Patent Reform and the ITC

INTELLECTUAL PROPERTY DEFENSE | JUN 04, 2014

On the heels of the recent decision by Sen. Patrick Leahy to withdraw from the Senate Judiciary Committee's agenda this term broad patent reform initiatives geared toward curbing what many consider gross misuse of the patent system by so-called "patent trolls," a more restrained approach has emerged. But this reform initiative -- dubbed "The Trade Protection Not Troll Protection Act" -- is limited to attempting to curtail "patent troll" litigation before the U.S. International Trade Commission (ITC).

The ITC had long been seen as a forum not available to -- or at least, not friendly to -- non-practicing entities (NPEs) and patent assertion entities (PAEs) because of the requirement under the Tariff Act of 1930 that a complainant at the ITC must demonstrate a domestic industry related to its asserted patents that is in need of protection from infringing articles imported to the U.S. However, because this domestic industry requirement can be satisfied by patent licensing activity alone, NPEs and PAEs have come to realize in recent years that they were not foreclosed from the ITC if they could demonstrate that they had made substantial investment in connection with efforts to license their asserted patents to others.

Because litigation at the ITC tends to be significantly more expensive to respondents (effectively, defendants) than does defense of an infringement lawsuit in district courts, and because the potential remedy available from the Commission -- *i.e.*, exclusion from the U.S. of imported articles found to infringe valid patents -- can be disastrous to respondents' businesses, ITC investigations represent a powerful "stick" in the arsenal of NPEs and PAEs. The ITC previously adopted procedures intended largely to raise the bar for potential NPE/PAE complainants, allowing for newly-instituted investigations to be subject to early determination as to whether a protectable domestic industry exists. While this effort has resulted in termination of investigations, there remains a perception that NPEs and PAEs are responsible for a growing number of new investigations at the ITC. Some have estimated that nearly 40 percent of patent-related Section 337 investigations instituted by the ITC since 2012 are based upon complaints filed by NPEs or PAEs.

In an effort to curb this trend, a bill has now been introduced in the House calling for amendments to Section 337 of the Tariff Act. Perhaps the most important among these would allow licensing activity to constitute a protectable domestic industry only when the complainant can demonstrate "substantial investment in licensing activity that leads to the adoption and development of articles that incorporate" the complainant's asserted intellectual property rights. This is a noteworthy departure from the current version of the Act, which does not require that the licensing investment lead to anything. However, if the amended language is adopted, it will likely lead to litigation over what it means to incorporate a patent, as well as what sorts of activity are sufficient to satisfy the "adoption and development" requirements.

The proposed amendments also incorporate and attempt to codify the ITC's procedure for early investigation of a complainant's alleged domestic industry in cases where that industry is based upon licensing activity, and to determine whether this requirement is satisfied before moving on to the merits of the infringement claims and defenses. Under the amended Act, the ITC must make this determination within either 45 or 75 days after filing of a complaint with the ITC. There is inconsistent language within the proposal making it unclear whether the determination is made within 45 days after filing of the complaint, or 45 days after institution of the investigation, which generally occurs a month after the complaint is filed. In either event, though, this provision dramatically speeds up the initial determination -- currently made within 100 days after institution -- to a degree that may not be practically possible.

Finally, the proposed amendments to the Tariff Act also seeks to expand the Commission's consideration of public interest factors when making final determinations about importation after a complainant proves its infringement case. Previously, the Commission was empowered to decide against excluding infringing articles from importation in those rare instances where public health, safety, and welfare would be endangered by the ban. Under the proposed amendment, though, the Commission would also be allowed to consider the competitive conditions within the U.S. when deciding whether the public interest might be harmed by exclusion of the infringing articles.