXIS 451, at \*2.

<sup>89</sup> *Id.*, 2004 ITC LEXIS 451, at \*2.

<sup>90</sup> *Id.*, 2004 ITC LEXIS 451, at \*2.

<sup>91</sup> *Id.*, 2004 ITC LEXIS 451, at \*2-3.

<sup>92</sup> *Id.*, Order No. 61, at 3, 2004 ITC LEXIS 451, at \*3.

and shipping records that showed the respondents' integrated circuit packages shipped to addresses in the United States.<sup>93</sup>

By effectuating Section 337's statutory scheme for *in rem* jurisdiction, the ITC has developed a meaningful, and in some cases necessary, complement to patent enforcement in the district courts. The ITC provides U.S. patent holders an avenue to efficiently address offshore manufacturing of items utilizing patented technology unlawfully, and also helps to alleviate the burden on district courts that would be attendant to a multiplicity of district court suits against customers.

### *B. Domestic Industry*

A U.S. patent holder seeking to enforce an intellectual property right before the ITC must also satisfy the "domestic industry" requirement.<sup>94</sup> In short, Section 337 requires a showing that "an industry in the United States relating to articles protected by the patent . . . concerned, exists or is in the process of being established."<sup>95</sup> The domestic industry analysis is divided into two separate tests: an "economic prong" and a "technical prong."<sup>96</sup> The economic prong measures the investment that a U.S. patent holder has made in the U.S. in exploiting the patents at issue,<sup>97</sup> and the technical prong considers whether the U.S. patent holder practices its own patents.<sup>98</sup>

Under the economic prong, the patent holder may show that a domestic industry exists or is in the process of being established through "(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."<sup>99</sup> The domestic industry requirement can be satisfied by meeting any of the three subsections referenced above.<sup>100</sup> If the patent holder relies on subsections (A) and (B) to show a domestic industry, then the patent holder must also satisfy the technical prong of the domestic industry requirement.<sup>101</sup> The

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<sup>93</sup> *Id.*, Order No. 61, at 4–5, 2004 ITC LEXIS 451, at \*5–6.

<sup>94</sup> 19 U.S.C. § 1337(a)(2) (2006).

<sup>95</sup> *Id.*

<sup>96</sup> DUVALL ET AL., *supra* note 52, at app. C, III.

<sup>97</sup> *See id.* ("The economic prong examines the extent to which the intellectual property right at issue is being utilized in the United States.")

<sup>98</sup> *Id.* ("In the context of a patent-based investigation, the technical prong is satisfied if the complainant demonstrates that it is practicing the patents-in-issue in the United States.")

<sup>99</sup> 19 U.S.C. § 1337(a)(3).

<sup>100</sup> *In re* Certain Semiconductor Chips with Minimized Chip Package Size, Order No. 13: Initial Determination 5, Inv. No. 337-TA-432, (June 5, 2002) (public version of the document originally issued on January 24, 2001), 2001 ITC LEXIS 971, at \*7.

<sup>101</sup> *See In re* Certain Stringed Musical Instruments and Components Thereof, Comm'n Op. 13, Inv. No. 337-TA-586, (May 16, 2008), 2008 ITC LEXIS 755, at \*23 ("With respect to section 337(a)(3)(A) and (B), the technical prong is the requirement that the investments in plant or equipment and employment in labor or capital are actually related to 'articles protected by' the intellectual property right which forms the basis of the complaint.")

technical prong requires a showing that the domestic industry practices any claim of the asserted patent, not necessarily an asserted claim of that patent.<sup>102</sup>

In recent years, the Commission has liberalized the domestic industry requirement by allowing licensing activity alone to satisfy this requirement.<sup>103</sup> A party that shows a domestic industry based on licensing does not have to prove the technical prong.<sup>104</sup> To establish a domestic industry based on licensing, a complainant needs to show only "a sufficient nexus between complainants' domestic activities and investments and the patents at issue."<sup>105</sup> Where a complainant's licenses include more than just the asserted patents, it need not "segregate the amount of licensing activities and revenues attributable to the patents in suit."<sup>106</sup>

### 1. *Significant Investment in Plant and Equipment*

Commission opinions holding that there is a significant investment in plant and equipment usually involve multi-million dollar investments. For example, in *Certain Plastic Molding Machines with Control Systems Having Programmable Operator Interfaces Incorporating General Purpose Computers and Components Thereof II*,<sup>107</sup> ("Molding Machines") the complainant made a capital investment of \$49 million and purchased equipment worth \$29.5 million for the purchase of plastic processing machines.<sup>108</sup> The Commission found that this evidence was sufficient to establish that the complainant made a significant investment in its domestic physical plant and equipment devoted to the manufacturing of plastic molding machines.<sup>109</sup>

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<sup>102</sup> *In re* Certain Ammonium Octamolytdate Isomers, USITC Pub. No. 3668, Comm'n Op. 55, Inv. No. 337-TA-477 (Jan. 2004), 2004 ITC LEXIS 105 at \*94.

<sup>103</sup> *See, e.g., In re* Certain Semiconductor Chips with Minimized Chip Package Size and Products Containing Same (III), Order No. 31: Initial Determination, Inv. No. 337-TA-630 (Sept. 16, 2008), 2008 ITC LEXIS 1700, at \*5–6.

<sup>104</sup> *Id.*, Order No. 31: Initial Determination, 2008 ITC LEXIS 1700, at \*6.

<sup>105</sup> *In re* Certain Integrated Circuits, Processes for Making Same, and Products Containing Same, Initial Determination 155, Inv. No. 337-TA-450 (May 6, 2002), 2002 ITC LEXIS 753, at \*211–12.

<sup>106</sup> *In re* Certain Semiconductor Chips with Minimized Chip Package Size and Products Containing Same (III), Order No. 31: Initial Determination, Inv. No. 337-TA-630 (Sept. 16, 2008), 2008 ITC LEXIS 1700, at \*11.

<sup>107</sup> USITC Pub. No. 3609, Inv. No. 337-TA-462 (July 2003), 2003 ITC LEXIS 417.

<sup>108</sup> *Certain Plastic Molding Machines with Control Systems Having Programmable Operator Interfaces Incorporating General Purpose Computers and Components Thereof II*, Order No. 9: Initial Determination 3, Inv. No. 337-TA-462 (Nov. 1, 2001), 2001 ITC LEXIS 763, at \*4–5.

<sup>109</sup> *Id.*, Order No. 9: Initial Determination 3–4, 2001 ITC LEXIS 763, at \*5; *see also In re* Certain Static Random Access Memories and Integrated Circuit Devices Containing Same, Processes for Making Same, Components Thereof, and Products Containing Same, Initial Determination, Inv. No. 337-TA-325 (May 14, 1991), 1991 ITC LEXIS 418, at \*8 (finding that the complainant's revenue derived from the two products at issue demonstrated a significant investment in its physical plant and equipment, "significant employment of labor or capital, and substantial investment in the exploitation of the patents in issue.").

## 2. Significant Investment in Labor or Capital

Similar to investment in plant and equipment, the nature of the employees' activities must be significant and related to the technology at issue in the investigation.<sup>110</sup> In the *Molding Machines* investigation, the Commission found that 275 out of 804 employees involved in the direct assembly in the products at issue, was significant to constitute a domestic industry in labor and capital.<sup>111</sup>

## 3. Substantial Investment in Exploitation, Including Engineering, Research and Development, or Licensing

The Commission has held that pre-manufacturing activities can constitute a domestic industry under subsection (C), which requires a "substantial investment in its exploitation, including engineering, research, and development, or licensing."<sup>112</sup> In the *In re Certain Integrated Circuits, Processes for Making Same, and Products Containing Same*<sup>113</sup> investigation, the complainants' argued that despite the fact that their integrated circuits were manufactured overseas, its pre-manufacturing activities were sufficient to constitute a domestic industry.<sup>114</sup> The evidence showed the complainants made substantial investments in the United States in assisting their customers with: (1) the design of the integrated circuits;<sup>115</sup> (2) testing the customers' integrated circuit designs to ensure compliance with UMC design rules;<sup>116</sup> (3) working with the customers to modify the design to bring it into compliance;<sup>117</sup> and (4) providing the customers with a library of compliant designs for the integrated circuits, created by a third party vendor.<sup>118</sup> The complainants also invested in office space in California and employed third party vendors and engineers to assist customers in the design of the integrated circuits to comply with the design rules.<sup>119</sup>

The ALJ found that there was "nexus" between the complainants' domestic activities and the patents at issue because certain features of the design rules directly related to the process of the patents at issue.<sup>120</sup> Accordingly, the ALJ concluded that the complainants' established a domestic industry both under the "economic prong," because of their pre-manufacturing investments, and "technical prong," resulting from the complainants' practice of the patented method.<sup>121</sup>

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<sup>110</sup> See 19 U.S.C. § 1337(a)(3)(B) (2006).

<sup>111</sup> Certain Plastic Molding Machines with Control Systems Having Programmable Operator Interfaces Incorporating General Purpose Computers and Components Thereof II, Order No. 9: Initial Determination 3–4, Inv. No. 337-TA-462 (Nov. 1, 2001), 2001 ITC LEXIS 763, at \*4–5.

<sup>112</sup> 19 U.S.C. § 1337(a)(3)(C).

<sup>113</sup> USITC Pub. No. 3624, Inv. No. 337-TA-450 (Aug. 2003), 2003 ITC LEXIS 510.

<sup>114</sup> *Id.*, Initial Determination 148, 2003 ITC LEXIS 510, at \*437–38.

<sup>115</sup> *Id.*, Initial Determination 152, 2003 ITC LEXIS 510, at \*445.

<sup>116</sup> *Id.*, Initial Determination 152–53, 2003 ITC LEXIS 510, at \*445.

<sup>117</sup> *Id.*, Initial Determination 153, 2003 ITC LEXIS 510, at \*445.

<sup>118</sup> *Id.*, 2003 ITC LEXIS 510, at \*445–46.

<sup>119</sup> *Id.*, 2003 ITC LEXIS 510, at \*446.

<sup>120</sup> *Id.*, Initial Determination 154–55, 2003 ITC LEXIS 510, at \*448–50.

<sup>121</sup> *Id.*, Initial Determination 156, 2003 ITC LEXIS 510, at \*450–51.

As previously noted, the Commission has determined that licensing activities alone can satisfy subsection (C) of the domestic industry provision.<sup>122</sup> In a recent investigation, the Commission granted summary determination that the domestic industry requirement was satisfied by the complainant's licensing activities.<sup>123</sup> The ALJ found that: (1) over 60 companies were licensed under the complainant's technology portfolio which included the patents in suit;<sup>124</sup> (2) all of the complainant's licensing activities had taken place or had been directed from the United States;<sup>125</sup> and (3) the complainant's employees involved in licensing were located in the United States.<sup>126</sup> Notably, the ALJ rejected the respondents' argument that a complainant had to segregate the amount of licensing activities and revenues attributable to the patents in suit.<sup>127</sup> The ALJ held that a complainant was only required to show a "nexus between its licensing activities and the patents in suit."<sup>128</sup>

#### 4. Technical Prong

As noted, the technical prong is most commonly proven by a showing that a product sold by the complainant in the United States is covered by one of the claims of the asserted patent.<sup>129</sup> This element can be satisfied by a showing that engineering activity is directed towards products covered by one of the claims of the patent.<sup>130</sup> For example, in the *Encapsulated Circuits I*<sup>131</sup> investigation, both the complainant and the respondents presented witnesses to testify as to whether the complainant practiced the asserted patent at its domestic facility.<sup>132</sup> The complainant's witness testified that he had witnessed the complainant's molding operations and that the complainant used an encapsulation process covered by the claims of the asserted patent.<sup>133</sup> The respondents' witness also testified as to his familiarity of the complainant's facility and admitted that the complainant used a similar encapsulation process.<sup>134</sup> The ALJ found that based on the respondents' admissions that the complainant used a nearly identical encapsulation process, the complainant practiced the claims of the asserted patent.<sup>135</sup>

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<sup>122</sup> See, e.g., *In re Certain Semiconductor Chips with Minimized Chip Package Size and Products Containing Same (III)*, Order No. 31: Initial Determination, Inv. No. 337-TA-630 (Sept. 16, 2008), 2008 ITC LEXIS 1700, at \*5–6.

<sup>123</sup> *Id.*, 2008 ITC LEXIS 1700, at \*6, 12.

<sup>124</sup> *Id.*, 2008 ITC LEXIS 1700, at \*10.

<sup>125</sup> *Id.*

<sup>126</sup> *Id.*, 2008 ITC LEXIS 1700, at \*11.

<sup>127</sup> *Id.*

<sup>128</sup> *Id.*

<sup>129</sup> See *supra* text accompanying note 98.

<sup>130</sup> *In re Certain Plastic Encapsulated Integrated Circuits*, USITC Pub. No. 2574, Comm'n Op. on Issues Under Review and on Remedy, the Public Interest, and Bonding 18, Inv. No. 337-TA-315 (Nov. 1992), 1992 ITC LEXIS 738 (Part 1 of 6), at \*51–52.

<sup>131</sup> *Id.*, 1992 ITC LEXIS 738.

<sup>132</sup> *Id.*, Initial Determination 93, 1992 ITC LEXIS 738 (Part 3 of 6), at \*80.

<sup>133</sup> *Id.*, Initial Determination 93–94, 1992 ITC LEXIS 738 (Part 3 of 6), at \*80–81.

<sup>134</sup> *Id.*, Initial Determination 94, 1992 ITC LEXIS 738 (Part 3 of 6), at \*81.

<sup>135</sup> *Id.*, 1992 ITC LEXIS 738 (Part 3 of 6), at \*82.

## III. DISCOVERY

Another advantage to bringing a case before the ITC is its broad scope of discovery.<sup>136</sup> Pursuant to Section 337, a party can obtain discovery from third parties, including foreign entities with relative ease.<sup>137</sup> Because of the *in rem* nature of ITC proceedings, discovery against third parties, including foreign entities, begins without delay.<sup>138</sup> Moreover, while the Commission does not have the authority to compel a foreign entity to produce discovery, the Commission rules allow for evidentiary sanctions for failure to produce discovery, which in effect requires foreign parties to produce all relevant discovery, including plant inspections outside of the United States.<sup>139</sup>

The *In re Certain Semiconductor Chips with Minimized Chip Package Size and Products Containing Same* (“Semiconductor Chips”) investigation recently evaluated the breadth of ITC discovery as applied to third parties.<sup>140</sup> The complainant in *Semiconductor Chips* moved to compel the respondent to provide discovery within the scope of the investigation.<sup>141</sup> The complainant propounded interrogatories and document requests seeking information for all of the respondent’s products “constituting or containing small format laminate BGA semiconductor packages.”<sup>142</sup> The complainant alleged that the respondent limited its discovery responses to the accused products set forth in the complaint and to suppliers who were named as respondents in the investigation.<sup>143</sup> According to the complainant, it was entitled to seek information related to each of the respondent’s products whether or not those products or packages were referenced in the complaint and regardless of the supplier.<sup>144</sup>

In opposition, the respondent argued that the complaint limited the scope of the investigation to semiconductor chip assemblies designated, manufactured and supplied by named respondents.<sup>145</sup> In addition, the respondent contended that: (1) the complainant had not conducted any pre-filing investigation to justify extending the scope to all semiconductor chip assemblies used by the respondent;<sup>146</sup> (2) as a

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<sup>136</sup> See Busey, *supra* note 1, at 25 (“Discovery in Section 337 cases is quite broad . . .”).

<sup>137</sup> *Cf. id.* at 26 (“Where discovery is required from nonparties located abroad, . . . [it] is much more problematic given the expedited timetable of ITC cases and the sometimes cumbersome process involved in taking evidence abroad under the Hague Convention.”).

<sup>138</sup> See Schaumberg, *supra* note 32, at 3 (“Because of the ITC’s *in rem* jurisdiction, a complainant does not have to wait to perfect service on foreign parties under the Hague Convention . . . [and] discovery can begin as soon as the Notice of Investigation is published in the *Federal Register*.”).

<sup>139</sup> *Id.* “Although the ITC cannot issue subpoenas to compel foreign companies to divulge information or documents in the same way that it can force companies or persons located in the United States to do, the ITC can impose sanctions similar to those set forth in Rule 37 of the Federal Rules of Civil Procedure for failure to comply with discovery requests generated in an ITC investigation.” *Id.*

<sup>140</sup> *In re Certain Semiconductor Chips with Minimized Chip Package Size and Products Containing Same*, Order No. 44, Inv. No. 337-TA-605 (Feb. 14, 2008), 2008 ITC LEXIS 210.

<sup>141</sup> *Id.*, Order No. 44, at 1, 2008 ITC LEXIS 210, at \*1.

<sup>142</sup> *Id.*, Order No. 44, at 2, 2008 ITC LEXIS 210, at \*3.

<sup>143</sup> *Id.*, 2008 ITC LEXIS 210, at \*3.

<sup>144</sup> *Id.*, Order No. 44, at 2–3, 2008 ITC LEXIS 210, at \*3.

<sup>145</sup> *Id.*, Order No. 44, at 3, 2008 ITC LEXIS 210, at \*4.

<sup>146</sup> *Id.*, 2008 ITC LEXIS 210, at \*4.

downstream user of semiconductor chip assemblies, the respondent did not control the design of the semiconductor chip packaging;<sup>147</sup> (3) it was inequitable for the complainant to leverage a downstream consumer to make its infringement allegations against upstream suppliers;<sup>148</sup> and (4) the discovery requests were unduly burdensome, especially with regard to products that were designed and manufactured by third-parties.<sup>149</sup> Alternatively, the respondent asserted that it was entitled to additional time to respond and that the complainant should have been required to name its other suppliers as respondents.<sup>150</sup>

The ALJ agreed with the complainant.<sup>151</sup> In granting the complainant's motion to compel, the ALJ discussed that the Notice of the Investigation encompassed both the semiconductor chips and the products containing the semiconductor chips.<sup>152</sup> Moreover, the ALJ also rejected the respondent's argument that it was only an importer of the accused products and not a downstream user.<sup>153</sup> Instead, the ALJ held that both the respondents and its products fell within the scope of the investigation.<sup>154</sup>

#### IV. REMEDY

One of the many reasons for the Commission's increased popularity is the significant remedy that a Section 337 action provides a U.S. patent holder by the issuance of an exclusion order after a finding of violation.<sup>155</sup> An exclusion order is the functional equivalent to a permanent injunction.<sup>156</sup> While both the Commission and the district courts allow for injunctive relief, the Supreme Court's decision in *eBay v. MercExchange*<sup>157</sup> made it more difficult for patent owners to obtain a permanent injunction against infringers.<sup>158</sup> Before the *eBay* decision, permanent injunctions after a finding of infringement were nearly automatic, but *eBay* held that a plaintiff had to satisfy a four-factor test before obtaining relief.<sup>159</sup> Therefore, patent owners seeking to enforce their patent rights in district court now have a

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<sup>147</sup> *Id.*, 2008 ITC LEXIS 210, at \*4.

<sup>148</sup> *Id.*, 2008 ITC LEXIS 210, at \*4.

<sup>149</sup> *Id.*, 2008 ITC LEXIS 210, at \*4.

<sup>150</sup> *Id.*, 2008 ITC LEXIS 210, at \*5.

<sup>151</sup> *Id.*, Order No. 44, at 5, 2008 ITC LEXIS 210, at \*8.

<sup>152</sup> *Id.*, Order No. 44, at 4, 2008 ITC LEXIS 210, at \*6.

<sup>153</sup> *Id.*, Order No. 44, at 4–5, 2008 ITC LEXIS 210, at \*6–7.

<sup>154</sup> *Id.*, Order No. 44, at 5, 2008 ITC LEXIS 210, at \*7–8.

<sup>155</sup> See Schaumberg, *supra* note 32, at 4 (stating “[a]rguably the most valuable advantage that § 337 provides is the effective nature of the remedies available” including the availability of exclusion orders).

<sup>156</sup> See Hahn & Singer, *supra* note 52, at 462 (noting that “[t]he remedies available to the ITC are injunctive in nature” including “exclusion orders banning the importation of infringing products.”).

<sup>157</sup> 547 U.S. 388 (2006).

<sup>158</sup> See, e.g., Steve Seidenberg, *Troll Control: The Supreme Court's eBay Decision Sets Back Pesky 'Patent Trolls' or American Innovation, Depending Upon Which Side You're on*, 92 A.B.A. J. 51, at 52 (2006) (“That unanimous ruling changed the standard for granting injunctions in patent infringement cases, making it tougher for trolls to get them.”).

<sup>159</sup> *eBay v. MercExchange*, 547 U.S. 388, at 391 (2006).

much higher burden to meet in order to obtain a permanent injunction.<sup>160</sup> By contrast, the ITC does not follow the *eBay* test and will issue an exclusion order upon a finding of violation of Section 337.<sup>161</sup> Thus, a U.S. patent holder has greater odds in obtaining injunctive relief at the ITC compared to district court.

Moreover, as noted, another distinction between the Commission and the district courts is the Commission's *in rem* jurisdiction over infringing goods.<sup>162</sup> Such a powerful remedy allows complainants to exclude infringing goods from foreign manufacturers, importers, suppliers, and distributors who would not otherwise be subject to personal jurisdiction in district court.<sup>163</sup> Remedies range from LEOs and cease and desist orders barring the importation of the infringing products of the named respondents to GEOs that exclude all infringing products regardless of the source of importation into the United States.<sup>164</sup> GEOs are usually sought in situations involving a number of unidentified or unidentifiable infringers in addition to the named respondents.<sup>165</sup> An advantage of such an order is that a complainant can obtain relief from the importation of infringing goods without having to litigate against each infringer. Notably, GEOs and LEOs are enforced by Customs,<sup>166</sup> while cease and desist orders are enforced by the Commission.<sup>167</sup>

In addition, the Commission had long believed that it had the authority to exclude downstream products, products that incorporate the infringing product, as part of the remedy of a LEO regardless of who was named as a respondent.<sup>168</sup> The recent U.S. Court of Appeals for the Federal Circuit decision, *Kyocera Wireless Corporation v. International Trade Commission*,<sup>169</sup> however, held that the Commission lacked the statutory authority to exclude downstream products of non-respondents through a LEO.<sup>170</sup> The *Kyocera* panel did determine that the products of unnamed respondents could be reached by seeking a GEO and satisfying the heightened burdens of Section 337(d)(2).<sup>171</sup>

The *Kyocera* decision presents a future complainant with certain strategic and legal options when seeking to obtain relief. If a complainant seeks downstream relief as part of a LEO, a complainant will have to name each third party as a respondent

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<sup>160</sup> See Seidenberg, *supra* note 158, at 52 (stating that the eBay decision has created a more stringent standard for patentees to satisfy in order to obtain an injunction).

<sup>161</sup> See *id.* (stating that the ITC's rules for "injunctive-type relief are less stringent than those set out in eBay.").

<sup>162</sup> See Schaumberg et al., *supra* note 26, at 33 (noting that one advantage of a Section 337 investigation over a district court proceeding is that the Commission has *in rem* jurisdiction over infringing goods: thus, personal jurisdiction is not required).

<sup>163</sup> See Chien, *supra* note 21, at 73–74.

<sup>164</sup> Schaumberg et al., *supra* note 26, at 33.

<sup>165</sup> See *id.* ("Because of the potential disruption of legitimate international trade that a general exclusion order may cause, proof of rampant infringement by numerous infringers, including unidentified infringers, or of other indications of potential circumvention is required.").

<sup>166</sup> Hnath, *supra* note 40, at 350 ("Exclusion orders are issued by the ITC and enforced by Customs . . .").

<sup>167</sup> Chien, *supra* note 21, at 85.

<sup>168</sup> See Hahn & Singer, *supra* note 52, at 485–86 (noting that the ITC performs a balancing test when a complainant seeks to have downstream products excluded).

<sup>169</sup> 545 F.3d 1340 (Fed. Cir. 2008).

<sup>170</sup> *Id.* at 1358.

<sup>171</sup> *Id.*

in order to exclude the importation of all infringing articles.<sup>172</sup> Alternatively, if a complainant seeks relief against the infringing articles of both respondents and non-respondents, it can seek a GEO and be required to satisfy the GEOs heightened statutory requirements.<sup>173</sup>

While the size, complexity, and cost of an ITC case may increase with the addition of more respondents, it has been suggested by commentators that cases naming a larger number of respondents have resulted in more favorable outcomes for complainants and are more likely to result in the issuance of an exclusion order.<sup>174</sup> Thus, even in light of the *Kyocera* decision, the naming of the greatest number of respondents may provide a complainant with the most effective relief against the importation of infringing goods.

#### CONCLUSION

The combination of the ITC's expansive jurisdiction, sweeping remedies, swift proceedings, and experienced ALJs offers a U.S. patent holder a significant advantage in enforcing its intellectual property disputes at the ITC compared with federal district court. As long as the infringing products are manufactured abroad, patent holders, including those in the semiconductor industry, have greater bargaining power and ability to exclude competitors that diminish their market share.

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<sup>172</sup> *Id.*

<sup>173</sup> *Id.*

<sup>174</sup> See Hahn & Singer, *supra* note 52, at 461–62 (stating that “[p]atent holders are more likely to win their cases at the ITC than in district court.”).