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Expert Analysis

Recently Introduced Bill Would Limit ITC 'Domestic Industry by Subpoena'

By **Robert L. Maier**

Patent infringement disputes in the United States are not only heard in district courts. The U.S. International Trade Commission (ITC), an administrative agency delegated with responsibility over trade disputes, also decides high-stakes intellectual property disputes—with the remedy for the IP rights holder not being damages, but rather an exclusion order that can block a competitor's importation of infringing articles into the U.S. That remedy can be incredibly powerful for companies engaged in stiff competition in the U.S. market.

Section 337 of the Smoot-Hawley Tariff Act of 1930, the ITC's enabling statute, empowers the ITC to handle these patent infringement disputes, though not all patent infringement disputes qualify. Section 337 includes what is known as the "domestic industry" requirement—a requirement that the patent holder seeking to enforce its patent rights at the ITC must establish that it contributes to industry in the U.S. related to those patent rights. The purpose of this requirement as articulated by Congress is to "preclude holders of U.S. intellectual property rights who have no contact with the United States other than owning such intellectual property rights from utilizing section 337." S. Rep. 100-71, 100th Cong., 1st Sess., at 129 (1987).

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Under current law, the domestic industry requirement can be satisfied in situations in which the patent holder itself does not have U.S. domestic operations, but instead licenses its patent rights to a licensee that does. The licensee's U.S. activities can satisfy the domestic industry requirement in these circumstances even if that licensee is not a willing participant in the ITC Investigation. This scenario is often referred to as "domestic industry by subpoena," because the patent holder will in these circumstances subpoena the licensee to involve the licensee in the ITC investigation and, through that subpoena, obtain discovery from that licensee regarding its U.S. operations. The patent holder then relies on that discovery to meet the domestic industry requirement.

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Recent legislation, the Advancing America's Interests Act, H.R. 8037 (AAIA), introduced Aug. 14, 2020, seeks to end the practice of domestic industry by subpoena, and more generally to limit the ability of non-practicing entities (NPEs), or parties that do not offer any products or services covered by their patents, to utilize the ITC as a mechanism to resolve disputes. According to one of the bill's sponsors, Rep. Suzan DelBene (D-WA), "[t]he ITC was established to protect U.S. companies and consumers from unfair foreign competition, but in recent years, patent licensing entities have abused the ITC process for financial gain," and "[t]his legislation addresses the problem and helps protect American businesses from unfair and unjustified claims." Press Release, "DelBene, Schweikert Introduce Legislation to Modernize ITC Process to Protect American Industry, Workers, and Consumers" (Aug. 14, 2020), https://delbene.house.gov/news/documentsingle.aspx?DocumentID=2645.

The Rise of NPE Complainants at the ITC

"Domestic industry by subpoena" became increasingly popular after the U.S. Supreme Court's 2006 decision in *eBay v. MercExchange,* 547 U.S. 388 (2006), which ended the practice of automatically granting injunctions in district court patent cases. There the Supreme Court held that judges must apply "the traditional four-factor framework that governs the award of injunctive relief," including whether monetary damages are adequate compensation, and thereby effectively ended the prospect of injunctive relief for NPE plaintiffs at the district court.

In the years after *eBay*, and perhaps *because of eBay*, NPE cases at the ITC increased as a proportion of total ITC cases (though that increase was not as pronounced as the increase in NPE cases in district courts). *See* Lemley et al., "Patent Holdup, the ITC, and the Public Interest," 98 Cornell L. Rev. 1 (2012). And in the years since, the ITC has published its own statistics on the use of Section 337 by NPEs. According to those statistics, 2019 saw approximately 15% of new investigations brought by NPEs. *See* United States International Trade Commission, "Section 337 Statistics: Number of Section 337 Investigations Brought by NPES" (Jul. 16, 2020), https://usitc.gov/intellectual_property/337_statistics_number_section_337_investigations.htm.

In order to meet the domestic industry requirement, NPEs have generally relied on Section 337(a)(3)(C), which allows "substantial investment in its exploitation, including engineering, research and development, or *licensing*" to be sufficient for purpose of establishing a domestic industry. 19 U.S.C. §1337(a)(3)(C). In the early years after *eBay*, Commission precedent did not require complainants to demonstrate the existence of licensed articles practicing the asserted patents in order to satisfy the domestic industry "technical prong" requirement. Rather, these NPEs could rest the economic prong of the domestic industry requirement on licensing activities, and meet the technical prong simply by showing that licensing expenditures were tied sufficiently closely to the patents in each investigation.

But Commission precedent tightened in 2014, leading to a decrease in NPE cases from 2014 to 2015. In *Certain Computers and Computer Peripheral Devices*, the ITC held that proof of "articles protected by the patent" is required to satisfy the technical prong of the domestic industry requirement, even where the domestic industry allegation is based on licensing activities. Inv. No. 337-TA-841, Commission Opinion at *27-40 (Jan. 9, 2014).

As a result, NPEs in more recent years have been forced to prove domestic investments of their patent licensee were related to an article that practiced the patent in the U.S., and the mechanism for doing so—"domestic industry by subpoena"—has been a subpoena to the licensee seeking the technical and financial information needed to establish the domestic industry resulting from that licensee's activities in the U.S.

As one example, Data Scape Ltd. is an Irish NPE that acquired a patent portfolio from Sony in 2017. In February of 2019, Data Scape brought an ITC complaint against several U.S. companies, including Amazon, Apple, and Verizon, seeking exclusion from the U.S. market of smartphones and tablets (including iPhone, iPad, Fire Tablets, and Kindles). Lacking a manufacturing domestic industry of its own, Data Scape relied on the investments of two licensees: C-Scape and Oracle.

Although C-Scape was a voluntary participant and joined the complaint, Oracle was not. Nevertheless, Data Scape's complaint stated that "Data Scape has licensed the Asserted Patents to Oracle" and "[o]n information and belief, Oracle engages in manufacturing, engineering, and research and development activities in the United States with respect to the Asserted Patents." *See* Inv. No. 337-TA-1150, Complaint, at 22-32 (Feb. 28, 2019). Data Scape subpoenaed Oracle to obtain evidence to support the allegations in its complaint. Oracle moved to quash the subpoena, arguing that it violated Data Scape's settlement agreement, which was entered into "to resolve numerous legal proceedings that Data Scape had brought against Oracle." *Id.*, Motion of Non-Party Oracle Corporation (May 1, 2019). Although the case was settled before the motion was decided, the Commission Investigative Staff supported the subpoena, noting the current state of the law regarding domestic industry. *Id.*, Commission Investigative Staff's Response (May 10, 2019).

The AAIA's Proposed Revisions to Section 337

The AAIA would amend Section 337 to recite several provisions that would limit the practice of domestic industry by subpoena. First, investment in licensing activity would only count for domestic industry if it "leads to the adoption and development of articles that incorporate the patent." H.R. 8037, §3(a)(1)(A). Second, the bill would prevent a complainant from relying on the activities of its licensees "unless the license leads to the adoption and development of articles that incorporate the claimed patent … for sale in the United States." H.R. 8037, §3(a)(1)(C). Although the Commission and the Federal Circuit would need to interpret this language, these provisions are intended to exclude investments in licensing efforts aimed at already existing products, including litigation-driven licensing, as well as reliance on the activities of those licensees.

Third, and perhaps most notably, the bill would amend Section 337 to recite: "For a complaint under oath, a person may be relied upon to qualify as an industry under subsection (a)(2) only if the person joins the complaint under oath, except that nothing in this sentence shall be construed to compel such a person to join the complaint." H.R. 8037, §3(a)(2). In other words, the bill could foreclose the practice of domestic industry by subpoena for unwilling licensees. Taken together, the three provisions would make it more difficult for traditional NPE's to enforce their patent rights at the ITC—consistent with the stated goals of the bill's sponsors.

To be clear, the number of NPE cases brought at the ITC are quite small—only a small percentage of a relatively small number of patent cases brought at the ITC each year (as compared to the district courts) are brought by NPEs. And although the bill has bipartisan support, it is unlikely to advance in an election year and in the midst of a global pandemic. But if the AAIA eventually does gain traction in Congress and become law, it could end the practice of "domestic industry by subpoena," and make it even more difficult for NPEs to assert patent rights at the ITC.