STATEMENT OF

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IP Litigation and the US International Trade Commission

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INTRODUCTION

Chairman Jordan, Chairman Issa, Ranking Member Nadler, Ranking Member Johnson, and Members of the Subcommittee:

Thank you for this opportunity to speak with you today about Intellectual Property Litigation before the U.S. International Trade Commission.[1] I have viewed Section 337 Investigations for over 30 years from the perspective of a litigator, an in-house counsel and now as academic. During that time, Congress strengthened Section 337 to make it an effective tool to address infringement of U.S. intellectual property rights by unfair imports.[2]

[1] Professor Doane is speaking on his own behalf, and his views do not necessarily reflect the views of any institution with which he is affiliated.

[2] Uruguay Round Agreements Act of 1994, Pub. L. 103-465, 108 Stat. 4809 (1994); Omnibus Trade and Competitiveness Act of 1988, Pub. L. 100–418, 102 Stat. 1107 (1988).

Of particular concern was the protection of innovation centers such as startups, universities and individual inventors.[3] Proposals to restrict access to relief under Section 337 should be carefully considered first to ensure that they do no harm to this important sector of the United States' innovation economy.

ADVANTAGES OF SECTION 337

Although not itself an intellectual property rights statute, Section 337 of the Tariff Act of 1930, 19 U.S.C. § 1337, as Amended, plays an important and valuable role in the enforcement of intellectual property rights in the United States. The advantages Section 337 provides to U.S. intellectual property rights (IPR) owners are well documented:

- Expert Administrative Law Judges;
- Comparatively expedited proceedings;
- *In rem* jurisdiction;
- Broad discovery; and
- Effective relief.

It is perhaps this last advantage, effective relief against infringing imported products in the form of an exclusion order, that is the most significant.

Monetary damages are certainly important, but the ability to develop and market one's own product free from unfair competition from an infringing imported product, particularly for a small startup company, is infinitely more important. Small companies that rely on intellectual property, whether technology-based startups or small manufacturers of consumer products, face numerous challenges bringing a product to market even without the added distraction of enforcing intellectual property rights. When faced with infringing imports, the high cost of potential litigation, including the threat of post grant reviews at the U.S. Patent and Trademark Office, may effectively deter a small company from seeking to enforce its intellectual property rights, particularly against a well-funded infringer. Section 337 investigations are also a potentially expensive endeavor, but offer an effective remedy, if successful.

Section 337 is frequently the most effective option for addressing two specific challenges that startup companies face:

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[3] H.R. Rep. No. 100–40, Pt. 1, at 155 (1987); S. Rep. No. 100–71, at 128 (1987).

- Patent holdout – a large well-funded infringer uses its size and market dominance to ignore the IPR owner's claims, impose its own product on the market and usually seek to litigate the IPR owner into oblivion.[4]

- Infringers offering their products in online marketplaces such as Amazon.com.

Without the *in rem* protections of Section 337, small entities could be forced, in effect, to license their technology to large importers at only a "reasonable royalty" as determined by a district court (after years of litigation). Policing large online marketplaces to take down infringing products would be substantially more difficult, if not impossible. It is important that small entities have an avenue through which infringing products can be removed from the marketplace in a more efficient manner.

PATENT TROLLS AT THE USITC

In 2006, the U.S. Supreme Court held in *eBay Inc. v. MercExchange, L.L.C.,* 547 U.S. 388 (2006) that patent holders in U.S. District Court litigation must satisfy the standard four-factor test, including a showing of irreparable harm, to obtain a permanent injunction against continued patent infringement. Since then, debate has been particularly vociferous as to the proper scope of Section 337. Because Section 337 does not require a showing of either injury or irreparable harm to obtain an exclusion order from the USITC to bar importation of infringing products into the United States,[5] allegations of purported misuse of Section 337 by non-practicing entities (NPE), including patent assertion entities (PAE), euphemistically called "patent trolls," have arisen. Although Section 337 is used by some PAEs to enforce their intellectual property rights, the claims of a "flood" of Section 337 complaints by such entities is overstated and not born out by the data.

The USITC annually publishes statistics setting forth the number of Section 337 investigations filed by NPEs. For this analysis, the USITC divides NPE's into two categories:

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[4] Colleen V. Chien, *Holding Up and Holding Out,* 21 MICH. TELECOMM. & TECH. L. REV. 1, 20 (2014).

[5] To strengthen Section 337, Congress, in the 1988 amendments, specifically removed injury as a requirement for obtaining relief under Section 337 for investigations involving infringement of a federally registered intellectual property right. Omnibus Trade and Competitiveness Act of 1988, Pub. L. 100–418, 102 Stat. 1107 (1988).

> *Category 1 NPEs*. Entities that do not manufacture products that practice the asserted patents, including, e.g., inventors who may have conducted R&D or built prototypes but do not make a product covered by the asserted patents and therefore rely on licensing to meet the domestic industry requirement; research institutions, such as universities and laboratories, that do not make products covered by the patents, and therefore rely on licensing to meet the domestic industry requirement; start-ups that possess IP rights but do not yet manufacture products that practice the patent; and manufacturers whose own products do not practice the asserted patents.
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> *Category 2 NPEs*. Entities that do not manufacture products that practice the asserted patents and whose business model primarily focuses on purchasing and asserting patents.[6]

Although gray areas may exist, these categories seek to distinguish between innovative NPEs (startups, universities, etc.) and the less favored "revenue driven" PAEs. This division is useful for statistical analysis, but unfortunately such classifications do not prevent Category 1 NPEs from being negatively impacted by reforms intended to address the activities of Category 2 NPEs, i.e., PAEs.

These statistics reveal that since the 2006 *eBay* decision, Section 337 complaints filed by Category 2 NPEs accounted for approximately 8% of all Section 337 complaints and averaging less than 4 complaints per year.[7] Over the same period, Section 337 complaints filed by Category 1 NPEs accounted for approximately 11% of all Section 337 complaints and averaging between 4 to 5 complaints per year. Over this 18-year period the number of Category 1 complaints remained reasonably consistent each year with the highest number of complaints (10) filed in 2023. The Category 2 numbers are slightly skewed as approximately 60% of these complaints were filed in two short spans, 2011-2013 and 2021-2022. The average for the remaining 13 years is approximately two complaints per year and approximately 5% of all Section 337 complaints. As the USITC noted, those alleging that NPEs were increasing the caseload at the USITC "have not offered a convincing analysis of the data on investigation institutions to support this suggestion."[8] Moreover, the efforts to reform Section 337 to address purported abuses fail to distinguish adequately between true PAEs and small non-manufacturing innovators

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[6] https://www.usitc.gov/intellectual_property/337_statistics_number_section_337_investigations.htm

[7] The percentages set forth in this section are the Witness's calculations based on the data published by the USITC. This data only shows the number of complaint filed, not whether complainants succeeded in obtaining relief.

[8] *Facts and Trends Regarding USITC Section 337 Investigations*, April 15, 2013.

such as startups, universities and individual inventors and often negatively impact these entities.

SECTION 337 AND SMALL INNOVATORS

Section 337 is a trade remedy statute, not an intellectual property statute, and is designed to address unfair acts or unfair methods of competition in the importation of articles into the United States. Domestically manufactured articles are exempt from Section 337. To obtain relief under Section 337, a complainant must establish certain trade elements, i.e., importation, domestic industry and, in certain cases, injury to a domestic industry. Prior to 1988, a domestic industry had to be based on manufacturing or production-related activities in the United States. In the context of patent infringement, that meant that the complainant expended resources to produce or manufacture an article that practiced a claim of the asserted patent and was manufactured, at least in part, in the United States.[9] Recognizing the growing importance of innovation and technology transfer to the United States economy, in 1988 Congress amended Section 337 to permit a domestic industry relating to an intellectual property right to be based on "substantial investment in its exploitation, including engineering, research and development, or licensing."[10]

The legislative history of these amendments makes evident the intent of Congress to aid non-manufacturing innovators by giving them access to relief under Section 337. One of the original drafters of these amendments, Senator Lautenberg, stated:

> For those who make substantial investments in research, there should be a remedy. For those who make substantial investments in the creation of intellectual property and then license their creation, there should be a remedy. . . . This provision should enable independent inventors and small businesses who otherwise lack the capacity to produce their product to seek relief under Section 337. Substantial investment for these intellectual property owners should be defined in terms of the labor, time, as well as financial resources they have committed to developing, patenting, or licensing their inventions. Smaller businesses should not be denied the right to seek relief merely because they may have made smaller financial

[9] *Schaper Mfg. Co. v. USITC,* 717 F.2d 1368 1372-73 (Fed. Cir. 1983).
[10] Omnibus Trade and Competitiveness Act of 1988, P.L. 100–418, 102 Stat. 1107, Aug. 23, 1988.

investments than large companies in developing or exploiting an intellectual property right.[11]

This legislative purpose has become obscured as large importers of high technology-based products have shifted the focus of the debate to alleged "patent hold-up" when their products face exclusion from importation into the United States.

Much of the concern centers around circumstances in which the infringing component or functionality is part of a larger product that would be the subject of the exclusion order. What many do not appreciate, however, is that these importers make a business decision to expend billions of dollars to develop infrastructure to manufacture their products abroad, particularly in China.[12] This decision is what subjects their products to the jurisdiction of the USITC. Such importers, however, claim that barring the importation of such an article because of one patent would harm consumers or distort competition, in essence arguing that, even without a serious effort to obtain a license, the infringer is too big to infringe.

Congress understood that Section 337 could support innovation by protecting entities whose business models do not include manufacturing such as universities, individual inventors, startup companies or other entities that may be unable to develop or bring a commercial product to market. Some are unable to do so due to lack of funding, whereas others may have difficulty entering the market because of unfair competition from infringing importers, particularly those that engage in "patent holdout."

Patent hold-out is described as "the practice of companies ignoring patents and patent demands because the high costs of enforcing patents makes prosecution unlikely - or, in other words, because they can get away with it."[13] The difficulties faced by startup companies confronting a well-funded accused infringer are illustrated in two recent Section 337 investigations in which, after years of district court litigation and multiple IPR proceedings before the U.S. Patent Trial and Appeal Board (PTAB), the only relief the startups have been able to secure thus far are limited exclusion orders issued by the USITC (one of which is currently stayed).[14] These cases epitomize why Section 337 provides the

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[11] 100 Cong. Rec. S 10714 (Aug. 3, 1988).
[12] *See e.g.*, Patrick McGee, *How Apple Tied Its Fortunes to China*, The Financial Times (January 17, 2023); https://www.ft.com/content/d5a80891-b27d-4110-90c9-561b7836f11b
[13] Colleen V. Chien, *Holding Up and Holding Out,* 21 MICH. TELECOMM. & TECH. L. REV. 1, 20 (2014).
[14] *Certain Light-Based Physiological Measurement Devices and Components Thereof, Inv. No. 337-TA-1276; Certain Wearable Electronic Devices with ECG Functionality and Components Thereof*, Inv. No. 337-TA-1266.

most, and quite frequently only, effective remedy for small or non-manufacturing innovators against the infringing imports of opportunistic patent holdouts.

Unfortunately, many of the actions taken to make the USITC and Section 337 less attractive to Category 2 NPEs (aka patent trolls) apply with equal force to and to the detriment of Category 1 NPEs (startups, universities, etc.) For example, a complainant in the early stages of developing a product such as a startup or a university,[15] an entity not expected to manufacture a product, may be precluded from seeking relief under Section 337 because they cannot prove the existence of a sufficiently developed product. Small entities such as startups typically cannot develop their inventions into marketable products without the prospect of near-term market returns. Such returns are unlikely if a larger competitor is already on the market with an infringing product. As a result, a startup company may be denied a Section 337 exclusion order simply because a larger, better-funded company may use its market dominance to keep the startup from fully developing its product.

ONLINE MARKETPLACES

Another problem faced by small startup companies, particularly those that produce small consumer goods, is the almost immediate availability of inexpensive knockoff products in online marketplaces such as Amazon.com. Infringing goods are offered by countless (usually Chinese) entities, sometimes with the same or similar address. When challenged, such online entities easily disappear and re-emerge elsewhere under a different name. Some online marketplaces claim to have procedures in place to address such infringement, but the value and effectiveness of what is essentially an infringer itself policing the other infringers in its online marketplace is, at best, questionable. This is particularly true when these online marketplaces actively recruit and induce these infringers to sell on their website.[16]

This issue can be effectively addressed by Section 337. Using Section 337's general exclusion order procedure, a complainant can sweep the marketplace of infringing products rather than try to knock them down one at a time in the equivalent of a game of Whac-A-Mole. To obtain such relief a complainant already must meet a higher standard of proof, i.e. potential circumvention of a limited exclusion order and difficulty identifying

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[15] *Certain Filament Light-Emitting Diodes and Products Containing Same, Inv. Nos. 337-TA-1220.*
[16] *See, e.g.,* Wade Shepard, *How Amazon's Wooing of Chinese Sellers is Killing Small American Businesses*, Forbes, Feb. 14, 2017.

infringers.[17] The ability to address infringement even if the infringers are not a named respondent is an advantage unique to Section 337 that should not be impeded by further limitations on access to Section 337.

CONCLUSIONS

Section 337 provides U.S, intellectual property rights owners unique and effective relief against infringing products imported into the United States. The USITC and the U.S. Court of Appeals for the Federal Circuit have already taken steps to limit the ability of patent trolls to use Section 337 through tightening the domestic industry requirement. Efforts to address purported abuse will ultimately negatively impact those that Section 337 was expressly amended to protect. Amendments to Section 337, therefore, are unnecessary.

[17] 19 U.S.C. § 1337(d)(2).