

SECTION 337 PROCEEDINGS BEFORE  
THE INTERNATIONAL TRADE COMMISSION:  
ANTIQUATED LEGISLATIVE COMPROMISE OR  
MODEL FORUM FOR PATENT  
DISPUTE RESOLUTION?

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INTRODUCTION

In 1922, Congress passed the first version of Section 337 regulating international trade and prohibiting importers from engaging in unfair methods of competition. After numerous statutory amendments, the International Trade Commission (“ITC”) has become a popular forum for patentees trying to keep an infringing product from entering the U.S. market. The ITC provides a functionally different mechanism than district court litigation, and familiarity with the lexicon of the ITC is helpful in understanding the differences between the procedures of the ITC and those of district courts. Proceedings at the ITC are officially referred to as investigations conducted by an Administrative Law Judge (“ALJ”) where the patentee is the complainant and the alleged infringer is the respondent. The venue’s primary benefits are its speed and *in rem* jurisdiction that enables the ITC to stop importations even if a foreign respondent is outside of the federal courts’ jurisdictional reach.

However, Section 337 has recently drawn harsh criticism from academics.<sup>1</sup> The arguments range from grievances about how Section 337 investigations have diverged from the substantive patent law applied in the federal courts to empirical

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1. See, e.g., Colleen Chien, *Patently Protectionist? An Empirical Analysis of Patent Cases at the International Trade Commission*, 50 WM. & MARY L. REV. 63 (2008); 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 (2008); Sapna Kumar, *The Other Patent Agency: Congressional Regulation of the ITC*, 61 FLA L. REV. 529 (2009).

evidence allegedly showing bias against respondents.<sup>2</sup> While the reasoning varies, all of these complaints reach the same conclusion: Section 337 investigations are broken and need to be fixed.

Some of the criticism of Section 337 may be persuasive, but none of the commentators have addressed the statute's positive aspects. For example, the quick and efficient discovery procedures used in Section 337 investigations can serve as a model for other patent forums. While the ITC is a unique patent forum and there are some constraints on what aspects can be carried over to other forums, an inquiry into some of the beneficial facets can provide some insight into effective mechanisms for resolving patent disputes. At a time when many are calling on Congress to drastically reform the patent system, no potential lesson can be overlooked.

The following sections consider Section 337's past, present, and future legacy in more detail. Part I provides an abridged legislative history of Section 337, including the statute's historical context. Part II reviews some modern criticism of Section 337 investigations and considers the merit of each. Part III describes how some of the beneficial aspects of Section 337 investigations could be incorporated into a new or existing patent forum.

## I.

### LEGISLATIVE HISTORY OF 19 USC §1337

#### A. *Tariff Act of 1922 and the Smoot-Hawley Tariff Act (1930)*

Section 337's earliest form was Section 316 of the 1922 Tariff Act, which made it unlawful for importers to engage in unfair methods of competition.<sup>3</sup> This law empowered the President to prevent such unfair competition by imposing duties on imports or altogether excluding them from the domestic market.<sup>4</sup>

In 1930, Section 316 was replaced by Section 337 of the Smoot-Hawley Tariff Act, which contained language substantially similar to that of the first law. Seen as a generally protectionist law, the Smoot-Hawley Tariff Act also enacted tariffs on

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2. *Id.*

3. Tariff Act of 1922, § 316(a), Pub. L. No. 67-318, 42 Stat. 858 (1922).

4. *Id.*

a variety of goods at the beginning of the Great Depression.<sup>5</sup> However, both the 1922 Tariff Act and the Smoot-Hawley Tariff Act were rarely used to enforce patent rights because they provided no formal procedures for a patentee to obtain relief.<sup>6</sup> These early laws only empowered the President to take action based on a recommendation from the Tariff Commission (the predecessor agency of the ITC). In order to obtain relief, a complainant would have to first prove his or her case to the Tariff Commission and then convince the President to block the importation. As a result, few patentees pursued infringement remedies under this version of Section 337.<sup>7</sup>

### B. 1974 Trade Act

Congress enacted the Trade Expansion Act to open up trade in 1962,<sup>8</sup> but domestic industries resisted and lobbied for trade quotas and other protectionist measures. The Trade Expansion Act expired in 1967, and a legislative gridlock continued until the country entered a recession in 1970.<sup>9</sup> Faced with a dire economic horizon, the Nixon administration proposed the 1974 Trade Act as a compromise between the free trade requested by growing corporations and the protectionist measures sought by unions.<sup>10</sup>

To balance the removal of many trade constraints, the 1974 Trade Act formally replaced the Tariff Commission with the ITC and granted the ITC broad powers for protecting against unfair trade practices such as patent infringement. Most importantly, the 1974 Trade Act formalized ITC proceedings by bringing them under the Administrative Procedures Act and giving the ITC final decision-making authority that

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5. However, some critics think that the Smoot-Hawley Tariff Act may have deepened and extended the problems of the Great Depression. See, e.g., Robert E. Hudec, "Circumventing" Democracy: *The Political Morality of Trade Negotiations*, 25 N.Y.U. J. INT'L L. & POL. 311 (1993).

6. 133 Cong. Rec. H 2548 (Apr. 28, 1987).

7. Kumar, *supra* note 1, at 544.

8. Pub. L. No. 87-794, 76 Stat. 878 (1962).

9. See That W. Mirer, *The Distributional Impact of the 1970 Recession*, 55 REV. OF ECON. & STAT. 214 (1973) (citing an unemployment rate of 6.1 percent); Stephen P. Magee, *Currency Contracts, Pass-through, and Devaluation*, 1973 BROOKINGS PAPERS ON ECONOMIC ACTIVITY 303 (discussing American currency's departure from the gold standard in 1971).

10. See Kumar, *supra* note 1, at 543.

was only subject to Presidential veto for policy reasons.<sup>11</sup> The law also authorized the use of all legal and equitable defenses, such as patent invalidity and unenforceability, in ITC investigations.<sup>12</sup> After these amendments, Section 337 proceedings evolved into formal investigations akin to litigation,<sup>13</sup> and the ITC's popularity increased as a forum for patent disputes because patentees could more effectively block infringing imports from the U.S. markets.<sup>14</sup>

The statute also imposed 12-month deadlines on investigations with an exceptional 18-month deadline for "more complicated" investigations.<sup>15</sup> This statutory mandate illuminates the distinct speed advantage that Section 337 proceedings offer patentees over district court litigation, in which cases can linger for years before reaching trial.<sup>16</sup>

### C. *Omnibus Trade and Competitiveness Act of 1988*

Even though the ITC's authority to issue exclusion orders was codified by the 1974 Trade Act, patentees still found some of the elements required for a Section 337 complaint to be onerous. In particular, complainants were required to show that the domestic industry was efficiently and economically operated and that the importation of infringing goods would be a "substantial cause of serious injury" to the industry.<sup>17</sup> Many patentees were unable to produce the requisite evidence about their operations and sales, and some that were able to do so would still avoid the forum to protect their confidential information.<sup>18</sup> Moreover, the ITC had difficulty adjudicating these complex economic issues because they fall outside the scope of the ALJs' expertise on issues of patent law.<sup>19</sup>

11. Trade Act of 1974, Pub. L. No. 93-618, 88 Stat. 1978 (1975).

12. *Id.*

13. Chien, *supra* note 1, at 73.

14. See DONALD K. DUVALL ET AL., UNFAIR COMPETITION AND THE ITC: ACTIONS BEFORE THE INTERNATIONAL TRADE COMMISSION UNDER SECTION 337 OF THE TARIFF ACT OF 1930 2 (West 2008).

15. Trade Act of 1974.

16. See DUVALL, *supra* note 14, at 2.

17. Trade Act of 1974 § 201(b)(1).

18. U.S. GEN. ACCOUNTING OFFICE, INTERNATIONAL TRADE: STRENGTHENING TRADE LAW PROTECTION OF INTELLECTUAL PROPERTY RIGHTS, GAO/NSIAD-86-150, 24-32 (1986) [hereinafter "GAO Report"].

19. *Options to Improve the Trade Remedy Laws: Hearing Before the Subcomm. on Trade*, 98th Cong. 18 (1983).

In response, Congress passed the Omnibus Trade and Competitiveness Act of 1988 ("the 1988 Act").<sup>20</sup> The two most significant changes were the removal of the injury requirement for complaints based on intellectual property violations and the elimination of the requirement that a domestic industry be efficiently and economically operated.<sup>21</sup> The 1988 Act further clarified and broadened what qualifies as a domestic industry.<sup>22</sup> In addition to these prominent changes, the 1988 Act also made several other procedural and substantive changes to strengthen the effectiveness of the statute as a forum for intellectual property enforcement.<sup>23</sup>

#### D. *Uruguay Round Agreements Act (1994)*

With the domestic industry requirement relaxed and the economic tests removed altogether, the ITC became a more effective venue for patent enforcement.<sup>24</sup> As patentees began to utilize the ITC, a general trend towards the international harmonization of intellectual property law led to the U.S. signing of the General Agreement on Tariffs and Trade ("GATT") at the Uruguay Round Agreements in 1994.<sup>25</sup> A principal feature of the Uruguay Round Agreements required all signatory countries to treat imports no less favorably than domestic products,<sup>26</sup> and some foreigners claimed that the ITC violated this requirement.<sup>27</sup> In particular, the aggressive schedules, ab-

20. Pub. L. No. 100-418, 102 Stat. 1107 (1988).

21. See DUVALL, *supra* note 14, at 2-3.

22. A domestic industry can be shown through "(A) significant investment in plant and equipment, (B) significant employment of labor or capital, or (C) substantial investment in [a patent's] exploitation, including engineering, research and development, or licensing." 19 U.S.C. § 1337(a)(3) (1988).

23. For example, the amendment codified the use of cease-and-desist orders covering products previously imported and authorized sanctions for employing inequitable strategies during an investigation. See DUVALL, *supra* note 14, at 4-5.

24. *Id.* at 2.

25. Final Act Embodying the Results of the Uruguay Round of Multilateral Trade Negotiations, Apr. 15, 1994, 33 I.L.M. 1125 (1994).

26. This requirement is typically referred to as "national treatment."

27. See Report of the Panel, *United States-Imports of Certain Automotive Spring Assemblies*, L/5333 (May 26, 1983), GATT B.I.S.D. at 30S/107 (1984); Report of the Panel, *United States-Section 337 of the Tariff Act of 1930*, L/6439 (Nov. 7, 1989), GATT B.I.S.D. at 36S/345 (1990).

sence of counterclaims for respondents, and potential for concurrent district court litigation against a respondent were examples of Section 337's alleged procedural bias against foreign respondents.<sup>28</sup>

As a quick fix, the Uruguay Round Agreement Act of 1994 changed the text of the statute but had little pragmatic effect on its operation. To overcome the criticism of the short deadlines in Section 337 investigations, the 1994 Act eliminated the 12-month and 18-month statutory time limits for completing investigations and replaced them with a more lenient procedure requiring the ITC to set adjustable target dates for completion.<sup>29</sup> However, this textual change has had little effect on the ITC's operation because target dates are still typically set at 14 to 15 months from the commencement of an investigation.<sup>30</sup> Congress further tweaked the text of Section 337 so that respondents can file counterclaims in Section 337 proceedings, but specified that any counterclaims must be immediately removed to a federal district court.<sup>31</sup> Congress also removed any potential burden arising from parallel district court and ITC disputes by allowing an alleged infringer to stay any claim in district court litigation while an ITC investigation involving the same issues is pending.<sup>32</sup> There were several other procedural changes included in the 1994 Act but, overall, the Act has had little meaningful effect on Section 337 investigations.<sup>33</sup> In general, the 1994 Act is seen as a half-hearted effort to conform Section 337 to the letter of the GATT Uruguay Round Agreements.<sup>34</sup>

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28. *Id.*

29. Uruguay Round Agreements Act, § 321, Pub. L. No. 103-465, 108 Stat. 4809 (1994),

30. DUVALL, *supra* note 14, at 9-10.

31. 19 U.S.C. § 1337(c).

32. 28 U.S.C. § 1659.

33. *See* DUVALL, *supra* note 14, at 7-13.

34. *See* Chien, *supra* note 1, at 77-78.

## II. MODERN CRITICISM

### A. *Section 337 Has Strayed from its Original Purpose of Protecting Domestic Industry*

Critics have argued that the ITC's broad reach harms domestic industry in today's global economy.<sup>35</sup> With the elimination of the injury requirement and general relaxation of the domestic industry requirement, some fear that patentees will use ITC investigations to interfere with the overseas production efforts of domestic companies.<sup>36</sup> For example under the current law, a foreign owner of a U.S. patent could use Section 337 to exclude infringing components that a domestic company is importing. In fact, that exact scenario occurs in 14 percent of the Section 337 investigations.<sup>37</sup> While this may initially seem at odds with the purpose of Section 337, it is important to keep an open mind about what it means to protect domestic industry.

To properly consider the purpose of Section 337, one must begin with the earliest form of the statute—the Tariff Act of 1922. The text of the 1922 Tariff Act covers methods of competition and importations “the effect or tendency of which is to destroy or substantially injure an industry, efficiently and economically operated, in the United States, or to prevent the establishment of such an industry.”<sup>38</sup> This language clearly emphasizes domestic industry, but does not exclude a global firm with a substantial domestic presence. Perhaps the 1922 Tariff Act failed to address such a situation because global supply chains were logistically impossible at the time. Nonetheless, the Act failed to distinguish between exclusively domestic firms and global firms with domestic operations. After the 1922 Tariff Act, the domestic industry requirement then played a role, albeit indirectly, in the 1974 Trade Act. The 1974 Trade Act was largely meant to liberalize trade but, as part of the compromise made with labor unions, Congress expanded the ITC's powers to guard against unfair importation

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35. See, e.g., Kumar, *supra* note 1.

36. *Id.*

37. Chien, *supra* note 1, at 89-90 (finding 14 percent of Section 337 investigations involve foreign complainants and at least one domestic respondent).

38. Tariff Act of 1922 § 316(a).

activities.<sup>39</sup> Given the unions' acquiescence to the compromise, they likely viewed Section 337 as a means to protect American jobs through the domestic industry requirement.

The most significant congressional treatment of the domestic industry requirement is found in the legislative history of the 1988 Act. As Congress stated in its findings, the ITC's protection at that time was "cumbersome and costly and ha[d] not provided United States owners of intellectual property rights with adequate protection against foreign companies violating such rights."<sup>40</sup> To correct this problem, the 1988 Act removed the injury requirement under the rationale that an intellectual property right is a bargain between the public and an inventor,<sup>41</sup> and any infringement inherently diminishes the value of the right and harms the public interest by discouraging future inventions.<sup>42</sup> The Act also clarified the meaning of domestic industry to include "(A) significant investment in plant and equipment, (B) significant employment of labor or capital or (C) substantial investment in exploitation of the patent, including engineering, research and development, or licensing."<sup>43</sup> Some argue that, through these changes, Congress unknowingly opened the door to potential investigations initiated by both domestic and foreign U.S. patent holders against domestic companies.<sup>44</sup> However, evidence shows that Congress was aware of this possibility because the legislative history contains several warnings that broadening the scope of Section 337 would have such an effect.<sup>45</sup> Given that Congress ac-

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39. See Kumar, *supra* note 1, at 542-44.

40. Pub. L. No. 100-418, 1341, 102 Stat. 1107, 1212 (1988).

41. Sometimes called the "contract theory" of patent rights, the theory is based on the reasoning that an inventor deserves a limited monopoly in exchange for full disclosure of his invention to the public.

42. H.R. Rep. No. 100-40, at 156 (1987).

43. 19 U.S.C. § 1337(a) (3).

44. Kumar, *supra* note 1, at 550.

45. See GAO Report, *supra* note 18, at 85 (listing warnings from the ITC's chairwoman that the amendments would turn the ITC into a "forum for the adjudication of intellectual property rights" that spent "the bulk of its time refereeing disputes among importers jockeying for market share in the United States, and would no longer concern itself with the affect (*sic*) of the unfair acts alleged on U.S. production facilities and jobs."); *Comparing Major Trade Bills, Hearing on S. 460, S. 636, and H.R. 3, Before the S. Finance Comm.*, 100th Cong. 344, 347 (1987) (warning that foreign companies would be able to use the ITC against U.S. companies that import goods).

ted in the face of such warnings, Congress might have had a fundamentally different understanding of how the ITC would protect domestic industry.

The domestic industry requirement from the 1988 Act has formed the basis for the current standard used by the ITC. For an investigation to proceed, a complainant must show that: (1) the patentee or its licensee practices at least one claim<sup>46</sup> and (2) the patentee engages in activities that qualify as a domestic industry under Section 337.<sup>47</sup> Critics argue that this standard does not protect domestic industry in the modern, globalized economy.<sup>48</sup> As domestic companies globalize their operations, a large portion of manufacturing has been outsourced, and most supply chains include at least one imported component.<sup>49</sup> This exposes domestic companies to potential Section 337 investigations on the imported components. Moreover, foreign companies are more likely to own U.S. patents as they develop a global presence and, as long as they are selling a product or licensing the patent in the U.S., they can qualify as domestic industry under the expanded definition.<sup>50</sup> Once a foreign company has met the domestic industry threshold, it can then prompt the ITC to investigate infringement of its U.S. patents. Critics believe that these scenarios pose direct conflicts with the ITC's purpose of protecting domestic industry.<sup>51</sup>

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46. The practiced claim does not have to be the claim asserted in the investigation. See *In re Certain Microsphere Adhesives, Process for Making Same, and Products Containing Same, Including Self-stick Repositionable Notes*, Inv. No. 337-TA-366, 1996 ITC LEXIS 5, Comm'n Op. at 7-16 (1996), *aff'd sub nom.*, *Minnesota Mining & Mfg. Co. v. U.S. Int'l Trade Comm'n*, 91 F.3d 171 (Fed. Cir. 1996).

47. A domestic industry can be shown through any one of "(A) significant investment in plant and equipment, (B) significant employment of labor or capital, or (C) substantial investment in [a patent's] exploitation, including engineering, research and development, or licensing." 19 U.S.C. § 1337(a)(3) (1988). See *In re Certain Liquid Crystal Display Devices and Products Containing the Same*, Inv. No. 337-TA-631, 2008 ITC LEXIS 1835, Comm'n Op. at 7 (2008).

48. See, e.g., Kumar, *supra* note 1.

49. See Chien, *supra* note 1, at 89.

50. See Kumar, *supra* note 1, at 550.

51. See Chien, *supra* note 1, at 92; Hahn & Singer *supra* note 1, at n. 89; Kumar, *supra* note 1, at 549-51.

While ITC investigations into the importation activities of domestic companies might not coincide with the traditional perception of the ITC's role as a protectionist agency, one must still consider that such investigations protect an aspect of domestic industry and therefore fall within the legislative intent of Section 337. For example, any investigation into an imported product will protect the jobs of Americans producing a competing product regardless of whether the importing company is domestic or foreign. The existence of U.S. jobs is one of the factors that Congress sanctioned for determining the existence of a domestic industry.<sup>52</sup> Therefore, this economic activity must be part of the domestic industry that Congress meant for Section 337 to protect. In another example, an investigation arising out of a complaint from a foreign company with a qualifying domestic industry will protect that company's investment in the U.S. and encourage other foreign companies to develop a U.S. presence. While such activity may not qualify as an exclusively domestic industry, it is still an industry operating within the U.S. and contributing to the U.S. economy.

A critic may take issue with the fact that, under the expanded definition of domestic industry, a foreign company with a U.S. patent licensing program qualifies as having a domestic industry even though the company may have no other U.S. operations. However, such patent licensing programs will still generally benefit the U.S. by bringing new technologies into the country that may lead to domestic innovation or new products for improving domestic industries.<sup>53</sup>

Despite the fact that there is a general benefit from new technology, the expanded definition of domestic industry may still create some situations in which an exclusion order would harm the domestic economy to the extent that any general benefit is negated. One potential solution would be an amendment of Section 337 to redefine domestic industry as excluding non-manufacturing patentees, but this change would require legislative action and that is unlikely to occur until an agreement is reached on comprehensive patent reform. Another potential solution would be for the ITC to make increased use of the public interest analysis that is already man-

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52. 19 U.S.C. § 1337(a)(3)(B).

53. GAO report, *supra* note 18, at 35.

dated by Section 337. The ITC can withhold exclusion orders in the interest of “public health and welfare, competitive conditions in the United States economy, the production of like or directly competitive articles in the United States, and United States consumers.”<sup>54</sup> Through increased use of this analysis, the ITC can limit exclusion orders that, when balanced with any potential benefits, pose a net harm to domestic industry.

B. *Section 337 Provides a Near Guarantee of Injunctive Relief if Complainant Succeeds*

Some critics have argued that exclusion orders, as the default remedy in a Section 337 investigation, conflict with the current standard for granting injunctive relief in district court litigation.<sup>55</sup> Exclusion orders are generally similar to injunctions granted by district courts because they prevent an infringing product from entering the market, but exclusion orders do not include any monetary compensation for past infringement. The basis for exclusion orders rests in the ITC’s *in rem* jurisdiction over imported products<sup>56</sup> and, even if it were authorized by Section 337, monetary relief would not be possible in many cases because the ITC often lacks *in personam* jurisdiction over foreign respondents.<sup>57</sup> While an exclusion order is the default remedy, the ITC can modify or deny any remedy based on public interest factors such as the “public health and welfare, competitive conditions in the United States economy, the production of like or directly competitive articles in the United States, and United States consumers.”<sup>58</sup> However, this exception is rarely exercised by the ITC and has only been used in four instances.<sup>59</sup>

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54. 19 U.S.C. § 1337(d)

55. See Kumar, *supra* note 1, at 566; see also Chien, *supra* note 1, at 78.

56. *In re* Certain Steel Rod Treating Apparatus, Inv. No. 337-TA-97, 215 U.S.P.Q. (BNA) 229, Comm. Op. at 4 (1981).

57. *In rem* jurisdiction corresponds to power over specific pieces of property, but *in personam* jurisdiction corresponds to power over specific persons.

58. 19 U.S.C. § 1337(d).

59. *In re* Certain Baseband Processor Chips and Chipsets, Inv. No. 337-TA-543, 2007 ITC LEXIS 621, Comm. Op. (2007), *vacated and remanded sub nom.* Kyocera Wireless Corp. v. ITC, 545 F.3d 1340 (Fed. Cir. 2008); *In re* Certain Fluidized Supporting Apparatus and Components Thereof, Inv. No. 337-TA-182/188, 1984 ITC LEXIS 165, Comm’n Op. (1984); *In re* Certain

The injunctive relief standard currently used by district courts is based on the seminal Supreme Court ruling in *eBay v. MercExchange*.<sup>60</sup> District courts can grant injunctions at their discretion under 35 U.S.C. § 283 and, prior to *eBay*, injunctive relief was almost guaranteed after the court found infringement of a valid and enforceable patent.<sup>61</sup> This broad standard for injunctive relief was limited by *eBay* so that, to obtain an injunction, a patentee must now show (1) that it has suffered an irreparable injury; (2) that remedies available at law, such as monetary damages, are inadequate to compensate for that injury; (3) that, considering the balance of hardships between the plaintiff and defendant, a remedy in equity is warranted; and (4) that the public interest would not be disserved by a permanent injunction.<sup>62</sup> The decision came at a time when many were worried about non-practicing patentees exerting disproportionate bargaining power on productive industries, and a concurring opinion by Justice Kennedy even alludes to these concerns.<sup>63</sup> However, the *eBay* holding does not affect the ITC's ability to issue exclusion orders because the ITC's authority is derived from a different statute than district courts.<sup>64</sup> Critics have argued that the ITC's default practice of granting exclusion orders creates an opportunity for patentees to sidestep the *eBay* holding by pursuing a Section 337 investigation in parallel with district court litigation.<sup>65</sup>

Several factors explain the difference between the two standards for injunctive relief. First, the removal of the injury requirement by the 1988 Act demonstrates that a showing of

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Inclined-Field Acceleration Tubes and Components Thereof, Inv. No. 337-TA-67, 1980 ITC LEXIS 118, Comm'n Op. (1980); *In re* Certain Automatic Crankpin Grinders, Inv. No. 337-TA-60, 1979 ITC Lexis 130, Comm'n Op. (1979).

60. *eBay Inc. v. MercExchange, L.L.C.*, 547 U.S. 388 (2006).

61. See *id.* at 395 (quoting *MercExchange, L.L.C. v. eBay, Inc.*, 401 F.3d 1323, 1338 (Fed. Cir. 2005), *vacated and remanded*, 547 U.S. 388 (2006)).

62. *Id.* at 391.

63. "An industry has developed in which firms use patents not as a basis for producing and selling goods but, instead, primarily for obtaining licensing fees . . . For these firms, an injunction, and the potentially serious sanctions arising from its violation, can be employed as a bargaining tool to charge exorbitant fees to companies that seek to buy licenses to practice the patent." *Id.* at 396 (Kennedy, J., concurring).

64. See 19 U.S.C. § 1337(d).

65. Kumar, *supra* note 1, at 573.

irreparable injury (first *eBay* factor) was not within the legislative intent when Section 337 was amended. Also, the mere creation of the ITC's exclusion remedy is evidence that Congress found an inadequate remedy at law (second *eBay* factor) in the importation context. Beyond Section 337's legislative history, there are also some inherent differences between importation and domestic activity. Part of the ITC's position on this issue is that the separate injunctive relief standards are justified in view of a "long-standing principle that importation is treated differently than domestic activity."<sup>66</sup>

Considering the inherent differences between domestic and importation activity, some of the *eBay* factors are not applicable in the importation context. For example, determining the adequacy of remedies available at law (second *eBay* factor) would require the ITC to determine whether a district court would have personal jurisdiction over an importer and whether monetary damages would be sufficient to make the patentee whole. It would be burdensome for an ALJ to determine another forum's jurisdiction but, more importantly, inequitable situations could arise if an ALJ incorrectly determines that a foreign party is within the reach of a district court and a patentee is left without a remedy from either forum. Weighing the balance of hardships (third *eBay* factor) would also be difficult in the importation context because it would require the ITC to evaluate the size of the importer's total business activities, a large portion of which may be outside of the country.<sup>67</sup> Even if a foreign respondent willingly provides the necessary financial information to the ITC, the ALJ would have to scrutinize the submission in case the respondent attempts to exaggerate potential hardships. Finally, Section

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66. *In re Certain Baseband Processor Chips and Chipsets*, *supra* note 59, at n. 230 (citing *U.S. v. 12 200-Ft. Reels of Super 8 MM. Film*, 413 U.S. 123, 125 (1975)). While this statement appears conclusory, the cited Supreme Court decision discusses how import restrictions are treated differently than domestic restrictions when evaluating their constitutionality.

67. *See Acumed LLC v. Stryker Corp.*, 551 F.3d 1323 (Fed. Cir. 2008) (approving relative size of the parties as a consideration when balancing hardships under *eBay* test); *see also Bell & Howell Document Mgmt. Prods. Co. v. Altek Sys.*, 132 F.3d 701 (Fed. Cir. 1997) (approving relative size of the parties as a consideration when balancing hardships under a preliminary injunction standard).

337—like *eBay*—already condones a determination of the public interest (fourth *eBay* factor).

While the ITC has historically refrained from intervening on behalf of the public interest, the recent decision in *Certain Baseband Processors* shows that the Commission has become more amenable to creating custom remedies when there is significant public interest at stake.<sup>68</sup> Given the ITC's ability to modify exclusion orders, along with the inherent differences between domestic activity and importation, the different injunctive relief standards are unlikely to create gross inequities.

C. *Section 337 Proceedings Have no Preclusive Effect on Subsequent District Court Litigation*

A patentee can pursue an infringement claim in district court independent of a Section 337 investigation. While the defendant can suspend the district court case during the pendency of the ITC investigation,<sup>69</sup> the ITC investigation will not otherwise have any preclusive effect on the district court case.<sup>70</sup> Records from the ITC investigation can then be admitted as evidence in the district court case,<sup>71</sup> but the district court is free to use its discretion to determine their persuasive value.<sup>72</sup> Some critics have argued that such parallel proceedings create a possibility for patentees to get “two bites at the apple.”<sup>73</sup>

To consider the disconnect, one must first review the basis for the common-law doctrines of *res judicata* covering previously litigated claims (“claim preclusion”) and collateral estoppel covering previously litigated issues (“issue preclusion”) and

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68. *In re Certain Baseband Processor Chips and Chipsets*, *supra* note 59, at 12-13 (issuing an exclusion order that grand-fathered all infringing models already for sale on the date of the order). The Federal Circuit vacated this decision because the ITC's exclusion order reached importers that were not named respondents in the investigation, but the Federal Circuit did not take issue with the temporal aspect of the exclusion order.

69. 28 U.S.C. § 1659.

70. *Tex. Instruments Inc. v. Cypress Semiconductor Corp.*, 90 F.3d 1558, 1569 (Fed. Cir. 1996) (addressing issue preclusion based on an ITC determination); *Bio-Technology General Corp. v. Genentech, Inc.*, 80 F.3d 1553, 1563 (Fed. Cir. 1996) (addressing claim preclusion based on an ITC determination).

71. 28 U.S.C. § 1659(b).

72. *Tex. Instruments Inc.*, 90 F.3d at 1569.

73. Chien, *supra* note 1, at 105; *see also* Kumar, *supra* note 1, at 563.

then consider the Federal Circuit's treatment of these doctrines as they apply to ITC determinations. Both theories are founded on an interest in fairness to a prevailing party that has already met its burden and judicial efficiency of the court system.<sup>74</sup> Based on these considerations, courts have typically applied both doctrines to the decisions of administrative agencies acting in a judicial capacity.<sup>75</sup> However, the Federal Circuit has held that neither doctrine applies to determinations resulting from Section 337 investigations.<sup>76</sup> The court's reasoning is based on the Restatement of Judgments which explains that the *res judicata* doctrine does not apply to claims when a statutory barrier prevented a patentee from presenting the entire claim, including any theories of recovery or demands for relief, in a first action.<sup>77</sup> Accordingly, the resolutions of an ITC investigation cannot preclude a district court action because the ITC's statutory authority does not allow for monetary damages for past infringement. The Federal Circuit has used the legislative history of the 1974 Trade Act to reaffirm this conclusion.<sup>78</sup> A Senate Report discussing the proposed legislation explicitly stated that "[t]he Commission's findings neither purport to be, nor can they be, regarded as binding interpretations of the U.S. patent laws in particular factual contexts."<sup>79</sup> The Federal Circuit also used the same legislative history to deny application of issue preclusion based on an ITC determination.<sup>80</sup> The court stated that, regardless of the stated purposes for the doctrine, a decision from an administrative agency "cannot have preclusive effect when Congress, either expressly or impliedly, indicated that it intended

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74. See *Parklane Hosiery Co. v. Shore*, 439 U.S. 322, 326 (1979) (citing *Blonder-Tongue Laboratories, Inc. v. University of Illinois Foundation*, 402 U.S. 313 (1971)).

75. See *Astoria Fed. Sav. & Loan Ass'n v. Solimino*, 501 U.S. 104, 107 (1991) (citing *U.S. v. Utah Constr. & Mining Co.*, 384 U.S. 394, 422 (1966) and *Univ. of Tennessee v. Elliott*, 478 U.S. 788, 798 (1986)).

76. See *Tex. Instruments Inc.*, 90 F.3d at 1569; *Bio-Technology General Corp.*, 80 F.3d at 1563-64.

77. See *Bio-Technology General Corp.*, 80 F.3d at 1563 (citing RESTATEMENT (SECOND) OF JUDGMENTS, § 26(1)(c) cmt. c).

78. See *id.*

79. S. REP. NO. 1298, 93d Cong., 2d Sess. 196 (1974), *reprinted in* 1974 U.S.C.C.A.N. 7186, 7329.

80. *Tex. Instruments Inc.*, 90 F.3d at 1568.

otherwise.”<sup>81</sup> The court further noted that none of the legislative activity since that Senate Report<sup>82</sup> “indicate[s] an intent contrary to Congress’s stated intention in 1974.”<sup>83</sup>

The Federal Circuit’s denial of claim preclusion seems necessary to ensure that a patentee is not limited to the injunctive relief available from an ITC investigation, but the justification for denying issue preclusion deserves further consideration. While not explicitly supporting the Federal Circuit’s position, the Supreme Court has held that the varying stakes between the different proceedings can be a potential reason for denying issue preclusion.<sup>84</sup> This logic is based on an assumption that, when prosecuting a claim or defending against one, a party will expend only an amount of resources proportional to the stakes of the dispute. Applied to the context of an ITC investigation, the respondent’s potential economic fallout from an exclusion order may be much less severe than the potential monetary damages from a district court trial. Therefore, the respondent may not defend against an ITC complaint to the same extent that it would defend against an infringement claim in district court. The stakes also diverge for patentees who may be less vigorous in prosecuting their case in the ITC without the possibility of monetary compensation that is available in district court.

Issue preclusion might also be problematic because different substantive law is applied in the two forums. While critics have cited the differences in available affirmative defenses as a defect in Section 337<sup>85</sup> and a potential reason for withholding issue preclusion,<sup>86</sup> those differences primarily relate to products made abroad using a patented process and then imported into the United States.<sup>87</sup> However, such scenarios represent

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81. *Id.*

82. S. REP. NO. 1298, at 196.

83. *Tex. Instruments Inc.*, 90 F.3d at 1569.

84. *See Parklane Hosiery Co. v. Shore*, 439 U.S. at 330-31.

85. *See Chien*, *supra* note 1, at 79; *Kumar*, *supra* note 1, at 553-57.

86. *See Kumar*, *supra* note 1, at 563.

87. District courts allow a defendant accused of importing a product made by a patented process to prove non-infringement by showing that a product is “materially changed by subsequent processes” or “becomes a trivial and nonessential component of another product.” *Kinik Co. v. Int’l Trade Comm’n*, 362 F.3d 1359, 1362 (Fed. Cir. 2004). The ITC uses a different test to determine whether downstream products are included in an exclusion order. *See In re Certain Erasable Programmable Read-Only Memo-*

only a subset of all infringement allegations and, therefore, cannot justify a per se rule that issue preclusion is inappropriate.

The Seventh Amendment right to a jury trial creates another potential problem when applying issue preclusion to ITC findings. The factual findings of ITC investigations are determined by an ALJ rather than a jury, and therefore, applying the ALJ's findings in a district court case could violate a party's right to a jury trial. In *Texas Instruments*, the Federal Circuit mentioned this constitutional issue.<sup>88</sup> However, the original Supreme Court case on issue preclusion involved a party's attempt to litigate an issue that was previously decided by an administrative agency, and the Court found no constitutional problem with the use of preclusion in such a situation.<sup>89</sup> Given the origin of the doctrine, there is little reason to worry about the constitutionality of granting preclusive effects to administrative determinations. This position is reinforced by the Fourth Circuit which, prior to the Federal Circuit's decision in *Texas Instruments*, issued an unpublished opinion which found that granting preclusive effects to an ITC finding in a trademark dispute would not violate the party's Seventh Amendment rights to a jury trial.<sup>90</sup>

The differences in substantive law between the two forums and implications raised by the Seventh Amendment are not persuasive reasons for withholding issue preclusion from ITC findings. However, the ITC and district courts present varying stakes for the parties and this difference, while not dispositive, is a persuasive reason for withholding preclusive effects. Irrespective of the equities, the legislative history of the 1974 Act explicitly states that ITC determinations will not have

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ries, Components Thereof, Products Containing Such Memories, and Processes for Making Such Memories, Inv. No. 337-TA-276, 2007 ITC LEXIS 621, Comm'n Op. at 125-26 (1989), *aff'd sub. nom.*, *Hyundai v. U.S. Int'l Trade Comm'n*, 899 F.2d 1204 (Fed. Cir. 1990). *See also* Chien, *supra* note 1, at 79.

88. *Tex. Instruments Inc.*, 90 F.3d at 1569 n. 10.

89. *See Parklane Hosiery Co.*, 439 U.S. at 335-37.

90. *Baltimore Luggage Co. v. Samsonite Corp.*, No. 91-2171, No. 91-2190, 1992 U.S. App. LEXIS 27493, slip op. at 11 (4th Cir. 1992) (noting that a party could have sought "expedited proceedings in the district court where it could have asserted its seventh amendment right to a jury trial prior to the ITC determination).

binding effects on district courts,<sup>91</sup> and the law will likely remain that way until the judiciary receives further guidance from Congress.

D. *Empirical Evidence Shows Bias Against Defendants*

Some critics have challenged the neutrality of Section 337 investigations and made claims that the investigations are biased against respondents.<sup>92</sup> These criticisms are similar to some of the national treatment arguments that arose after the GATT Uruguay Round Agreements.<sup>93</sup> While those national treatment concerns were based on an assumption that Section 337 respondents were foreign companies, recent empirical evidence suggests that Section 337 respondents are now likely to include both foreign and domestic companies.<sup>94</sup> Therefore, the alleged bias could reach domestic respondents and have an impact beyond national treatment issues.

A recent article by Robert Hahn and Hal Singer details their empirical analysis of Section 337 investigations testing for bias against respondents.<sup>95</sup> Compared to district court statistics, the Hahn and Singer article noted a disproportionately high percentage of ITC investigations in which the complainant prevailed or achieved settlement.<sup>96</sup> One suggested explanation is that political influence exerted on behalf of domestic companies creates an unfair bias against foreign parties. Hahn and Singer posit that, if political influence is a source of bias, complainants in domestic versus foreign investigations will succeed more often than complainants in domestic versus domestic and foreign versus foreign investigations because, in the latter two categories, each side would assert comparable political influence against the other.<sup>97</sup> Hahn and Singer claim that

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91. "The Commission's findings neither purport to be, nor can they be regarded as, binding interpretations of the U.S. patent laws in particular factual contexts." S. REP. NO. 1298.

92. Hahn & Singer, *supra* note 1.

93. See Report of the Panel, *United States-Imports of Certain Automotive Spring Assemblies*, L/5333 (May 26, 1983), GATT B.I.S.D. at 30S/107 (1984); Report of the Panel, *United States-Section 337 of the Tariff Act of 1930*, L/6439 (Nov. 7, 1989), GATT B.I.S.D. at 36S/345 (1990).

94. Chien, *supra* note 1, at 89-90.

95. Hahn & Singer, *supra* note 1.

96. *Id.* at 473-74.

97. *Id.* at 474.

their empirical data supports this explanation because it shows a higher percentage of infringement determinations in domestic versus foreign investigations than in foreign versus foreign investigations.<sup>98</sup> However, the Hahn and Singer dataset includes only a relatively small number of foreign versus foreign investigations<sup>99</sup> and, given this small sample size, the difference between the two groups is not statistically significant.<sup>100</sup> The ambiguity in the Hahn and Singer dataset is further illuminated by comparing, as suggested by Hahn and Singer, the rate of infringement determinations in domestic versus foreign investigations with the rate of infringement determinations in the combination of foreign versus foreign and domestic versus domestic investigations.<sup>101</sup> Prior statistical analysis of district court decisions indicates that district court judges are generally neutral in patent litigation between a domestic party and a foreign party,<sup>102</sup> and, in the absence of persuasive statistical evidence to the contrary, it should be assumed that ALJs at the ITC are also politically neutral.

Another suggested explanation for the high percentage of ITC complainants that prevail or obtain settlement is a selection bias causing patentees to bring stronger infringement claims to the ITC rather than district courts.<sup>103</sup> Hahn and Singer attempted to control for such selection bias by analyzing the reversal rates of ITC decisions that go under Federal Circuit review.<sup>104</sup> In particular, Hahn and Singer contrast how the Federal Circuit treats ITC determinations favoring com-

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98. *Id.* at 475.

99. The dataset includes only 55 completed foreign versus foreign investigations.

100. I applied a chi-square test to the Hahn and Singer dataset to evaluate the null hypothesis that the likelihood of an infringement determination in domestic versus foreign investigations is equal to the likelihood of an infringement determination in foreign versus foreign investigations. The resulting p-value was 0.082, but a p-value less than 0.05 is typically required to reject a null hypothesis and give the difference statistical significance.

101. Using a chi-square test, the resulting p-value was 0.17 which makes it even less likely that the difference has statistical significance.

102. Kimberly A. Moore, *Xenophobia in American Courts*, 97 Nw. U.L. REV. 1497, 1509-10 (2003) (showing that district court judges are generally neutral in patent cases while juries are more likely to find against a foreign party than a domestic party).

103. See Hahn & Singer, *supra* note 1, at 477; see also, Chien, *supra* note 1, at 95.

104. See Hahn & Singer, *supra* note 1, at 477-80.

plainants against those favoring respondents.<sup>105</sup> This approach limits the dataset to only ITC investigations and, therefore, removes the effects of any categorical differences between claims brought to the ITC and claims brought to district courts. Hahn and Singer's analysis shows that ITC infringement determinations were almost twice as likely to be reversed as ITC determinations in favor of the respondent,<sup>106</sup> and this difference suggests that the ITC is more likely to rule in favor of patentees than the Federal Circuit. However, this dataset also suffers from a relatively small sample size,<sup>107</sup> and the difference between the reversal rates may not be statistically significant.<sup>108</sup> Moreover, the dataset of ITC appeals may be tainted by a different type of selection bias—a bias affecting which ITC determinations are appealed to the Federal Circuit. Hahn and Singer recognize this potential effect in a footnote, but contend that it will not create differences in reversal rates because all appeals will be similarly affected.<sup>109</sup> However, Hahn and Singer neglect the fact that complainants and respondents face different circumstances when deciding whether or not to appeal. For example, respondents blocked from importing a product may consider redirecting the product to another market or even circumventing the exclusion order by repackaging the product or switching distributors, but a complainant who fails to obtain relief at the ITC may have no other recourse. Furthermore, an invalidity or unenforceability determination, while not binding on district courts, could still adversely affect the patentee's prospects in future licensing efforts or settlement discussions with other parties. This asymmetry in stakes is important because, if one side is more likely

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105. *Id.*

106. *See id.* at 479 (showing that ITC determinations in favor of complainants are reversed 48 percent of the time while ITC determinations in favor of respondents were only reversed 26 percent of the time).

107. *See id.* at 479 (finding only 63 ITC determinations that were appealed to the Federal Circuit).

108. I applied a chi-square test to the Hahn and Singer dataset to evaluate the null hypothesis that the likelihood of an ITC determination in favor of a complainant being reversed by the Federal Circuit is equal to the likelihood of an ITC determination in favor of a respondent being reversed by the Federal Circuit. The resulting p-value was 0.077.

109. *See* Hahn and Singer, *supra* note 1, at 479 n.112 (citing George L. Priest & Benjamin Klein, *The Selection of Disputes for Litigation*, 13 J. LEGAL STUD. 1 (1984)).

than the other to appeal ITC determinations, that side will bring more marginal cases to the Federal Circuit. Testing this theory, Hahn and Singer's data indicates that complainants are twice as likely to appeal an unfavorable ITC determination compared to respondents.<sup>110</sup> This difference is enough to question the strength of the cases that complainants are appealing to the Federal Circuit. Accordingly, the higher reversal rate for determinations against the respondent, which Hahn and Singer contribute to bias, may actually be the result of respondents appealing stronger cases than complainants.

As a final attempt to prove bias against respondents, Hahn and Singer compared outcomes from disputes with parallel ITC and district court proceedings.<sup>111</sup> This approach should mitigate any selection bias because the dataset only includes cases that were brought in both forums and there will be no discrepancies between the relative strengths of cases brought to each forum. When comparing the two venues, Hahn and Singer found that disputes where the ITC determination favored the complainant were slightly more likely to have a different result in district court than disputes where the ITC determination favored the respondent.<sup>112</sup> This analysis suggests a faint bias against respondents in ITC investigations, but the sample is incredibly small,<sup>113</sup> and any difference is not statistically significant.<sup>114</sup>

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110. By comparing the Hahn and Singer data on ITC outcomes in Table 1 to their data on appeals in Table 3, I calculated that complainants appeal unfavorable ITC rulings 45 percent of the time (based on 85 determinations of no violation and 38 complainant appeals) while respondents only appeal 23 percent of the time (based on 109 determinations of violation and 25 respondent appeals). I used a chi-square test to evaluate the null hypothesis that complainants and respondents are equally likely to appeal, and the resulting p-value was 0.0013. Therefore, the difference between the appeal rates is statistically significant.

111. See Hahn & Singer, *supra* note 1, at 480-82.

112. See *id.* at 481 (showing that parallel district court cases diverge from ITC determinations in favor of complainants 42 percent of the time while only diverging from ITC determinations in favor of respondents 36 percent of the time).

113. See *id.* at 481 (finding only 23 sets of parallel proceedings with final determinations).

114. I applied a chi-square test to the Hahn and Singer dataset to evaluate the null hypothesis that the likelihood of a parallel district court litigation diverging from an ITC determination is equal for both ITC determinations

An article by Colleen Chien has also used empirical data to explore the issue of bias at the ITC.<sup>115</sup> Chien, like Hahn and Singer, found a substantial difference between patentee success rates at the ITC and patentee success rates in district courts.<sup>116</sup> Chien noted the potential for selection bias in the comparison due to the same effects discussed by Hahn and Singer, as well as additional effects such as the ITC's pre-filing review mechanism for weeding out unfounded complaints.<sup>117</sup> In an attempt to mitigate selection bias, Chien limited the dataset to only ITC investigations with parallel district court cases, but the difference in patentee win rates was so small that any statistical significance was lost.<sup>118</sup> Based on the ambiguities in the data, Chien disagreed with Hahn and Singer's conclusion that the ITC is biased against respondents.<sup>119</sup>

In summary, no commentators have been able to use empirical research to prove that the ITC has an anti-respondent bias. While most acknowledge that patentees fare better in the ITC than in district courts, they also acknowledge a selection bias affecting which cases are brought to the ITC. Hahn and Singer make several attempts to control for this selection bias, but these approaches either introduce a new form of bias or reduce the sample size to a statistically insignificant population.<sup>120</sup> Accordingly, anti-respondent bias in the ITC has not been affirmatively demonstrated. However, the possibility of bias cannot be completely disproven because the sample size of ITC investigations with parallel district court litigations is too small for any meaningful comparison.

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favoring complainants and those favoring respondents. The resulting p-value was 0.79.

115. Chien, *supra* note 1, at 96-98.

116. *Id.* at 96 (finding a 58 percent complainant win rate in fully adjudicated ITC complaints and a 35 percent plaintiff win rate in fully adjudicated district court litigations).

117. *Id.* at 97 n.173 and 95.

118. *Id.* at 96-97 (finding a 4 percent difference in patentee win rates that is statistically insignificant with a sample size of only 60).

119. *Id.* at 98 (noting that the dataset was too small to disprove the possibility of bias).

120. *See* Hahn & Singer, *supra* note 1, at 477-82.

### III. MODEL FOR NEW PATENT FORUMS

Many commentators have opined on the alleged defects in Section 337 proceedings and have argued for ITC reform. While many critics have been writing about the ITC's flaws, few have considered what we can learn from the agency about quickly and meaningfully resolving patent disputes. Such an inquiry is especially important as the country's legislators continue to search for an agreeable middle ground on which to base comprehensive patent reform.<sup>121</sup>

One way in which the speed and efficiency of Section 337 can be implemented in other forums is through local rules for patent cases. Several district courts have used local rules to mandate preliminary disclosures, expedite litigation timelines, and handle patent-specific procedures such as Markman hearings for interpreting patent claims.<sup>122</sup> Districts with especially effective local rules and efficient judges have been referred to as "rocket docket" because of their ability to resolve disputes quickly.<sup>123</sup> As more district courts become interested in reducing backlogs and streamlining the administration of patent litigations, those courts have been searching for guidance in drafting local rules.<sup>124</sup> For example, a national organization's comment on proposed local patent rules for the District of New Jersey specified six principles for consideration:

- (1) early identification and mutual mandatory disclosure of essential infringement and validity-related discovery and consideration of staying non-essential discovery until after a claim construction decision is is-

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121. See, e.g., Joseph N. Hosteny, *Litigators Corner: To the Next President: What Real Patent Reform Would Look Like*, INTELLECTUAL PROPERTY TODAY, Oct. 2008, at 10.

122. One well-known example of a district court implementing local rules specifically designed for patent litigation is the Eastern District of Texas. See U.S. Dist. Ct., E.D. Tex., Pat. R., available at <http://www.txed.uscourts.gov/Rules/LocalRules/Documents/Appendix%20M.pdf>.

123. Julie Creswell, *So Small a Town, So Many Patent Suits*, N.Y. TIMES, Sept. 24, 2006, § 3, at 1.

124. See, e.g., N. D. Ill., Proposal to Amend the Local Rules (Mar. 20, 2009), available at [http://www.ilnd.uscourts.gov/home/\\_assets/\\_documents/Rules/Patent.pdf](http://www.ilnd.uscourts.gov/home/_assets/_documents/Rules/Patent.pdf); D. N.J., Proposed Amendments to the Local Civil Rules (Oct. 6, 2008), available at <http://www.njd.uscourts.gov/atty/9.3PatentRulesNotice.pdf>.

sued in a case; (2) early disclosure and appropriate staging of detailed infringement and invalidity contentions; (3) early supplementation of detailed infringement and invalidity contentions supported by identification of specific evidence produced in the early mandatory disclosures; (4) scheduling any claim construction procedure early in the case but after detailed contentions have been exchanged; (5) identification of claim limitations most important to the outcome of the case; and (6) consideration of dispositive motions as early as appropriate to narrow issues or resolve cases without non-essential discovery.<sup>125</sup>

Many of these same considerations, as well as others, can be seen in the procedures employed by the ITC. Therefore, Section 337 investigations are a helpful starting point for drafting local rules or considering patent reform.

#### A. *Heightened Pleading Standard*

The ITC procedures apply a heightened pleading standard to the complaint, but allow several opportunities for pre-investigation review for compliance. Before officially filing a complaint, a patentee may voluntarily submit a draft complaint to the Office of Unfair Import Investigations (“OUII”) for pre-filing review.<sup>126</sup> A staff attorney from the OUII then reviews the draft complaint and discusses with the complainant any issues particular to Section 337 that the complaint presents.<sup>127</sup> Once the patentee is satisfied with the complaint, he or she can formally file it with the ITC.<sup>128</sup> This begins the 30-day period during which the ITC formally reviews the com-

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125. Letter from Steven W. Miller, President of Intellectual Property Owners Association, to Honorable William T. Walsh, Clerk of U.S. District Court for the District of New Jersey (Nov. 19, 2008), [http://ipo.informz.net/ipo/data/images/dnj\\_local\\_patent\\_rulesandletter.pdf](http://ipo.informz.net/ipo/data/images/dnj_local_patent_rulesandletter.pdf).

126. Lynn Levine, Director, Office of Unfair Import Investigations, U.S. Int'l Trade Comm'n, *When & How to Litigate Under Section 337 at the ITC—The Role of the Staff: Before & After Filing the Complaint*, Presentation at the American Intellectual Property Law Association 2008 Spring Meeting (May 15, 2008), slides available at [http://www.aipla.org/Content/ContentGroups/Speaker\\_Papers/Spring\\_Meeting/200812/Levine-slides.pdf](http://www.aipla.org/Content/ContentGroups/Speaker_Papers/Spring_Meeting/200812/Levine-slides.pdf).

127. *Id.*

128. See DUVALL, *supra* note 14, at 465.

plaint for “sufficiency and compliance” with ITC rules.<sup>129</sup> During this review, the ITC staff can ask complainants to clarify or supplement their complaint with additional information.<sup>130</sup> For complaints based on patent infringement, the ITC requires that the complaint include, among other information, a list of all foreign patents or patent applications corresponding to the asserted patent(s), a nontechnical description of the invention(s), a chart that applies each asserted independent claim of the asserted patent(s) to an imported article of each named infringer (e.g., claim charts when practicable and drawings or photographs of the imported article of each named infringer).<sup>131</sup> Before the end of the 30-day period, the ITC’s Commissioners vote on whether to begin a Section 337 investigation.<sup>132</sup> If the Commissioners decide to proceed, the ITC investigation will officially begin, and the named respondents will receive a complete copy of the complaint.<sup>133</sup>

The ITC requires the alleged infringer’s response, due within 20 days of notice being served, to include specific factual bases and legal arguments in defense of the allegations.<sup>134</sup> In allegations of patent infringement, the ITC requires (depending on the asserted defenses) charts showing noninfringement of the asserted patent(s) when practicable and/or specific arguments of patent invalidity that identify any relevant prior art.<sup>135</sup>

These pleading standards allow the parties to quickly focus the dispute on the pertinent issues and advance the dispute towards resolution. After sharing this information, parties are able to make realistic assessments of their case’s relative strength and may initiate settlement negotiations as a result. Moreover, the pleading standards of Section 337 proceedings accord with the first two of the previously identified principles for resolving patent disputes.<sup>136</sup>

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129. 19 C.F.R. § 210.10.

130. See DUVALL, *supra* note 14, at 72-73.

131. 19 C.F.R. § 210.12(a)(9)(i)-(x).

132. 19 C.F.R. § 210.10.

133. 19 C.F.R. § 210.11.

134. 19 C.F.R. § 210.13(a).

135. 19 C.F.R. § 210.13(b)(1), (3) (noting that the presiding ALJ can waive any of the substantive requirements for good cause).

136. See *supra* note 125 and accompanying text.

The district court system operates on notice pleading, but several local patent rules have created initial disclosure requirements similar to the heightened pleading standards used at the ITC. Except for cases of fraud, the Federal Rules of Civil Procedure ("FRCP") allow a plaintiff to file a complaint in accordance with the notice pleading standard, which merely requires a "short and plain statement of the claim."<sup>137</sup> Intended to accommodate asymmetries of information between parties, the notice pleading standard allows a plaintiff to bring a claim to court with a minimal amount of information.<sup>138</sup> However, the basic positions in patent disputes, such as infringement and invalidity arguments, are less susceptible to information asymmetries because of the public nature of technology and the U.S. patent system. For example, a plaintiff can obtain a substantial amount of information about an allegedly infringing product through reverse engineering,<sup>139</sup> and a defendant can access the prosecution history of the asserted patent(s) along with searchable databases of prior art.<sup>140</sup> As a result, some district courts have adopted local patent rules that require mandatory "initial disclosures" of each party's position on such issues early in the litigation.<sup>141</sup>

It would be advantageous to incorporate a similar feature—whether it is a heightened pleading standard as used in the ITC or early initial disclosures as used by some district courts—into the procedures of any new forum for patent disputes. The FRCP, which advocate the notice pleading standard, would likely bar district courts from adopting patent rules that include literal heightened pleading requirements. However, local patent rules that set mandatory, initial disclo-

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137. FED. R. CIV. P. 8(a); *see also* FED. R. CIV. P. 9(b).

138. SAMUEL ISSACHAROFF, CIVIL PROCEDURE 20-21 (Foundation Press 2005) (arguing that some plaintiffs would not have access to all necessary information without the formal discovery mechanisms provided through litigation).

139. *But cf.* Am. Video Graphics L.P. v. Elec. Arts, Inc., 359 F. Supp. 2d 558, 560 (E.D. Tex. 2005) (finding that "[s]oftware [patent] cases present unique challenges for the parties and the courts because, prior to discovery, plaintiffs usually only have access to the manifestation of the defendants' allegedly infringing source code and not the code itself").

140. *See* 37 C.F.R. § 1.11.

141. *See, e.g.*, U.S. Dist. Ct., E.D. Tex., Pat. R. 3-1, 3-3 (requiring disclosure of infringement contentions and invalidity contentions based on a case timeline).

tures on aggressive schedules may quickly focus the issues in a case and achieve the functional equivalence and benefits of a heightened pleading requirement.

### B. *Quick and Efficient Discovery Procedures*

The standard discovery phase of a Section 337 investigation occurs very quickly. The default time limits for answers to interrogatories,<sup>142</sup> document requests,<sup>143</sup> and requests for admission<sup>144</sup> are all set at ten calendar days. While the presiding ALJ can extend the deadline for any particular discovery request, such extensions are rare.<sup>145</sup> To facilitate such a fast pace, the presiding ALJ will typically issue his or her own set of "ground rules" to govern the discovery process and any disputes which may arise.<sup>146</sup> Discovery disputes, which typically generate significant delays in district court litigations,<sup>147</sup> are much less of a problem in Section 337 investigations, likely because most ALJs make themselves available to directly resolve any discovery disputes.<sup>148</sup> The ALJs' direct involvement could have a two-fold impact on the effect of discovery disputes by quickly providing a final resolution and generally discouraging meritless arguments. Other ITC features which may enable the fast-paced discovery phase include mandatory biweekly progress meetings<sup>149</sup> and the relatively small group of attorneys that practice before the ITC.<sup>150</sup>

142. 19 C.F.R. § 210.29(b)(2).

143. 19 C.F.R. § 210.30(b)(2).

144. 19 C.F.R. § 210.31(b).

145. See DUVALL, *supra* note 14, at 181, 216.

146. See *id.* at apps. G-J.

147. Steven J. Elleman, Note & Comment, *Problems in Patent Litigation: Mandatory Mediation May Provide Settlements and Solutions*, 12 OHIO ST. J. ON DISP. RESOL. 759, 764 (1997).

148. In some time-sensitive situations, such as a dispute arising at a deposition, ALJs have even made themselves available to immediately rule on the matter via telephone conference. DUVALL, *supra* note 14, at 181.

149. See, e.g., *In re Certain Semiconductor Chips Having Synchronous Dynamic Random Access Memory Controllers and Products Containing Same*, Inv. No. 337-TA-661, 2008 ITC Lexis 2003, A.L.J. Order at 21-22 (2008) (issuing Ground Rule 4.1.1 requiring a discovery committee consisting of the lead counsel of each party and the staff attorney to meet at least once every two weeks during the discovery phase).

150. A small Section 377 bar may create relationships between repeat players and encourage cooperation. See ROBERT C. ELLICKSON, *ORDER WITHOUT LAW: HOW NEIGHBORS SETTLE DISPUTES* (Harvard 1991).

The short default deadlines and minimal interference from discovery disputes allow parties to quickly navigate the discovery phase of a Section 337 investigation. For example, the entire discovery phase of a Section 337 investigation is typically completed within five months.<sup>151</sup> This discovery timeline concurs with the second and third principles for resolving patent disputes.<sup>152</sup> Minimizing discovery disputes can also promote judicial efficiency and limit each party's discovery costs. However, conducting discovery too quickly can have disadvantages. Shortening response deadlines beyond a certain point may drastically increase the producing party's costs as they scramble to meet aggressive deadlines, and this increase could give an advantage to parties with more economic resources. Condensing the discovery process beyond a certain point may also lead to a case schedule with little time for ongoing settlement discussions, which is an important part of efficient dispute resolution.

The district court system facilitates discovery through the FRCP. Having served as the starting point for the ITC's discovery rules, the FRCP are very similar in substance, but allow for more lenient deadlines when responding to requests. Specifically, the default deadlines for responding to interrogatories,<sup>153</sup> document requests,<sup>154</sup> and requests for admission<sup>155</sup> are set at thirty days. In addition to the longer response deadlines, some district courts are notorious for conducting drawn-out discovery phases with hearings on each contentious issue.<sup>156</sup> Given their already overwhelmed dockets, many district courts have begun to appoint special masters to supervise discovery.<sup>157</sup> It is unclear whether such special masters have had a meaningful impact on the speed or efficiency of the discovery process, but one could argue that a secondary adjudicator merely encourages gamesmanship amongst the parties.

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151. DUVALL, *supra* note 14, at 177.

152. *See supra* note 125 and accompanying text.

153. FED. R. CIV. P. 33(b)(2).

154. FED. R. CIV. P. 34(b)(2)(A).

155. FED. R. CIV. P. 36(a)(3).

156. *See* Elleman, *supra* note 147.

157. Honorable Shira A. Scheindlin & Jonathan M. Redgrave, *Special Masters and E-Discovery: The Intersection of Two Recent Revisions to the Federal Rules of Civil Procedure*, 30 CARDOZO L. REV. 347, 349-51, 384 (2008).

To increase the speed and efficiency of discovery during patent litigations, district courts can adopt local rules shortening the default deadlines to respond to discovery requests and emphasize each judge's direct involvement in discovery disputes. The first proposed change is rather straightforward, and the FRCP specify that a court can modify response deadlines by court order.<sup>158</sup> However, the second change may be more difficult to implement because most district court judges already have overwhelmed dockets and little time to closely supervise discovery.<sup>159</sup> Moreover, discovery disputes are becoming more time-consuming as the practice of e-discovery opens the door to greater volumes of production.<sup>160</sup> In order to dedicate sufficient resources towards overseeing discovery, a district court with a less burdensome caseload might be best positioned to attract new patent disputes. Such a court could, using the extensive involvement of ALJs in Section 337 investigations as a model, increase its efficiency by adopting local patent rules that promote hands-on judicial involvement in the discovery process.

### C. *Staff Attorney Involved as a Third Party*

Once a complaint has been reviewed and an investigation formally initiated, the OUII assigns one of its staff attorneys to represent the public interest in the investigation.<sup>161</sup> The staff attorney then participates in the discovery, trial, and remedy phases as an independent third party.<sup>162</sup> Part of the staff attorney's role is to analyze the issues in the investigation and take positions on behalf of the public interest.<sup>163</sup> Further, the staff attorney may advance an argument that the other parties have ignored.<sup>164</sup> As a third party, the staff attorney is free to discuss the issues with the complainant, and respondents and the staff attorney may even facilitate settlement discussions between the

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158. See FED. R. CIV. P. 33(b)(2), 34(b)(2)(A), 36(a)(3).

159. See Scheindlin, *supra* note 157, at 348-51.

160. *Id.* at 356.

161. Levine, *supra* note 126.

162. DUVALL, *supra* note 14, at 475-76.

163. *Id.* at 475-76.

164. For example, the complainant and respondent may intentionally ignore an issue that does not advance their respective positions, but the staff attorney may still present the issue to the ALJ if it is important to the public interest.

two sides.<sup>165</sup> Due to the staff attorney's independent status and his or her familiarity with the disputed issues, he or she may be in an ideal position to mediate a settlement agreement.

Some district court litigation involves a third party in the form of a court-appointed mediator. The mediator's role is to facilitate settlement discussions between the parties before trial. For example, most judges in the District of Delaware require that patent cases undergo mandatory mediation before Magistrate Judge Mary Pat Thyng.<sup>166</sup> Court-ordered mediation is also customary for patent cases in the Eastern District of Texas, but those courts typically appoint professional mediators to facilitate the process.<sup>167</sup> Mandatory mediation discussions encourage settlement,<sup>168</sup> but their operation is fundamentally different from that of a staff attorney in an ITC investigation. A staff attorney is involved in every stage of an investigation, whereas a mediator's exposure is limited to mediations that occur at one or more discrete points in a trial.<sup>169</sup> Given the different scopes of involvement, a staff attorney may be more familiar with the issues in the case and the positions of each party. This familiarity should enable the staff attorney to more effectively facilitate settlement discussions between the parties.<sup>170</sup>

When evaluating the role of mediation in a patent forum, one should consider the use of mediators that are already involved with the case at hand and familiar with the contested issues. A district court drafting new local rules for patent disputes should specify a preference for using a special master or magistrate judge that has prior involvement with the case as a mediator. For example, a special master or magistrate judge that oversaw discovery may be in a better position to facilitate

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165. DUVALL, *supra* note 14, at 476.

166. Donald F. Parsons, Jr. et al., *Solving the Mystery of Patentees' "Collective Enthusiasm" for Delaware*, 7 DEL. L. REV. 145, 160-61 (2004).

167. See U.S. Dist. Ct., E.D. Tex., Court-Annexed Mediation Plan, available at <http://www.txed.uscourts.gov/Rules/LocalRules/Documents/apph.pdf>.

168. From 1993-2003, patent disputes mediated by Magistrate Thyng settled 67 percent of the time. Parsons, *supra* note 166 at 160.

169. The timing of court-ordered mediation varies, but most mediations occur after a Markman hearing or after the parties take positions on damages.

170. However, it can be argued that the staff attorney's prior involvement is a potential source of bias, especially after the staff attorney has taken positions on the issues.

settlement discussions than an outside mediator. However, a court must also ensure that the quasi-judicial role of special masters and magistrate judges does not interfere with their ability to lead effective negotiations between the parties. The concern is that if a mediator has adjudicatory powers, the parties may be more interested in advancing the strength of their respective positions in court than in reaching a settlement. A potential solution to this problem may be to modify the role of a special master or magistrate into that of a judicial advisor without the ability to make independent decisions. In addition to facilitating settlement discussion, the proposed modification may also compel judges to become more directly involved in discovery disputes which, as previously discussed in Section III.B., can lead to other benefits. This change in the role of special masters and magistrates may render them less effective at directly addressing the problem of overwhelmed dockets, but can have an indirect mitigating effect on that problem by increasing efficiency and settlement rates.

#### CONCLUSION

As importations become more common in modern supply chains, the ITC has become a popular forum for patent disputes. While originally a legislative compromise for relaxing U.S. trade policy, patentees have increasingly used Section 337 investigations to assert their patent rights. However, some critics have argued that the forum has gone beyond its original purpose and conflicts with the substantive patent law enforced in federal courts. Moreover, at least one critic has argued that Section 337 investigations are biased against defendants, although the underlying empirical research is ambiguous.<sup>171</sup> These commentators are worried about the overlap in jurisdiction between the two forums and claim that patentees are using the ITC to leverage bargaining power against potential licensees.

Even though some patentees may be employing such strategies, this does not mean that the forum has completely strayed from its original purpose. Section 337 investigations generally benefit domestic industry by keeping infringing products from entering the U.S. market, and some of the dif-

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171. See Hahn & Singer, *supra* note 1.

ferences between the two forums are necessary for performing that function. While there are clearly cases in which a patentee would have no relief but for an exclusion order against a foreign manufacturer, there are other situations in which a patentee may be using the ITC to gain disproportional bargaining power over alleged infringers. To ensure that the ITC's exclusion powers are not abused, the ITC should reinvigorate the public interest analysis to guard against situations where a party might be asserting patent rights to the detriment of domestic industry.

Criticisms of the ITC aside, the forum has some effective features that can provide instructive lessons for other patent forums. For example, a federal district court could implement local patent rules incorporating some of the ITC procedures or Congress could create a new agency for resolving trade-related patent disputes based on some of the effective mechanisms used by the ITC. The former can be implemented within the framework of the Federal Rules of Civil Procedure, but the biggest obstacle may be securing adequate judicial resources for implementing such practices. The latter can be implemented by Congress to replace or reform the ITC and might even address some of the current complaints about the ITC. However, at this time such legislative action is unlikely because the patent reform bills proposed thus far have primarily focused on limiting damage awards and venue shopping in district courts while failing to address Section 337. In either the district court or agency context, beneficial features of Section 337 investigations can be implemented to quickly resolve patent disputes without a disproportionate increase in costs to the parties.