

THE OTHER PATENT AGENCY: CONGRESSIONAL  
REGULATION OF THE ITC

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ABSTRACT

The United States International Trade Commission has recently experienced a dramatic increase in patent infringement investigations under § 337 of the Tariff Act of 1930. In fact, the number of patent enforcement actions submitted to the ITC has nearly doubled in the last five years. Patent holders are selecting this forum because of its speedy proceedings and its ability to award broad exclusion orders. This rise in ITC patent litigation, however, has revealed weaknesses in the structure of § 337. In broadening the provision to facilitate the enforcement of patent rights, Congress failed to consider the impact of this change on technological innovation and on the coherence of the patent system. In particular, Congress did not clarify the relationship between § 337 and the Patent Act, thereby jeopardizing the uniformity of the patent system. Nor did it consider the effect that patent-related exclusion orders would have on innovation and on strategic behavior. This Article recommends that Congress harmonize ITC patent law with the Patent Act and related federal precedent, or alternatively, abolish § 337.

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## I. INTRODUCTION

Technological innovation serves as the foundation of the patent system. The government grants inventors a limited monopoly right, in the form of a patent, to foster innovation. Doing so supports the U.S. economy and improves the public's quality of life.<sup>1</sup> Charged by Article 1, § 8 of the Constitution with promoting "the Progress of Science and useful Arts,"<sup>2</sup> Congress bears the burden of regulating patent law. The Supreme Court has held that Congress cannot "enlarge the patent monopoly without regard to the innovation, advancement or social benefit gained thereby," as these factors "are inherent requisites in a patent system."<sup>3</sup> "This is the *standard* expressed in the Constitution and it may not be ignored."<sup>4</sup>

Much attention has been paid to how Congress has adhered to—or failed to adhere to—this standard in regulating patents. Commentators have debated how to promote innovation through reform of the Patent Act, 35 U.S.C. § 101 et seq.<sup>5</sup> Others have focused on the relationship between innovation and Congress's regulation of the U.S. Patent and Trademark Office.<sup>6</sup>

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1. See FED. TRADE COMM'N, TO PROMOTE INNOVATION: THE PROPER BALANCE OF COMPETITION AND PATENT LAW AND POLICY 1 (2003) [hereinafter FTC REPORT], available at <http://www.promotetheprogress.com/ptpfiles/patentreform/misc/FTCreport.pdf> ("Innovation benefits consumers through the development of new and improved goods, services, and processes. An economy's capacity for invention and innovation helps drive its economic growth and the degree to which standards of living increase. Technological breakthroughs . . . illustrate the power of innovation to increase prosperity and improve the quality of our lives." (footnote omitted)); Stuart Minor Benjamin & Arti K. Rai, *Fixing Innovation Policy: A Structural Perspective*, (Duke Law Sch. Pub. Law & Legal Theory Paper No. 218; Duke Sci., Tech. & Innovation Paper No. 29, 2009), available at <http://ssrn.com/abstract=1259850> ("Both theory and empirics support the primacy of technological innovation in securing long-term economic growth and, ultimately, human welfare."); Thomas O. Barnett, Assistant Attorney Gen., Antitrust Div., U.S. Dep't of Justice, Presentation at the 11th Annual Symposium on Antitrust: Maximizing Welfare Through Technological Innovation 9 (Oct. 31, 2007), available at <http://www.usdoj.gov/atr/public/speeches/227291.pdf> ("In other words, improvements in technology—new ways of producing, rather than just old methods done more intensely—create the vast majority of improvement in real societal wealth."). See generally COUNCIL ON FOREIGN RELATIONS, TECHNOLOGICAL INNOVATION AND ECONOMIC PERFORMANCE (Benn Steil et al. eds., 2002) (analyzing the relationship between technological innovation and economic performance).

2. U.S. CONST. art. I, § 8, cl. 8.

3. *Graham v. John Deere Co.*, 383 U.S. 1, 6 (1966).

4. *Id.*

5. See, e.g., WENDY H. SCHAT & JOHN R. THOMAS, CONG. RESEARCH SERV., PATENT REFORM: INNOVATION ISSUES (2005), available at [http://assets.opencrs.com/rpts/RL32996\\_20050715.pdf](http://assets.opencrs.com/rpts/RL32996_20050715.pdf); James Bessen & Michael J. Meurer, *Patent Failure* 235–60 (Princeton U. Press 2008).

6. See, e.g., Arti K. Rai, *Engaging Facts and Policy: A Multi-Institutional Approach to*

This debate has overlooked how Congress's regulation of the U.S. International Trade Commission (ITC) through § 337 of the Tariff Act of 1930<sup>7</sup> affects the patent system and whether § 337 promotes the goals of Article 1, § 8 of the Constitution. The ITC has become a popular forum for enforcing patents, with the number of actions increasing by nearly 80% since 2003.<sup>8</sup> Patent holders utilize the ITC because of the availability of powerful exclusion orders, which block the importation of infringing products.<sup>9</sup> Although § 337 was not historically used for enforcing intellectual property (IP) rights, in recent years, more than 94% of all § 337 investigations have involved a patent infringement allegation.<sup>10</sup>

Section 337 became particularly useful for patent enforcement after Congress passed the Omnibus Trade And Competitiveness Act of 1988, which dropped several requirements that could prevent patent holders from using the ITC.<sup>11</sup> Congress's motivation for the amendments was to protect domestic IP holders from infringement by foreign companies. But inadvertently, Congress crippled the ITC's ability to shield domestic companies by allowing foreign companies with few U.S. ties to litigate there and by facilitating litigation against domestic companies that import goods. More broadly, Congress did not consider the effect that the rapid globalization of trade and manufacturing would have on promoting U.S. innovation through the Tariff Act. The present arrangement has led to two major problems.

First, in amending § 337, Congress created a rift between ITC and federal court patent law. Part of this problem arises from Congress's failure to make the Patent Act binding on the ITC. In *Kinik Co. v. International Trade Commission*,<sup>12</sup> for example, the Federal Circuit affirmed the ITC's decision that defenses under 35 U.S.C. § 271(g)<sup>13</sup> do

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*Patent System Reform*, 103 COLUM. L. REV. 1035, 1035 (2003).

7. 19 U.S.C. § 1337 (2006). Because the unfair practices provision of the Tariff Act was once codified at 19 U.S.C. § 337, it is commonly referred to as "§ 337."

8. U.S. INT'L TRADE COMM'N, PERFORMANCE AND ACCOUNTABILITY REPORT: FISCAL YEAR 2007, at 67 (2007) [hereinafter ITC PERFORMANCE REPORT], available at [http://www.usitc.gov/ext\\_relations/about\\_itc/USITC\\_PAR\\_2007.pdf](http://www.usitc.gov/ext_relations/about_itc/USITC_PAR_2007.pdf).

9. See ITC Trial Lawyers Association, Frequently Asked Questions Regarding Section 337, <http://www.itctla.org/faq.cfm> (last visited Apr. 20, 2009).

10. See U.S. INT'L TRADE COMM'N, YEAR IN TRADE 2007: OPERATION OF THE TRADE AGREEMENTS PROGRAM 59TH REPORT 2-10 (2008), available at <http://www.usitc.gov/publications/pub4026.pdf> (noting 100% of new cases in 2007 included allegations of patent infringement); U.S. INT'L TRADE COMM'N, YEAR IN REVIEW: FISCAL YEAR 2006, at 14 (2006) (noting 94.3% of all active cases in the 2006 fiscal year involved patent allegations, while the remainder of cases involved trademark, trade dress, or dilution claims).

11. See *infra* Part IV.B.

12. 362 F.3d 1359 (Fed. Cir. 2004).

13. 35 U.S.C. § 271 (2006).

not apply to ITC proceedings involving § 337.<sup>14</sup> ITC decisions, moreover, do not have collateral estoppel effect on federal court decisions,<sup>15</sup> leading to inconsistent judgments. Such decisions cause incoherence in patent law and ultimately threaten innovation.

Second, in interpreting its organic statute, the ITC makes patent policy that is sometimes in tension with the purpose of the patent system. In particular, the ITC hinders innovation and harms the public welfare by frequently granting exclusion orders. The ITC is not bound by the Supreme Court's ruling in *eBay Inc. v. MercExchange, L.L.C.*,<sup>16</sup> which limits the ability of district courts to grant injunctions. The ITC's overuse of injunctive relief has led to decisions that harm domestic companies and threaten innovation.

This Article proposes that Congress amend § 337 to harmonize ITC patent law with the Patent Act, in order to promote innovation and ensure the coherency of the patent system. Alternatively, it suggests that Congress abolish § 337. Part II provides an overview of the ITC. Part III discusses how Congress created the ITC to secure protectionist support for trade liberalization. It then discusses how Congress failed to consider the implication of its actions on the patent system. Part IV looks at the evolution of § 337 into a patent enforcement statute under the Omnibus Trade Act of 1988. It examines the rationale for the expansion of § 337 and discusses the changes that Congress made.

Parts V and VI discuss problems that have emerged from Congress's transformation of § 337 to a patent enforcement statute. Part V discusses how ITC and federal court patent law are diverging in the area of process patents and applicable defenses. It further discusses how ITC decisions do not have preclusive effect on subsequent federal court proceedings and how this has led to forum shopping and other strategic behavior by patent holders. It suggests that Congress bind the ITC to the Patent Act and grant collateral estoppel effect to ITC proceedings.

Part VI highlights the problems caused by the ITC's liberal use of exclusion orders. It offers suggestions to Congress on how to amend § 337 to reduce the issuance of harmful orders. Finally, Part VI argues that Congress needs to take a uniform approach to promoting innovation in the patent system. To the extent that this is not feasible, Part VI suggests that Congress abolish § 337 and bring exclusion orders under the Patent Act.

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14. *Kinik*, 362 F.3d at 1362–63. The holding of the case does not turn on the court's analysis of 35 U.S.C. § 271(g). Nevertheless, an Administrative Law Judge (“ALJ”) raised the issue of whether that portion of the opinion was good law, and flagged it for future consideration. See Order No. 22, *In re Sucralose, Sweeteners Containing Sucralose, & Related Intermediate Compounds Thereof*, USITC Inv. No. 337-TA-604, 2007 WL 2900049 (Oct. 1, 2007).

15. See *infra* Part VI.B.

16. *eBay Inc. v. MercExchange, L.L.C.*, 547 U.S. 388, 391 (2006); see *infra* Part VI.

## II. PATENT DECISIONS IN THE ITC VS. FEDERAL DISTRICT COURT

Patent litigation in the ITC differs significantly from litigation in federal court. A staff attorney is assigned to each investigation to represent the public interest and acts as a third-party litigant.<sup>17</sup> An Administrative Law Judge decides the outcome of the investigation, which is then reviewed by six ITC commissioners, and jury trials are not available.<sup>18</sup> Most importantly, the ITC can issue a unique form of injunctive relief called an exclusion order, which blocks goods that infringe the patent at issue from entering the country.<sup>19</sup>

To illustrate how ITC litigation works, suppose U.S.-based GoodCorp owns a patent on widgets. Further suppose that competitor BadCorp, also in the U.S., is selling infringing widgets. BadCorp does not make these widgets, but rather, buys them from an Indian manufacturer ForeignCorp and imports them into the U.S. GoodCorp decides to litigate against BadCorp and ForeignCorp in the ITC.

### A. Initial Requirements

#### 1. Domestic Industry Requirement

To litigate in the ITC, GoodCorp must show that “an industry in the United States, relating to the articles protected by the patent, . . . exists or is in the process of being established.”<sup>20</sup> The ITC divides this requirement into two prongs, the technical prong and economic prong.<sup>21</sup> To meet the technical prong, GoodCorp must show that it or its licensees “practices at least one claim of the asserted patents[.]”<sup>22</sup> To meet the economic prong, GoodCorp must show that it engages in domestic activities, with respect to the patent or patented article, that involve: “(A) significant investment in plant and equipment; (B) significant employment of labor or capital; or (C) substantial investment in [the patent’s] exploitation, including engineering, research and development, or licensing.”<sup>23</sup> The economic prong’s purpose is “to assure that domestic production-related activities, as opposed to those of

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17. U.S. INT’L TRADE COMM’N, SECTION 337 INVESTIGATIONS: ANSWERS TO FREQUENTLY ASKED QUESTIONS 2 (2004) [hereinafter ITC FAQ], available at [http://www.usitc.gov/trade\\_remedy/int\\_prop/pub3708.pdf](http://www.usitc.gov/trade_remedy/int_prop/pub3708.pdf). The staff attorney’s role illustrates that a § 337 proceeding “is not purely private litigation ‘between the parties’ but rather is an ‘investigation’ by the Government.” *Young Eng’rs, Inc. v. U.S. Int’l Trade Comm’n*, 721 F.2d 1305, 1315 (Fed. Cir. 1983).

18. See ITC FAQ, *supra* note 17, at 18–21; see also 19 U.S.C. § 1330(a).

19. ITC FAQ, *supra* note 17, at 3.

20. 19 U.S.C. § 1337(a)(2).

21. *In re Male Prophylactic Devices*, USITC Inv. No. 337-TA-546, 2007 ITC LEXIS 860, at \*60 (Aug. 1, 2007).

22. *Id.*

23. 19 U.S.C. § 1337(a)(3).

a mere importer, are protected by the statute.”<sup>24</sup> Determination of whether the prong has been met is highly subjective.<sup>25</sup>

## 2. Jurisdiction

The ITC does not need personal jurisdiction over BadCorp and ForeignCorp. Instead, the ITC has in rem jurisdiction over the allegedly infringing widgets.<sup>26</sup> This provision allows GoodCorp to obtain relief from foreign infringers that are potentially beyond the reach of U.S. courts, such as ForeignCorp.<sup>27</sup> Although the “defendant” is the infringing widgets, foreign manufacturers and importers are served with a copy of the complaint and given an opportunity to participate in the proceeding.<sup>28</sup> These parties may raise any equitable or legal defense, such as patent invalidity.<sup>29</sup> The ITC also has nationwide jurisdiction to conduct investigations, including nationwide service of process for subpoena enforcement actions.<sup>30</sup> GoodCorp can take advantage of this power if it wants to compel out-of-district third party witnesses to testify at trial.<sup>31</sup>

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24. *Male Prophylactic Devices*, 2007 ITC LEXIS 860, at \*61 (citing *In re Products with Gremlins Character Depictions*, USITC Pub. 1815, Inv. No. 337-TA-201, at 6 (Mar. 1986)).

25. *See id.* at \*62 (“The Commission’s determination on the economic prong is not made according to any rigid formula—there is no mathematical threshold test. Instead, the determination is made by ‘an examination of the facts in each investigation, the article of commerce, and the realities of the marketplace.’” (quoting *In re Double-Sided Floppy Disk Drives and Components Thereof*, USITC Pub. 1860, Inv. No. 337-TA-215, at 17 (May 1986))).

26. *See Sealed Air Corp. v. U.S. Int’l Trade Comm’n*, 645 F.2d 976, 985 (C.C.P.A. 1981) (“An exclusion order operates against goods, not parties. . . . The Tariff Act of 1930 . . . [was] intended to provide an adequate remedy for domestic industries against unfair methods of competition and unfair acts instigated by foreign concerns operating beyond the *in personam* jurisdiction of domestic courts.”); Robert G. Krupka et al., *Section 337 and the GATT: The Problem or the Solution?*, 42 AM. U. L. REV. 779, 789 (1993). Note, however, that in personam jurisdiction can be established by personal appearance, and may need to be established for the agency to issue a cease and desist order to enforce a § 337 violation. DONALD KNOX DUVALL, *FEDERAL UNFAIR COMPETITION ACTIONS: PRACTICE AND PROCEDURE UNDER SECTION 337 OF THE TARIFF ACT OF 1930*, at 63, 71–107 (Clark Boardman Co., Ltd., ed. 1991) (1992).

27. *See sources cited, supra note 26.*

28. Walter J. Blenko, *When Does Patent Infringement Become Unfair Competition?*, JOM, Oct. 1990, at 55, 55, available at <http://www.tms.org/pubs/journals/JOM/matters/matters-9010.html>.

29. *See* 19 U.S.C. § 1337(c) (2006). Note, however, that the ITC has held that defenses under 35 U.S.C. § 271(g) are not available in § 337 proceedings. *See Part V.*

30. *See U.S. Int’l Trade Comm’n v. ASAT, Inc.*, 411 F.3d 245, 247–48 (D.C. Cir. 2005) (noting that the ITC “may require the ‘attendance of witnesses and the production of such documentary evidence . . . from any place in the United States at any designated place of hearing’” (quoting 19 U.S.C. § 1333(b))).

31. *See Bruce Barker & Steward Brown, Why You Should Consider the ITC Option*, MANAGING INTELL. PROP., Apr. 2003, at 39, 41.

## B. *Structure of Proceedings & Remedies*

After GoodCorp files a complaint, the ITC will decide if action is merited.<sup>32</sup> If it chooses to proceed, it will open an investigation.<sup>33</sup> The investigation is then referred to one of six ALJs for an evidentiary hearing.<sup>34</sup> ALJs have a reputation for being more experienced with patent law matters compared to most district court judges, given the high volume of patent cases that ALJs hear.<sup>35</sup> At this time, the ITC's Office of Unfair Import Investigations assigns a staff attorney to represent the public interest and serve as a party in the investigation.<sup>36</sup> This attorney is an active participant in the proceedings and can influence the outcome of the case.<sup>37</sup>

### 1. Speed of Proceedings

ITC proceedings move quickly. The ALJ will set a short discovery period, often less than five months.<sup>38</sup> ITC discovery is broad, as there are few limitations on interrogatories, foreign discovery, and the scope of discovery.<sup>39</sup> Typically after six or seven months, the ALJ will hold a formal evidentiary hearing, in accordance with the Administrative Procedure Act.<sup>40</sup> Based on the hearing, the ALJ will issue an Initial Determination (ID) on GoodCorp's case, which is certified to the ITC with the evidentiary record.<sup>41</sup>

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32. For details on filing an ITC complaint, see 19 C.F.R. § 210.12 (2008); Robert G. Krupka, *International Trade Commission Patent Litigation: A Unique Experience*, in PATENT LITIGATION 1992, at 475, 480 (PLI Patents, Copyrights, Trademarks, and Literary Property, Course Handbook Series No. G4-3892, 1992).

33. 19 U.S.C. § 1337(b)(1).

34. ITC FAQ, *supra* note 17, at 2. Note that the ITC can hire more than six ALJs, if its budget allows. See U.S. INT'L TRADE COMM'N, BUDGET JUSTIFICATION: FISCAL YEAR 2010, at 3, 6, available at [http://www.usitc.gov/ext\\_relations/about\\_itc/documents/budget\\_2010.pdf](http://www.usitc.gov/ext_relations/about_itc/documents/budget_2010.pdf). For more information on ALJs, see DUVALL, *supra* note 26, at 158–66; Hon. Carl C. Charneski, *The Role of the Office of Administrative Law Judges Within the United States International Trade Commission*, 8 J. MARSHALL REV. INTELL. PROP. L. 216 (2009).

35. Barker & Brown, *supra* note 31, at 40.

36. ITC FAQ, *supra* note 17, at 2.

37. See Russell E. Levine, *The Benefits of Using the ITC*, MANAGING INTELL. PROP., Sept. 2004, at 25, 27.

38. DUVALL, *supra* note 26, at 250–51.

39. See *id.*; Lyle Vander Schaaf, *ITC Cases Are on the Rise*, NAT'L L.J., Dec. 6, 2004, at S1.

40. See 5 U.S.C. § 556(b)(3) (2006); ITC FAQ, *supra* note 17, at 18 (“While the length and timing of hearings varies from case to case, in an investigation scheduled to be completed within twelve months, for example, the evidentiary hearing often occurs about six or seven months after institution of the investigation.”); see also 19 U.S.C. § 1337(c) (detailing the requirement of formality under the Administrative Procedure Act).

41. See ITC FAQ, *supra* note 17, at 2.

The decision then automatically goes up to the ITC's six-member Commission, who have the option to decline review of the ID (allowing it to become final), review and adopt it, modify it, or reverse it.<sup>42</sup> The Commission's order goes into effect after sixty days, except in the rare event that the President disapproves of it on policy grounds under § 337(j).<sup>43</sup> If GoodCorp's proceeding—from start to finish—takes the average amount of time, it will conclude in just under seventeen months,<sup>44</sup> which is faster than some so-called “rocket docket” district courts.<sup>45</sup>

## 2. Remedies

A unique feature of § 337 litigation is the availability of exclusion orders. Cash damages are not available in the ITC.<sup>46</sup> Rather, if GoodCorp prevails, the Commission will generally enter a limited or general exclusion order.<sup>47</sup> Limited exclusion orders instruct the U.S.

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42. *See id.* at 21. The commissioners are nominated by the president and confirmed by the Senate. James M. De Vault, *Congressional Dominance and the International Trade Commission*, 110 PUBLIC CHOICE 1, 4 (2002). This reduces the likelihood that free trade or protectionist extremists are confirmed. *Id.* The commissioners serve non-renewable terms of nine years, unless appointed to fill an unexpired term. OFFICE OF THE INSPECTOR GEN., U.S. INT'L TRADE COMM'N, INSPECTION REPORT NO. OIG-IR-01-02, U.S. INTERNATIONAL TRADE COMMISSION'S POLICIES AND PROCEDURES RELATED TO THE RURAL DEVELOPMENT ACT OF 1972, at 1 (2002). No more than three commissioners may be members of the same political party. *Id.*

43. Presidents have overturned five ITC decisions since the agency was created in 1974, and have not done so since the mid-1980s. *See* Press Release, Broadcom Corp., Broadcom Urges Administration to Let ITC Patent Action Stand (July 5, 2007), available at <http://www.broadcom.com/press/release.php?id=1023034>. In explaining why the Bush administration declined to overturn the ITC's decision in *In re Baseband Processor Chips and Chipsets, Transmitter and Receiver (Radio) Chips, Power Control Chips, and Products Containing Same, Including Cellular Telephone Handsets*, USITC Inv. No. 337-TA-543, 2007 ITC LEXIS 621 (June 19, 2007), *rev'd in part sub nom.*, *Kyocera Wireless Corp. v. U.S. Int'l Trade Comm'n*, 545 F.3d 1340 (Fed. Cir. 2008), U.S. Trade Representative Susan Schwab noted: “I am continuing the practice of successive Administrations of exercising section 337 review authority with restraint, reserving for extraordinary cases the power to disapprove the findings and orders of the USITC.” Press Release, Office of the United States Trade Representative, Schwab Decision on the ITC Investigation of Certain Processor Chips (Aug. 6, 2007), available at [http://www.ustr.gov/Document\\_Library/Press\\_Releases/2007/August/Schwab\\_Decision\\_on\\_the\\_ITC\\_Investigation\\_of\\_Certain\\_Processor\\_Chips.html](http://www.ustr.gov/Document_Library/Press_Releases/2007/August/Schwab_Decision_on_the_ITC_Investigation_of_Certain_Processor_Chips.html).

44. *See* ITC PERFORMANCE REPORT, *supra* note 8, at 70 (noting that from the 2003–2006 fiscal years, the average time for completion of a § 337 investigation was fifteen months, rising to 16.6 months during the 2007 fiscal year).

45. “Rocket dockets” refer to district courts—or occasionally, to particular district court judges—that have adopted procedural practices that allow patent cases to be litigated quickly. *See* Carrie E. Johnson, Comment, *Rocket Dockets: Reducing Delay in Federal Civil Litigation*, 85 CAL. L. REV. 225, 227 (1997). The Eastern District of Texas, which is a well-known rocket docket, takes 17.7 months, on average, to get a case to trial. *See* Sacha Pfeiffer, *Blueprint for Boston: Make it a Patent-Fight Arena*, BOSTON GLOBE, Aug. 8, 2007, at C1.

46. *See* ITC FAQ, *supra* note 17, at 22.

47. *See* 19 U.S.C. § 1337(d)(1) (2006); ITC FAQ, *supra* note 17, at 22–23.

Customs and Border Protection (Customs) to exclude from entry all articles that are covered by the patent at issue and that originate from a named respondent in the investigation.<sup>48</sup> General exclusion orders, in contrast, direct Customs “to exclude all infringing articles, without regard to source.”<sup>49</sup> Preliminary injunctions are also available, though requests for the injunctions are relatively uncommon, given the speed of ITC litigation.<sup>50</sup>

The ITC, in theory, must consider policy implications of an exclusion order before issuing one. The ITC can decline to issue an exclusion order, or can narrow it, if, “after considering the effect of such exclusion upon 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, [the ITC] finds that such articles should not be excluded from entry” or such an order should not be issued.<sup>51</sup> In practice, however, policy considerations do little to mitigate the harsh effects of exclusion orders.<sup>52</sup>

At its discretion, the ITC may issue a cease-and-desist order in addition to or in place of an exclusion order.<sup>53</sup> Such orders issue against specific respondents and prevent sale of “commercially significant” domestic inventories of infringing goods.<sup>54</sup> For respondents without domestic inventory, exclusion orders are generally used.<sup>55</sup>

### C. Dual Litigation and Conflicting Judgments

When a party litigates a patent infringement dispute in the ITC, it does not lose the right to litigate in federal court. Thus, GoodCorp can pursue an ITC action in addition to a district court action<sup>56</sup> and can even

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48. See ITC FAQ, *supra* note 17, at 22. See generally, Merritt R. Blakeslee, *Post-Litigation Enforcement of Remedial Orders Issued by the U.S. International Trade Commission in Section 337 Investigations*, 8 J. MARSHALL REV. INTELL. PROP. L. 248 (2009).

49. ITC FAQ, *supra* note 17, at 22; see *Kyocera Wireless Corp. v. U.S. Int’l Trade Comm’n*, 545 F.3d 1340, 1356–57 (Fed. Cir. 2008).

50. Steven E. Adkins & June E. Cohan, *Not Mere Litigation: Remedies Available for IP Infringement at the International Trade Commission*, COMP. & INTERNET LAWYER, May 2005, at 16, 18.

51. 19 U.S.C. § 1337(d)(1).

52. See *infra* Part VI.A.1.

53. See 19 U.S.C. § 1337(f)(1); *Fuji Photo Film Co. v. U.S. Int’l Trade Comm’n*, 386 F.3d 1095, 1107 (Fed. Cir. 2004).

54. See *Fuji Photo Film*, 386 F.3d at 1107; *In re Integrated Repeaters, Switches, and Transceivers*, USITC Pub. 3547, Inv. No. 337-TA-435, 2002 ITC LEXIS 615, at \*56 (Oct. 2002).

55. *FujiPhoto Film*, 386 F.3d at 1107.

56. It is also possible to have “parallel district court and [ITC] patent infringement actions and [Patent and Trademark Office] interferences.” Charles L. Goltz, *Parallel District Court and ITC Infringement Actions and PTO Interferences*, 83 J. PAT. & TRADEMARK OFF. SOC’Y 607,

receive conflicting judgments.<sup>57</sup> The availability of dual litigation is well established by the courts.<sup>58</sup> In 1994, Congress enacted a provision stating that at the request of any party in a § 337 ITC proceeding, “the district court shall stay, until the determination of the Commission becomes final, proceedings in the civil action with respect to any claim that involves the same issues involved in the proceeding before the Commission . . . .”<sup>59</sup>

Dual litigation remains highly controversial.<sup>60</sup> As one district court noted, “by allowing parallel proceedings and indeed almost encouraging them, Congress has created the real possibility of inconsistent results between ITC and district court proceedings.”<sup>61</sup> The court’s concern is supported by empirical evidence. Of the twenty-two parallel cases from 1972 to 2006, nine of them had conflicting decisions.<sup>62</sup> This number will likely rise, given the significant increase in § 337 investigations<sup>63</sup> and the fact that 65% of investigations have a district court

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608 (2001).

57. For example, the ITC found that U.S. Philips Corporation’s six patents pertaining to recordable compact discs were unenforceable due to patent misuse, but a year later, a district court held that the same six patents were valid and infringed. *Compare In re Recordable Compact Discs and Rewritable Compact Discs*, USITC Pub. 3686, Inv. No. 337-TA-474, 2004 WL 1435791 (Mar. 2004), with *U.S. Philips Corp. v. Princo Corp.*, 361 F. Supp. 2d 168, 183 (S.D.N.Y. 2005); *vacated*, 173 Fed. App’x 832 (Fed. Cir. 2006).

58. See *Texas Instruments, Inc. v. Tessera, Inc.*, 231 F.3d 1325, 1330 (Fed. Cir. 2000); see also *Kaisha v. Bombardier, Inc.*, No. SA CV 00-549, 2001 WL 1388911, at \*2 (C.D. Cal. Mar. 9, 2001) (“[S]tatutory provisions appear to indicate that ITC proceedings may proceed simultaneously with district court proceedings . . .”).

59. 28 U.S.C. § 1659(a) (2006). In 1989, a General Agreement on Tariffs and Trade (GATT) panel ruled that § 337 violated national treatment provisions in Article III, section 4 of GATT. See *United States—Section 337 of the Tariff Act of 1930*, Report by the Panel Adopted on 7 November 1989 (L/6439), General Agreement on Tariffs and Trade: Basic Instruments and Selected Documents 345, 396 (36th Supp. 1990); James Thuo Gathii, *Construing Intellectual Property Rights and Competition Policy Consistently with Facilitating Access to Affordable Aids Drugs to Low-End Consumers*, 53 FLA. L. REV. 727, 767 (2001). This led Congress to amend § 337 in 1994 under the Uruguay Round, in an attempt to bring the U.S. into compliance with the General Agreement on Tariffs and Trade. See Joel W. Rodgers & Joseph P. Whitlock, *Is Section 337 Consistent with the GATT and the TRIPS Agreement?*, 17 AM. U. INT’L L. REV. 459, 478–81 (2002).

60. Some commentators have suggested stripping the ITC of jurisdiction for cases where a federal court would have jurisdiction. See Robert W. Hahn & Hal J. Singer, *Assessing Bias in Patent Infringement Cases: A Review of International Trade Commission Decisions*, 21 HARV. J.L. & TECH. 457, 487 (2008).

61. *Kaisha*, 2001 WL 1388911, at \*2.

62. Hahn & Singer, *supra* note 60, at 480–81.

63. *A Record Number of Section 337 Cases Filed at the ITC, as the Supreme Court’s eBay Decision Makes Section 337 an Even More Attractive Alternative Than Ever to District Court Litigation*, INTELL. PROP. LITIG. ALERT (Bingham McCutchen, L.L.P.), July 5, 2006, at 1, available at <http://www.bingham.com/Media.aspx?MediaID=2830>.

counterpart.<sup>64</sup> Conflicting decisions result from the fact that ITC decisions are not entitled to preclusive effect in federal court.<sup>65</sup>

### III. THE HISTORY OF THE MODERN ITC

Congress created the ITC to gain protectionist support for trade reform. In the late 1960s and early 1970s, Congress made several attempts to pass trade legislation to address problems with the U.S. economy. It was difficult for Congress to secure reform because of a split between free trade supporters and protectionists. Congress overcame the deadlock by creating the ITC as part of the Trade Reform Act of 1974.<sup>66</sup> Under this Act, Congress liberalized trade in an attempt to alleviate looming economic crisis.<sup>67</sup> As a compromise, Congress also replaced the U.S. Tariff Commission, which only had advisory power, with the ITC. The ITC received expanded powers under § 337 to remedy acts of unfair competition, including patent infringement.

Despite creating a new remedy for patent infringement, Congress gave little consideration to how § 337 would affect patent law. It did not require the ITC to abide by the Patent Act, an omission that would later cause inconsistency between patent litigation in the ITC versus in federal court. More importantly, the ITC did not consider the effect that the protectionist agency could have on technological innovation.

#### A. *The Tariff Commission and the Move Toward Free Trade*

The United States Tariff Commission was created in 1916<sup>68</sup> and has been described as “a relic of an era when tariff treaties did not exist.”<sup>69</sup> The early Tariff Commission had three primary functions: (1) to help Congress set tariff rates by providing pertinent information, (2) to make

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64. Colleen V. Chien, *Patently Protectionist? An Empirical Analysis of Patent Cases at the International Trade Commission*, 50 WM. & MARY L. REV. 63, 70 (2008) (studying § 337 cases initiated between January 1995 and June 2007).

65. See *infra* Part V.B.

66. See S. REP. NO. 93-1298, at 5 (1974), as reprinted in 1974 U.S.C.C.A.N. 7186, 7187 (“The Trade Reform Act of 1974, which the Committee on Finance now reports to the Senate with amendments, coincides with a serious crisis in the domestic and world economies. Twenty months have passed since former President Nixon requested the Congress to provide the Executive with authority to negotiate ‘a more open and equitable trading world.’ Events during the past year have severely strained the world’s economy, underscoring the need to find cooperative solutions to common domestic and international economic problems.”).

67. See *id.*; J. Kennerly Davis, Jr., Comment, *The Trade Reform Act of 1973*, 15 HARV. INT’L L.J. 126, 126 (1974) (“That policy currently is at its most critical juncture in over 25 years due to an extended series of trade and payments deficits, repeated currency crises, and a significant devaluation of the dollar.”).

68. Revenue Act, ch. 463, § 700, 39 Stat. 795, 795 (1916).

69. ROGER G. NOLL, REFORMING REGULATION: AN EVALUATION OF THE ASH COUNCIL PROPOSALS 61 (1971).

recommendations to Congress upon request, and (3) to provide information to help the President administer the tariff laws.<sup>70</sup> The Tariff Act of 1930—more commonly known as the Smoot-Hawley Tariff—gave the agency investigative powers.<sup>71</sup> The Smoot-Hawley Tariff is best known for raising U.S. tariffs to historically high levels, which some scholars believe exacerbated the severity of the Great Depression.<sup>72</sup>

The government's effort to liberalize trade began, in earnest, in the 1960s, when President Kennedy proposed a new trade agreement to “meet the challenges and opportunities of a rapidly changing world economy.”<sup>73</sup> Congress responded with The Trade Expansion Act of 1962,<sup>74</sup> which provided a significant tariff reduction. The Act's purpose was to stimulate economic growth, enlarge foreign markets for U.S. goods, and to strengthen relations with other countries through free trade.<sup>75</sup> The Act gave the President broad authority to negotiate tariff reductions of as much as 50%.<sup>76</sup> Furthermore, it authorized U.S. participation in the Kennedy Round of multilateral trade negotiations under the General Agreement on Tariffs and Trade.<sup>77</sup>

Despite this initial shift toward free trade, protectionists would soon make policy inroads. In the mid to late 1960s, the U.S. payment deficit worsened, paving the way for trade restrictions.<sup>78</sup> In 1967, Congress let

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70. *Id.*

71. Tariff Act, ch. 497, § 337, 46 Stat. 696, 703 (1930) (codified as amended at 19 U.S.C. § 1330) (“To assist the President in making any decisions under this section the commission is hereby authorized to investigate any alleged violation hereof on complaint under oath or upon its initiative.”).

72. See Robert E. Hudac, “Circumventing” Democracy: The Political Morality of Trade Negotiations, 25 N.Y.U. J. INT’L L. & POL. 311, 313 (1993) (discussing how the Smoot-Hawley Tariff led to a massive increase in tariffs, leading to a “sharp contraction of world trade that contributed substantially to the length and depth of [the Great Depression]”).

73. President's Special Message to Congress on Foreign Trade Policy, 2 PUB. PAPERS 68 (Jan. 25, 1962).

74. Trade Expansion Act, Pub. L. No. 87-794, § 102, 76 Stat. 872, 872. (1962).

75. The Statement of Purpose for the Act was

- (1) to stimulate the economic growth of the United States and maintain and enlarge foreign markets for the products of United States agriculture, industry, mining, and commerce;
- (2) to strengthen economic relations with foreign countries through the development of open and nondiscriminatory trading in the free world; and
- (3) to prevent Communist economic penetration.

*Id.*

76. *Id.* § 201(b), 76 Stat. at 872; EDWARD G. HINKELMAN, DICTIONARY OF INTERNATIONAL TRADE: HANDBOOK OF THE GLOBAL TRADE COMMUNITY 170 (6th ed. 2005).

77. HINKELMAN, *supra* note 76, at 170.

78. THOMAS W. ZEILER, AMERICAN TRADE AND POWER IN THE 1960S, at 241 (1992) (“Augmented by the falling trade surplus, domestic inflation, and an overvalued dollar, the American payments deficit eventually led to more drastic—and trade-restrictive—measures by

the President's power to negotiate tariff reductions expire.<sup>79</sup> Labor unions and other domestic industries began calling for the establishment of trade quotas.<sup>80</sup> The response from Congress was the unsuccessful Trade Act of 1970,<sup>81</sup> in which Congress sought to sharply reduce imports and was derided by commentators and economists.<sup>82</sup> The Foreign Trade and Investment Act of 1972 followed,<sup>83</sup> which was designed "to 'discourage American business investment abroad and [to] limit the flow of imports into this country.'"<sup>84</sup> This bill also failed.

The economy continued to sour. In 1970, unemployment hit 6.1% and the country entered a recession.<sup>85</sup> The last remnants of fixed exchange rate structure between the dollar and gold collapsed in 1971, ending the gold standard.<sup>86</sup> The OPEC oil embargo followed a year later. President Nixon responded with a series of protectionist measures, including freezing wages and prices<sup>87</sup> and imposing a 10% surcharge on imports.<sup>88</sup> Trade reform was desperately needed, which meant getting both free trade supporters and protectionists to agree on one course of action.

### B. *The Trade Act of 1974 and the Birth of the ITC*

The Trade Act of 1974<sup>89</sup> emerged from a Nixon administration proposal to boost the economy by liberalizing trade and to provide the President with unprecedented power in U.S. trade policy.<sup>90</sup> However, President Nixon emphasized that "while trade should be more open, it

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the administration of Richard M. Nixon . . .").

79. See Kazimierz Grzybowski et al., *Towards Integrated Management of International Trade—The U.S. Trade Act of 1974*, 26 INT'L & COMP. L.Q. 283, 284 (1977).

80. See EDWARD S. KAPLAN, *AMERICAN TRADE POLICY, 1923–1995*, at 89 (1996); John B. Rehm, *Proposed Trade Act of 1970: What Direction U.S. Foreign Trade Policy?*, 2 J. MAR. L. & COM. 289, 290 (1971).

81. H.R. 18970, 91st Cong. (1970).

82. See, e.g., Rehm, *supra* note 80, at 320 ("On balance, it is a regressive and protectionist measure that disregards international obligations as much as sound economics."); Jerry L. Siegel, Note, *The Trade Act of 1971: A Fundamental Change in United States Foreign Trade Policy*, 80 YALE L.J. 1418, 1419 (1971) (stating that the bill, if enacted, "would represent a retreat from free trade"); *Trade: The Black Comedy That Could Come True*, TIME, Nov. 23, 1970, at 97, 97 (arguing that the bill "would turn the clock back 35 years, to the days before the nation began leading a highly beneficial world movement toward freer trade").

83. Grzybowski et al., *supra* note 79, at 287.

84. See *id.* (citing 117 CONG. REC. 33584 (1971) (statement of Senator Hartke)).

85. Thad W. Mirer, *The Distributional Impact of the 1970 Recession*, 55 REV. OF ECON. & STAT. 214, 214 (1973).

86. Stephen P. Magee, *Currency Contracts, Pass-through, and Devaluation*, in 1 BROOKINGS PAPERS ON ECONOMIC ACTIVITY 303, 303 (1973).

87. Exec. Order No. 11,615, 36 Fed. Reg. 15,727, 15,727 (Aug. 17, 1971).

88. Proclamation No. 4074, 36 Fed. Reg. 15,724, 15,724 (1971).

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

90. See H.R. 6767, 93d Cong., 1st Sess. (1973); see also KAPLAN, *supra* note 80, at 89.

should also be more fair.”<sup>91</sup> Increasing fairness included expanding protection against unfair competition.<sup>92</sup> By balancing free trade with broad protectionist measures against unfair competition, President Nixon found a way to reconcile the free trade and protectionist factions in Congress.

The bills that entered the House and Senate were the subject of fierce debate. Companies that depended on trade—such as IBM, Union Carbide, and Exxon—argued in favor of trade liberalization.<sup>93</sup> Unions led the opposition.<sup>94</sup> Notably absent from the debate was a discussion of patent or other IP issues. Buried within thousands pages of House and Senate testimony was the statement of just one registered patent attorney and his associate.<sup>95</sup> There were no other IP attorneys or related interest groups involved with the debate and only limited discussion of patents by other parties.<sup>96</sup>

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91. President’s Special Message to Congress Proposing Trade Reform Legislation, 5 PUB. PAPERS 258, 261 (Apr. 10, 1973).

92. *Id.* at 265 (“To cope with unfair competitive practices in our own markets, [the] proposed legislation would . . . amend the current statute concerning patent infringement by subjecting cases involving imports to judicial proceedings similar to those which involve domestic infringement . . .”).

93. *See The Trade Reform Act of 1973: Hearing on H.R. 6767 Before the H. Comm. on Ways & Means*, 93d Cong. 691–92 (1973) [hereinafter *1973 House Hearings*] (statement of Gilbert E. Jones, Chairman of the Board, IBM World Trade Corp.) (arguing that companies need to be able to take advantage of foreign technological advances); *id.* at 2897, 2899 (statement of Fred C. Kroft, Jr., President, Ferroalloys Division, Union Carbide Corp.) (supporting the “permanent [] suspension of duty on [imports of] manganese ore”); *id.* at 4503–04 (statement of Emilio G. Collado, Executive Vice President, Exxon Corp.) (“Growth in U.S. exports will be required to help defray the growing balance-of-payments costs of oil imports, and further multilateral trade liberalization would help to provide growing export opportunities.”).

94. *See The Trade Reform Act of 1973: Hearing on H.R. 10710 Before the S. Comm. on Fin.*, 93d Cong. 1329–31 (1974) [hereinafter *1974 Senate Hearings*] (statement of I.W. Abel, President, United Steelworkers of America) (opposing the Senate bill); *id.* at 1687 (statement of George Collins, Assistant to the President, International Union of Electrical, Radio and Machine Workers) (opposing the Senate bill).

95. *1973 House Hearings*, *supra* note 93, at 1588–90 (joint statement of Harvey Kaye & Paul Plaia, Jr., Attorneys) (suggesting amendments to the bill from the perspective of patent attorneys).

96. *See, e.g., 1973 House Hearings*, *supra* note 93, at 363–64 (statement of Ambassador William D. Eberle, Special Representative for Trade Negotiations, accompanied by Ambassador William R. Pearce, Deputy Special Representative & John H. Jackson, General Counsel) (arguing all patent infringement involving foreign wrongdoing should be permitted in the ITC); *id.* at 500–01 (statement of Honorable Fredrick B. Dent, Secretary of Commerce) (observing that § 337 “ha[d] been amended to provide patent owners with a simpler, quicker, and more effective remedy against infringing imports”); *id.* at 781 (statement of Kurt Orban, President, American Importers Association, Inc.) (“Section 337 should be repealed, permitting the regular patent laws to function in this area.”).

The final bill, which passed in January 1975, reflected the compromise made between free trade supporters and protectionists. To protect domestic industry from unfair practices, Congress remade the Tariff Commission into the more independent ITC and granted it new powers.<sup>97</sup> The most important of these powers was the ability to make final decisions on issuing exclusion orders, reversible only by the president for “policy reasons.”<sup>98</sup> Previously, the agency served in an advisory capacity, and the President made the ultimate determination of whether unfair trade practices had occurred.<sup>99</sup> Allowing the ITC to make final decisions paved the way for patent owners to use the agency for fast remedies. Congress also gave the ITC the power to enforce exclusion orders through cease-and-desist orders and civil penalties.<sup>100</sup>

But the Act also reflected the lack of input from IP scholars and practitioners. Congress did not bind the ITC to the Patent Act. Instead, it merely noted that the ITC should use Court of Claims and Patent Appeals precedent as guidance and was silent regarding other patent precedent. In the House Report, Congress gave wide latitude to the ITC in making patent determinations: “The Commission would also consider the evolution of patent law doctrines, including defenses based upon antitrust and equitable principles, and the public policy of promoting a ‘free competition’ in the determination of violations of the statute.”<sup>101</sup> It also granted the ITC the right to consider patent defenses—including invalidity—for purposes of § 337 “in accordance with contemporary legal standards.”<sup>102</sup>

Congress did not consider the effect that such changes would have on patent law. Prior to the 1974 amendments, few cases brought under § 337 involved patents.<sup>103</sup> It appears that no one anticipated that granting broad powers to the ITC for § 337 patent decisions would lead to a rise in § 337 patent investigations. In the future, this arrangement would lead to strategic behavior by litigants and decisions by the ITC that hinder innovation and hurt the public.

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97. The listed purposes in the Senate Report for the 1974 act include: “To strengthen the independence of the United States Tariff Commission . . . [and t]o improve procedures for responding to unfair trade practices in the United States and abroad.” S. REP. NO. 93-1298, at 3, 4 (1974), *as reprinted in* 1974 U.S.C.C.A.N. 7186, 7187.

98. Trade Act of 1974, Pub. L. No. 93-618, § 337(c)–(d), 88 Stat. 2053, 2054 (1975) (codified as amended at 19 U.S.C. § 1337(c)–(d) (2006)).

99. *See* S. COMM. ON FIN., 93D CONG., COMPARATIVE ANALYSIS OF EXISTING TRADE LAWS WITH H.R. 10710—THE TRADE REFORM ACT OF 1973, at 116 (Comm. Print 1974).

100. Trade Act of 1974, § 337(f) (codified as amended at 19 U.S.C. § 1337(f)).

101. H.R. REP. NO. 93-571, at 78 (1974).

102. *Id.*

103. *See* U.S. GEN. ACCOUNTING OFFICE, REP. NO. GAO-NSAID-86-150, INTERNATIONAL TRADE: STRENGTHENING TRADE LAW PROTECTION OF INTELLECTUAL PROPERTY RIGHTS 14 (1986) [hereinafter GAO REPORT], available at <http://archive.gao.gov/d4t4/130844.pdf>.

#### IV. THE EVOLUTION OF § 337

When Congress amended the Tariff Act in 1988, it was motivated by protectionism. Congress found that safeguards against unfair trade practices were “cumbersome and costly” and had “not provided United States owners of IP rights with adequate protection against foreign companies violating such rights.”<sup>104</sup> The ITC had become popular with U.S. patent holders, but economic tests in the provision prevented many patent holders from using the forum.<sup>105</sup> Policymakers feared that inadequate protection against patent and other IP infringement was hurting the nation’s competitiveness in the international marketplace. These concerns led to reform under the Omnibus Trade and Competitiveness Act of 1988.<sup>106</sup>

But Congress did not realize that expanding the ITC’s jurisdiction over IP cases was in tension with the ITC’s core mission of protecting domestic industry. During the debate for the bill, the ITC warned that dropping the economic tests would compromise its ability to protect U.S. companies and would transform the ITC into a patent enforcement agency. Few parties foresaw that the amendments would harm domestic companies that imported goods and would help foreign companies enforce their U.S. IP rights.

Moreover, in making § 337 a “more effective remedy for the protection of United States intellectual property rights,”<sup>107</sup> Congress increased the patent holders’ monopoly without regard to the innovation, advancement or social benefit gained. In particular, Congress did not require the ITC to follow the Patent Act and failed to strengthen requirements for balancing harm to the public welfare against harm to the patent holder.

##### A. *Debate on Expanding § 337*

By the early to mid-1980s, momentum was building for a major revision of the Trade Act of 1974. Although small changes had been made in the interim, Congress wanted to address the significant increase in IP-related unfair competition investigations brought under § 337, most of which involved patent infringement. Interest groups seized this opportunity to expand the scope of § 337 to facilitate patent enforcement.

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104. Omnibus Trade and Competitiveness Act of 1988, Pub. L. 100-418, § 1341(a)(2), 102 Stat. 1211, 1212 (1988).

105. *See infra* Part IV.B. Patent holders had to show engagement in a domestic industry, that said industry was “efficiently and economically operated,” and that the importation of infringing goods would “substantially injure [the] industry.” 19 U.S.C. § 337(a) (1982).

106. *See* Omnibus Trade and Competitiveness Act of 1988, § 1.

107. *Id.* § 1341(b).

### 1. Shift in Use for § 337

Prior to the enactment of the Trade Act of 1974, the law was seldom used to enforce any form of IP rights.<sup>108</sup> But the changes made in 1974 resulted in a dramatic rise in IP infringement cases. Between January 1975 and April 1985, 75% of all § 337 actions involved patent infringement, 22% involved trademark infringement, and 4% copyright infringement.<sup>109</sup> Only 4% of cases did not involve IP infringement issues.<sup>110</sup>

In 1983, ITC Chairman Alfred Eckes and other ITC officials testified about the rise of IP cases being brought under § 337.<sup>111</sup> Eckes argued in favor of dropping the requirement that a domestic industry must be efficiently and economically operated.<sup>112</sup> Three years later, the U.S. General Accounting Office issued a report arguing that § 337 should be amended to “more effectively protect” IP rights against infringing imports.<sup>113</sup> The report noted that § 337, as written, “was intended as a trade statute to protect U.S. firms and workers against all types of unfair foreign trade practices.”<sup>114</sup> It stated that the 1974 Act’s economic tests generally resulted in rights holders being “denied access to section 337 relief.”<sup>115</sup>

Eckes highlighted the difficulty in administering the outdated statute. He testified about the challenges of determining what constitutes a domestic industry under § 337, stating:

In the absence of clear guidance from the statute and legislative history, the [ITC] ha[d] been attempting on a case-by-case basis to apply [the statute], which was written originally more than 50 years ago, to modern circumstances of trade in which U.S. based firms increasingly source out elements of production to foreign suppliers.<sup>116</sup>

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108. See GAO REPORT, *supra* note 103, at 14.

109. *Id.* at 15.

110. According to the GAO report, these cases involved claims such as breach of contract, collusive bidding, and false advertising. *Id.* at 15 n.10.

111. See *Options to Improve The Trade Remedy Laws: Hearing Before the Subcomm. on Trade of the H. Comm. on Ways & Means*, 98th Cong. 21, 31 (1983) [hereinafter *1983 House Hearings*] (statement of Honorable Alfred Eckes, Chairman, U.S. International Trade Commission); *id.* at 9 (statement of Ambassador Michael B. Smith, Deputy U.S. Trade Rep.).

112. See *1983 House Hearings*, *supra* note 111, at 21 (statement of Honorable Alfred Eckes, Chairman, U.S. International Trade Commission).

113. GAO Report, *supra* note 103, at 2.

114. *Id.* at 3.

115. *Id.* at 29.

116. *1983 House Hearings*, *supra* note 111, at 22 (statement of Honorable Alfred Eckes,

Eckes argued that the statute was ambiguous about whether companies that manufactured patented products abroad, but sold the products in the U.S., met the domestic industry requirement.<sup>117</sup>

## 2. Protecting U.S. Industry Through Strong Intellectual Property Rights

The second reason for expanding § 337 was a desire to protect domestic industry from foreign competition. The Reagan administration supported stronger IP rights to “protect U.S. commercial interests.”<sup>118</sup> Others argued that IP infringement threatened “international competitiveness and foreign trade performance.”<sup>119</sup> Some commentators observed the high cost of international piracy on U.S. companies, claiming that it led to losses of \$8 billion to \$20 billion a year.<sup>120</sup>

Despite the claims that strengthening the enforcement of IP rights would help U.S. companies, little attention was paid to how strong enforcement might hurt them. U.S. patents were not held only by domestic companies, but also by foreign companies with a limited U.S. presence. By encouraging Congress to drop entry requirements, policymakers inadvertently facilitated use of the ITC by foreign patent holders. Nobody appeared to consider the effect that expanding § 337 could have on domestic companies that depended on imported materials.

## 3. Advancing Innovation Through Strong Intellectual Property Rights

The GAO advanced a minority position that U.S. IP rights should be stronger for both domestic and foreign holders, in order to promote innovation. The GAO report stated that “foreign firms deserve protection under section 337,” arguing that foreign U.S. patent holders make valuable disclosures of inventions and likely make products available to domestic consumers.<sup>121</sup> The report also observed that ITC

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Chairman, U.S. International Trade Commission).

117. *Id.* at 18.

118. *Comprehensive Trade Legislation: Hearing on H.R. 3 Before the Subcomm. on Trade of the H. Comm. on Ways & Means*, 100th Cong. 105 (1987) [hereinafter *1987 House Hearings*] (statement of James A. Baker III, Secretary of the Treasury).

119. *See id.* at 295 (letter from Edward Donley, Chairman of the Board, U.S. Chamber of Commerce) (“Violations of U.S. intellectual property rights constitute a significant threat to U.S. international competitiveness and foreign trade performance.”).

120. *See Comparing Major Trade Bills: Hearing on S. 490, S. 636, and H.R. 3 Before the S. Comm. on Fin.*, 100th Cong. 159 (1987) [hereinafter *1987 Senate Hearings*] (statement of William T. Archey, Vice President, International, U.S. Chamber of Commerce); *id.* at 213–14 (statement of the Office of the Chemical Industry Trade Advisor) (discussing the problem of foreign piracy to U.S. intellectual property holders).

121. GAO REPORT, *supra* note 103, at 35.

actions were preferable to district court patent litigation, given the fast pace of § 337 proceedings, the availability of in rem jurisdiction, and the availability of exclusion orders.<sup>122</sup> However, although Congress adopted much of the GAO report, it did not express interest in strengthening the rights of foreign entities.

In making the above analysis, the GAO assumed that stronger IP rights correlated with increased innovation. It failed to consider that companies could use the ITC to exclude products where only a small component of the import infringed. It also put too much faith in the ITC to deny such an exclusion when no similar product was available on the market.<sup>123</sup>

#### 4. Opposition to ITC Expansion

Opposition to § 337's expansion came from ITC Chairwoman Paula Stern and the ITC Trial Lawyers Association. Responding to the GAO Report, Stern maintained that eliminating the injury requirement and other economic tests would undermine the ITC's mission to protect domestic industry and would transform the ITC into an IP enforcement forum.<sup>124</sup> The ITC Trial Lawyers Association agreed, raising the concern that foreign companies would be able to use the ITC against U.S. companies that import goods.<sup>125</sup> The Association further noted that the amendments would raise problems under the General Agreement on Tariffs and Trade.<sup>126</sup> These arguments did not appear to influence Congress.

##### B. *The Omnibus Trade and Competitiveness Act of 1988*

The 1988 Trade Act significantly broadened the scope of § 337, dropping several requirements for patent holders filing complaints. Previously, the Act required a patent holder to show that: (1) the patent holder was engaged in a domestic industry, (2) the domestic industry was "efficiently and economically operated," and (3) the importation of

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122. *Id.* at 16.

123. Both of these problems arose in *In re* Baseband Processor Chips and Chipsets, Transmitter and Receiver (Radio) Chips, Power Control Chips, and Products Containing Same, Including Cellular Telephone Handsets, USITC Inv. No. 337-TA-543 (June 19, 2007). This case is discussed in Part IV.

124. *See id.* at 84–85.

125. *1987 Senate Hearings*, *supra* note 120, at 344, 347 (comments of the ITC Trial Lawyers Association) ("By proposing to eliminate the requirement of injury to an industry in the United States, the amendments seek to fundamentally alter the purpose for which Section 337 was enacted . . . to protect an established or about to be established U.S. industry from harm.").

126. *See id.* at 347–49 (comments of the ITC Trial Lawyers Association); *see also* GAO REPORT, *supra* note 103, at 85.

infringing goods would substantially injure the industry.<sup>127</sup> Process patents, though covered in a separate provision, were subject to the same three requirements.<sup>128</sup>

The 1988 Trade Act reduced many of these requirements. Under § 337(a)(1)(B), Congress completely eliminated the second and third requirements for IP infringement cases, making it no longer necessary for a patent holder to show the industry was “efficiently and economically operated” and that infringement would lead to substantial injury.<sup>129</sup> These changes made it cheaper to litigate patent infringement in the ITC<sup>130</sup> and expanded patent holders’ access to the ITC.<sup>131</sup>

The new language also made changes regarding the treatment of patent and other IP infringement.<sup>132</sup> With the exception of process patents, the prior version of the bill merely prohibited “unlawful unfair competition,” leaving it to the ITC to determine which forms of

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127. The previous version of the statute stated:

Unfair methods of competition and unfair acts in the importation of articles into the United States, or in their sale by the owner, importer, consignee, or agent of either, 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, or to restrain or monopolize trade and commerce in the United States, are declared unlawful, and when found by the Commission to exist shall be dealt with, in addition to any other provisions of law, as provided in this section.

19 U.S.C. 337(a) (1987)

128. Section 337a stated:

The importation for use, sale, or exchange of a product made, produced, processed, or mined under or by means of a process covered by the claims of any unexpired valid United States letters patent, shall have the same status for the purposes of section 337 of this title as the importation of any product or article covered by the claims of any unexpired valid United States letters patent.

19 U.S.C. § 337a (1987).

129. See 19 U.S.C. § 1337(a)(1)(B) (1988) (codified as amended at 19 U.S.C. § 1337(a)(1)(B) (2006)).

130. See *1983 House Hearings*, *supra* note 111, at 21 (statement of Honorable Alfred Eckes, Chairman, U.S. International Trade Commission) (recommending that the “efficiently and economically operated” provision be deleted, in order to reduce the cost of litigation under § 337); DUVALL, *supra* note 26, at 4 (“[I]t is estimated that over one-half of the high cost of section 337 litigation . . . is attributable to the legal costs of satisfying the economic criteria.” (citing GAO REPORT, *supra* note 103, at 31)).

131. See GAO REPORT, *supra* note 103, at 29 (describing how eleven firms were unable to meet the economic relief requirement between 1974 and 1986, of which, six were denied relief solely on this ground).

132. See 19 U.S.C. § 1337(a)(1)(B) (1988) (codified as amended at 19 U.S.C. § 1337(a)(1)(B) (2006)).

infringement were included.<sup>133</sup> The 1988 Trade Act added provisions to § 337 explicitly covering IP infringement, including patents. It also extended § 337 to cover process patents.<sup>134</sup>

The new legislation also made it easier for patent holders to meet the domestic industry requirement. Previously, in ITC actions involving patent infringement, the Federal Circuit found that “the patent must be exploited by production in the United States” for a domestic industry to exist.<sup>135</sup> The revised § 337 clarified that an industry exists for the IP in question if there was “(A) significant investment in plant and equipment, (B) significant employment of labor or capital; or (C) substantial investment in its exploitation, including engineering, research and development, or licensing.”<sup>136</sup> Because investment in licensing counts as a domestic industry, this definition includes universities, “intellectual property owners who engage in extensive licensing of their rights to manufacturers,”<sup>137</sup> and patent trolls.<sup>138</sup>

In the 1988 Trade Act, Congress failed to recognize that protectionism and patent enforcement are not complementary objectives. In providing patent holders with greater access to the ITC, Congress opened the door to an increase in infringement suits brought against domestic companies, both by domestic and foreign U.S. patent holders. Congress failed to strengthen balancing requirements under § 337(d) to prevent issuance of exclusion orders when domestic companies would be unduly harmed.<sup>139</sup>

In attempting to make § 337 serve two functions, Congress created a provision that does neither job particularly well. It did not clarify the role of the Patent Act in the ITC, allowing the ITC and the Federal Circuit to declare certain parts of the Patent Act as non-binding on the

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133. See 19 U.S.C. § 337 (1987).

134. See § 1337 (a)(1)(B)(ii) (1988) (codified as amended at 19 U.S.C. § 1337(a)(1)(B)(ii) (2006)).

135. Schaper Mfg. Co. v. U.S. Int’l Trade Comm’n, 717 F.2d 1368, 1371 (Fed. Cir. 1983) (quoting H.R. REP. NO. 93-571 (1973)).

136. 19 U.S.C. § 1337(a)(3) (1988) (codified as amended at 19 U.S.C. § 1337(a)(3) (2006)).

137. H.R. REP. NO. 100-40, pt. 1, at 157 (1987), reprinted in 2 Bernard D. Reams & Mary Ann Nelson, *Trade Reform Legislation 1988: A Legislative History of the Omnibus Trade and Competitive-ness Act of 1988*, Pub. L. No. 100-418 (1991).

138. See William A. Drennan, *The Patented Loophole: How Should Congress Respond to this Judicial Invention?*, 59 FLA. L. REV. 299-302 (2007) (discussing how the term “patent troll” has been expanded to include inventors who obtains a patent but have no plans to produce a product under it).

139. Although § 1337(d) requires that the ITC balance the benefit of an exclusion order with the harm to the public welfare, 19 U.S.C. § 1337(d) (1988) (codified as amended at 19 U.S.C. § 1337(a)(1)(B) (2006)), competitive conditions in the United States economy, and other factors, exclusion orders are very rarely denied on such grounds. See *infra* Part VI.A.1.

ITC.<sup>140</sup> Congress failed to grant ITC proceedings collateral estoppel effect in federal court to ensure coherency in patent law. The 1988 statutory language also allowed the ITC to continue issuing broad exclusion orders whenever it found patent infringement. This situation has prevented respondent companies from making innovative products, even when the patent at issue covers only a small component of the product and when the patent holder does not offer a similar product.<sup>141</sup>

To resolve this tension, Congress could refocus § 337 to protect domestic industry. One way to achieve this goal would be to prohibit § 337 investigations against companies over which U.S. courts have personal jurisdiction. This change would protect U.S. companies from § 337 litigation.<sup>142</sup> Congress could likewise reintroduce the pre-1988 domestic industry requirement, making it harder for foreign companies to use the agency.

Regardless of whether such protectionism is warranted, such a change is highly unlikely. In making it easier to litigate patent disputes before the ITC, Congress acknowledged that § 337's main purpose was for IP enforcement. The ITC has become far too valuable as a patent litigation forum—by offering patent holders fast proceedings, unique relief, and judges well-versed in patent law.

## V. DIVERGENCE OF ITC AND FEDERAL COURT PATENT LAW

Six years before passing the 1988 Trade Act, Congress created the Federal Circuit to decrease forum shopping and reduce inconsistencies in federal adjudication.<sup>143</sup> But Congress did not consider how federal agencies fit into the fabric of patent jurisprudence—neither when creating the Federal Circuit nor when revising the Trade Act.

As the caseload in the ITC has grown over the past ten years, questions have begun to emerge regarding whether the Patent Act, in its entirety, applies to the ITC. In *Kinik Co. v. International Trade Commission*, the Federal Circuit affirmed the ITC's finding that

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140. See *infra* Part V.

141. This point was illustrated in *In re Baseband Processor Chips and Chipsets, Transmitter and Receiver (Radio) Chips, Power Control Chips, and Products Containing Same, Including Cellular Telephone Handsets*, USITC Inv. No. 337-TA-543, 2007 ITC LEXIS 621 (June 19, 2007), *rev'd in part sub nom.*, *Kyocera Wireless Corp. v. U.S. Int'l Trade Comm'n*, 545 F.3d 1340 (Fed. Cir. 2008). See *infra* Part VI.B.

142. See Hahn & Singer, *supra* note 60, at 488; Editorial, *Hot Topic: Patent Bending*, WALL ST. J., June 9, 2007, at A8 (“If Congress really wants to help, it could start by refusing to let companies like Broadcom use the ITC as a legal backstop at the same time they’re suing in federal court.”).

143. See Federal Courts Improvement Act of 1982, Pub. L. No. 97-164, 96 Stat. 25 (1982); H.R. REP. NO. 97-312, at 20 (1981).

defenses under § 271(g) of the Patent Act—pertaining to process patents—do not apply under § 337.<sup>144</sup> This decision was extremely controversial and led to debate over whether Congress intended the ITC to be bound by the Patent Act.<sup>145</sup> The ITC and Federal Circuit abruptly reversed course a few years later in another case pertaining to process patents, *Amgen, Inc. v. International Trade Commission*.<sup>146</sup> In this case, the Federal Circuit affirmed the ITC's holding that the safe-harbor provision under § 271(e) is applicable in § 337 proceedings.<sup>147</sup>

Other issues have emerged from the rise in parallel ITC/district court litigation, exacerbated by the fact that ITC decisions are not entitled to preclusive effect in federal court.<sup>148</sup> The result has been strategic behavior by litigants, and sometimes, conflicting decisions between the forums, leading to uncertainty.<sup>149</sup> These issues highlight the need to

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144. 362 F.3d 1359, 1363 (Fed. Cir. 2004). This was not the first time that the ITC found that § 271(g) defenses did not apply in § 337 proceedings. See *In re Recombinantly Produced Human Growth Hormones*, USITC Inv. No. 337-TA-358, 1994 WL 930040 (Nov. 29, 1994) (holding that the 35 U.S.C. § 271(g) exception does not apply to respondent, and refusing to apply the § 271(g) grandfather clause because “the legislative history cited by [respondent] does not establish that the Process Patent Act was enacted to modify remedies previously available under section 337. Rather, the Process Patent Act provides for an additional remedy in the district courts”); Notice of Issuance of Limited Exclusion Order and Cease and Desist Orders, *In re Plastic Encapsulated Integrated Circuits*, USITC Pub. 2574, Inv. No. 337-TA-315, 1992 WL 813959 (Oct. 1992) (letting stand the ALJ's opinion that “the Patent Amendments recognized section 337 as an independent cause of action in that the addition of section 271(g) did not deprive a patent owner of any remedies available under section 337”); Order No. 19, *In re Methods of Making Carbonated Candy Products*, USITC Inv. No. 337-TA-292, 1989 WL 608892 (Sept. 1, 1989) (holding that § 271(g) defenses cannot be raised in § 337 proceedings).

145. See *Process Patents: Hearing Before the S. Comm. on the Judiciary*, 110th Cong. 86–87 (2007) [hereinafter *2007 Senate Hearings*] (statement of John Thomas, Professor of Law, Georgetown Law School) (testifying that the ITC interprets the Patent Act whenever it makes patent-related determinations, and that it was thus improper of the *Kinik* court to grant *Chevron* deference to the agency); Rodgers & Whitlock, *supra* note 59, at 471 (stating that in § 337 cases, the ITC applies “the same substantive patent law as a federal district court would”); John M. Eden, Comment, *Unnecessary Indeterminacy: Process Patent Protection After Kinik v. ITC*, 2006 DUKE L. & TECH. REV. 9, ¶ 12 (2006), <http://www.law.duke.edu/journals/dltr/articles/pdf/2006DLTR0009.pdf>. But see *2007 Senate Hearings*, *supra* note 144, at 44 (written statement of Christopher A. Cotropia, Associate Professor of Law, University of Richmond School of Law) (testifying that while district courts are charged to enforce patents via the Patent Act, the ITC polices trade-related activities and protects domestic industries under the Tariff Act (citing 19 U.S.C. § 1337(a)(2), (3) (1988); *Tandon Corp. v. U.S. Int'l Trade Comm'n*, 831 F.2d 1017, 1019 (Fed. Cir. 1987))).

146. No. 2007-1014, 2009 WL 1151856, at \*1 (Fed. Cir. Apr. 30, 2009).

147. *Id.* at 1345.

148. See *infra* Part V.B.

149. See *Kaisha v. Bombardier, Inc.*, No. SA CV 00-549, 2001 WL 1388911, at \*2–3

restore uniformity between agency and federal court patent proceedings.

### A. *Process Patents and Applicable Defenses*

#### 1. *Kinik v. ITC*

In *Kinik*, the Taiwan-based Kinik Company argued that its products did not infringe a 3M process patent.<sup>150</sup> It maintained that the patented process “was materially changed by a subsequent process,” thus providing it with a defense under § 271(g) of the Patent Act.<sup>151</sup> The ALJ rejected this defense and found Kinik’s products infringed the 3M patent.<sup>152</sup>

On appeal, the Federal Circuit affirmed this part of the decision,<sup>153</sup> though it ultimately ruled against the ITC on other grounds.<sup>154</sup> Judge Newman, writing for the panel, concluded that defenses under § 271(g)(1) and (g)(2) do not apply in § 337 proceedings.<sup>155</sup> The decision was based on the legislative history and the text of the Process Patent Amendments Act of 1988, which states that defenses apply only “for purposes of this title.”<sup>156</sup> The court subsequently granted *Chevron* deference to the ITC, finding that it interpreted its own statute, § 337, and not the Patent Act.<sup>157</sup>

*Kinik* generated immense backlash, leading to hearings in 2007 before the Senate Judiciary Committee. Georgetown law professor John Thomas testified that the ITC interprets the Patent Act whenever it makes patent-related determinations.<sup>158</sup> He noted the “numerous complications that arise from varying enforcement possibilities between

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(C.D. Cal. Mar. 9, 2001) (noting that with regard to parallel ITC/federal court patent litigation, “permitting parallel proceedings involving identical fact patterns applying identical law permits parties to engage in forum shopping”). Note, however, that Kali Murray argues that this type of divergence in patent law is actually beneficial, because the ITC can offer an alternative perspective on patent law that ultimately improves patent jurisprudence. See Kali N. Murray, *The Cooperation of Many Minds: Domestic Patent Reform in a Heterogeneous Regime*, 48 IDEA 289, 301 (2008).

150. *In re Abrasive Products Made Using a Process for Making Powder Preforms*, USITC Inv. No. 337-TA-449, 2002 WL 480986 (Feb. 8, 2002), *aff’d sub nom*, *Kinik Co. v. U.S. Int’l Trade Comm’n*, 362 F.3d 1359 (Fed. Cir. 2004).

151. *Abrasive Products*, 2002 WL 480986.

152. *Id.*

153. *Kinik*, 362 F.3d at 1363.

154. *Id.* at 1359.

155. *Id.* at 1361.

156. See *id.* at 1362 (quoting 35 U.S.C. § 271(g) (2006)).

157. *Id.* at 1363.

158. See 2007 Senate Hearings, *supra* note 144, at 85 (statement of John R. Thomas, Professor of Law, Georgetown University); see also Rogers & Whitlock, *supra* note 59, at 471 (stating that in § 337 cases, the ITC applies “the same substantive patent law as a federal district court would”); Eden, *supra* note 144, ¶ 12.

the ITC and the federal district courts.”<sup>159</sup>

Other commentators contended that *Kinik* correctly supported the proposition that the ITC has independent jurisdiction. University of Richmond law professor Christopher Cotropia argued that while district courts are charged with enforcing patents via the Patent Act, the ITC, under the Tariff Act, polices trade-related activities and protects domestic industries.<sup>160</sup> Thus, as American Intellectual Property Law Association director Michael Kirk noted: “Section 337 proceedings in the ITC have a separate statutory basis from patent infringement actions brought in federal court.”<sup>161</sup> Unlike general patent proceedings, they “are intended to protect domestic industries and the public interest.”<sup>162</sup> Consequently, it is not inconsistent for a defense in district court patent litigation to not apply in the ITC.<sup>163</sup>

## 2. *Amgen v. ITC*

What little light *Kinik* shed on the relationship between the Patent Act and § 337 was extinguished by the Federal Circuit’s decision in *Amgen v. International Trade Commission*.<sup>164</sup> This case involved the 35 U.S.C. § 271(e)<sup>165</sup> safe harbor, which allows companies to infringe some gene technology patents for the purposes of drug development and obtaining drug approval.<sup>166</sup> Writing for the majority, Judge Newman found that § 271(e) does apply to imported products that violate a process patent in § 337 proceedings.<sup>167</sup> The majority brushed aside its reasoning in *Kinik*<sup>168</sup> and focused its analysis on two cases where the

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159. 2007 Senate Hearings, *supra* note 144, at 87 (statement of John R. Thomas, Professor of Law, Georgetown University).

160. *See id.* at 44 (written statement of Christopher Cotropia, Associate Professor of Law, University of Richmond Law School).

161. *Id.* at 78 (statement of Michael K. Kirk, Executive Director, American Intellectual Property Law Association).

162. *Id.*

163. *See id.* at 44 (written statement of Christopher Cotropia, Associate Professor of Law, University of Richmond Law School) (“There are, however, reasons not to label these as truly ‘inconsistent’ judgments. . . . District courts pursuant to Title 35 are tasked with the specific mandate to enforce patent protections, while the ITC under Title 19 is meant to police trade-related activities and protect domestic industries.”); *id.* at 78 (statement of Michael K. Kirk, Executive Director, AIPLA) (“Because ITC and federal court actions have different purposes and involve different remedies, there is nothing inconsistent with Congress’s decision, in passing the [Process Patent Amendments Act], not to extend the two specific, newly-created defenses to infringement under Section 271(g) to the preexisting requirements for Section 337 proceedings in the ITC.”).

164. No. 2007-1014, 2009 WL 1151856, at \*1 (Fed. Cir. Apr. 30, 2009).

165. *See* 35 U.S.C. § 271(e)(1) (2006).

166. *Amgen*, 2009 WL 1151856, at \*2.

167. *Id.* at \*4.

168. *Id.* at \*4.

Supreme Court had interpreted § 271(e) broadly.<sup>169</sup> Although these cases did not involve the ITC, the Federal Circuit used the decisions to justify its decision that Congress intended the safe harbor to apply to § 337 proceedings.<sup>170</sup>

The Federal Circuit disregarded two textual arguments that disfavored the application of § 271(e) to ITC proceedings. First, Amgen argued that § 271(e)(1) expressly limits the safe harbor to drug manufacturers that import a product that infringes a U.S. patent.<sup>171</sup> The provision does not address the importation of goods manufactured in violation of a *process* patent. Second, as Judge Linn noted in his dissent,<sup>172</sup> § 337(a)(1)(B) “declares unlawful the importation . . . of articles that ‘are made, produced, processed, or mined under, or by means of, a process covered by the claims of a valid and enforceable United States patent.’”<sup>173</sup> As Judge Linn concluded, under the plain language of the provision, exclusion orders should be available regardless of whether infringement occurred.<sup>174</sup>

In his dissent, Judge Linn accused the majority of disregarding the statutory text and legislative history of § 271(e) in order to harmonize the Tariff Act with the Patent Act.<sup>175</sup> He noted that the scope of the Patent Act and § 337 for imported goods made by a process patent has differed for nearly seventy years and that importation of such goods was not infringement until Congress passed the 1988 Process Patent Amendment Act.<sup>176</sup>

The *Kinik* and *Amgen* decisions illustrate the high degree of uncertainty in § 337 patent proceedings. The limits of a patent in the ITC are unknown, because the ITC and Federal Circuit have taken a piecemeal approach to determining which parts of the Patent Act apply. Such clarification, moreover, takes years. The Federal Circuit handed down the *Amgen* decision twenty-five years after Congress added § 271(e) to the Patent Act,<sup>177</sup> the court decided *Kinik* sixteen years after

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169. *See id.* (“[Section] 271(e)(1)’s exemption from infringement extends to all uses of patented inventions that are reasonably related to the development and submission of *any* information under the [Food Drug and Cosmetic Act].” (quoting *Merck KGaA v. Integra Lifesciences I, Ltd.*, 545 U.S. 193, 202 (2005))); *id.* (“[A]lthough the statute mentions only drugs and veterinary products[,] the Court stated that ‘[t]he phrase “patented invention” in § 271(e)(1) is defined to include all inventions, not drug-related inventions alone.’” (third alteration in original) (quoting *Eli Lilly & Co. v. Medtronic, Inc.*, 496 U.S. 661, 665 (1990))).

170. *Id.*

171. *Id.* at \*2; *see* 35 U.S.C. 271(e)(1) (2006).

172. *Id.* at \*8 (Linn, J., dissenting).

173. *Id.* (quoting 19 U.S.C. § 1337(a)(1)(B)(ii)).

174. *Id.*

175. *Id.* at \*8–9.

176. *Id.*

177. Section 271(e) was added to the Patent Act under the Drug Price Competition and

Congress passed the Process Patent Amendments Act.<sup>178</sup> This uncertainty can raise the cost of developing new products and hinder licensing.<sup>179</sup>

### 3. Applicable Defenses

The *Kinik* decision also highlights divergence between defenses available in federal district court versus the ITC. Under § 337(c), “[a]ll legal and equitable defenses may be presented in all cases.”<sup>180</sup> Prior to *Kinik*, it was generally assumed that this language meant that the ITC must accept all valid patent defenses in patent infringement cases. But the ITC and the *Kinik* court found that at least two Patent Act defenses are not available in § 337 litigation. A product made by a patented process is not deemed infringing in federal court if the product “is materially changed by subsequent processes” or if it “becomes a trivial and nonessential component of another product.”<sup>181</sup> Such a product is, however, infringing in the ITC. This disparity raises the question whether other defenses are unavailable as well.

One possible interpretation of § 337(c) is that the phrase “may be presented”<sup>182</sup> grants the ITC the right to hear defenses, but leaves the agency with latitude to determine which defenses it accepts. The ITC’s predecessor, the Tariff Commission, was not permitted to consider patent validity defenses. According to the 1974 House Report, the ITC was given the authority “to take into consideration such legal defenses and to make findings thereon for the purposes of determining whether section 337 is being violated.”<sup>183</sup> But this position is not supported by the court’s decision in *Vastframe Camera, Ltd. v. International Trade Commission*.<sup>184</sup> The court held that the phrase “all cases” encompasses

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Patent Term Restoration Act of 1984. See Drug Price Competition and Patent Term Restoration Act of 1984, Pub. L. No. 98-417, § 202, 98 Stat. 1585, 1603 (1984).

178. The Process Patent Amendments Act was passed in 1988, as part of the Omnibus Trade and Competitiveness Act of 1988. Omnibus Trade and Competitiveness Act of 1988, Pub. L. 100-418, tit. IX, subtitle A, 102 Stat. 1107, 1563 (1988).

179. See, e.g., Gretchen Ann Bender, *Uncertainty and Unpredictability in Patent Litigation: The Time is Ripe for a Consistent Claim Construction Methodology*, 8 J. INTELL. PROP. L. 175, 175 (2001) (arguing that patent uncertainty makes it difficult for lawyers to effectively litigate patent cases); Willard K. Tom & Alexis J. Gilman, *U.S. and E.C. Antitrust Approaches to Patent Uncertainty*, 34 LAW & POL’Y INT’L BUS. 859, 890 (2003) (“Since people make decisions (e.g. to invest in research and development, license a patent, or settle a case) in anticipation of how the law will treat their conduct, uncertainty about how the law will be applied may adversely affect those decisions to the extent people are risk averse.”).

180. 19 U.S.C. § 1337(c) (2006).

181. 35 U.S.C. § 271(g).

182. 19 U.S.C. § 1337(c).

183. H.R. REP. NO. 93-571, at 78 (1974).

184. 386 F.3d 1108 (Fed. Cir. 2004).

investigations under § 337(b)<sup>185</sup> and noted that “[t]he necessary result . . . is that participants in a proceeding under [§ 337(b)] must be permitted to raise all defenses.”<sup>186</sup> This implies that § 337(c) provides a right to the respondent, rather than discretion to the ITC.

These cases fail to clarify the meaning of “all legal and equitable defenses” under § 337(c).<sup>187</sup> *Kinik* and *Amgen*, together, imply that unless Congress says otherwise, the ITC must allow all patent defenses. But *Amgen* also shows that the ITC exercises immense discretion in determining Congress’s intent, which causes uncertainty regarding defenses. *Kinik*, *Vastframe Camera*, and *Amgen* highlight the need for Congress to clarify the relationship between the Patent Act and § 337.

#### 4. Applying the Patent Act to § 337 Patent Proceedings

Congress should clarify that the Patent Act applies, in its entirety, to § 337 patent proceedings. If Congress did so, it would alleviate confusion whenever the Patent Act is amended. More specifically, Congress should amend § 337(a)(1)(B) to declare unlawful:

(B) The importation into the United States, the sale for importation, or the sale within the United States after importation by the owner, importer, or consignee, of articles that, in violation of title 35, United States Code—  
(i) infringe a valid and enforceable United States patent; or  
(ii) are made by a process covered by the claims of a valid and enforceable United States patent.

The part of § 337(a)(1)(B)(i) that pertains to copyright law would be moved to a separate subsection.

The proposed change would have a number of benefits. It would ensure that the ITC applies the same law as federal courts in deciding patent issues, thereby reducing uncertainty in ITC litigation and lessening the opportunity for patent holders to forum shop or engage in other strategic behavior. If the importation of a product does not violate the Patent Act because it fell under the § 271(e) safe harbor or a § 271(g) defense, then the patent holder will not be able to obtain an exclusion order against the product in the ITC.

Binding the ITC to the Patent Act raises the issue of whether imported infringing goods *should be* treated differently in the ITC to protect U.S. companies. As Judge Linn notes in his *Amgen* dissent, the scope of Title 35 and § 337 differed for imported goods for nearly

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185. *Id.* at 1115.

186. *Id.*

187. 19 U.S.C. § 1337(c).

seventy years.<sup>188</sup> The view that imported infringing goods should be treated more harshly than domestically produced infringing goods is consistent with Congress's intent in 1974 in allowing the ITC to interpret patents for its own purpose.

But unequal treatment of imported versus domestic infringing goods no longer makes sense. A significant percentage of ITC actions are brought against domestic companies, blurring the distinction between ITC and federal court patent actions. Consequently, a different standard for patent infringement in the ITC can harm domestic companies as much as it can help them.

### B. *Administrative Estoppel*

The Supreme Court has “long favored application of the common-law doctrines of collateral estoppel (as to issues) and res judicata (as to claims)” to final determinations made by administrative agencies.<sup>189</sup> In *Astoria Federal Savings and Loan Association v. Solimino*, the Court stated:

Such repose is justified on the sound and obvious principle of judicial policy that a losing litigant deserves no rematch after a defeat fairly suffered, in adversarial proceedings, on an issue identical in substance to the one he subsequently seeks to raise. To hold otherwise would, as a general matter, impose unjustifiably upon those who have already shouldered their burdens, and drain the resources of an adjudicatory system with disputes resisting resolution.<sup>190</sup>

Federal court decisions bind the ITC.<sup>191</sup> For example, during one ITC investigation, the ALJ issued an initial determination finding no infringement of the patent holder's patent.<sup>192</sup> Before the Commission reviewed the decision, however, a district court ruled that one of the patents at issue in the ITC proceeding was invalid.<sup>193</sup> The ITC consequently found the patent invalid based on collateral estoppel.<sup>194</sup>

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188. *Amgen, Inc. v. U.S. Int'l Trade Comm'n*, No. 2007-1014, 2009 WL 1151856, at \*8 (Fed. Cir. Apr. 30, 2009) (Linn, J., dissenting).

189. *Astoria Fed. Sav. & Loan Ass'n v. Solimino*, 501 U.S. 104, 107 (1991).

190. *Id.* at 107–08 (citing *Parklane Hosiery Co. v. Shore*, 439 U.S. 322, 326 (1979)).

191. *See Young Eng'rs, Inc. v. U.S. Int'l Trade Comm'n*, 721 F.2d 1305, 1307 (Fed. Cir. 1983) (holding that the doctrine of res judicata applies to an ITC proceeding that follows a district court decision).

192. *In re EPROM, EEPROM, Flash Memory, and Flash Microcontroller Semiconductor Devices*, USITC Inv. No. 337-TA-395, 1998 ITC LEXIS 371, at \*2–3 (July 9, 1998).

193. *Id.*

194. *Id.*

But ITC determinations of patent issues are not given preclusive effect by federal courts.<sup>195</sup> This position rests on two grounds. First, the Federal Circuit maintains that federal district courts have original and exclusive jurisdiction over patent cases under 28 U.S.C. § 1338, and that the ITC's authority under § 337 is limited to investigating unfair practices in import trade.<sup>196</sup> Second, the legislative history for the Trade Act of 1974 states that ITC decisions are not entitled to preclusive effect.<sup>197</sup> In the Senate Report, Congress stated:

[I]n patent-based cases, the Commission considers, for its own purposes under section 337, the status of imports with respect to the claims of U.S. patents. 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. Therefore, it seems clear that any disposition of a Commission action by a Federal Court should not have a res judicata or collateral estoppel effect in cases before such courts.<sup>198</sup>

This position made sense in 1974, because at that time, the ITC heard few patent cases and had little expertise in the area.<sup>199</sup>

Stranger still, Federal Circuit decisions reviewing ITC proceedings do not bind future district court proceedings. Citing the legislative history quoted above, the court in *Tandon Corp. v. International Trade Commission*<sup>200</sup> stated that its “appellate treatment of decisions of the Commission does not estop fresh consideration by other tribunals.”<sup>201</sup> At least one commentator has questioned whether *Tandon* is still good law.<sup>202</sup>

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195. See *Bio-Tech. Gen. Corp. v. Genentech, Inc.*, 80 F.3d 1553, 1563–64 (Fed. Cir. 1996) (holding that a prior ITC decision does not bind a subsequent federal court under the doctrine of claim preclusion); *Texas Instruments, Inc. v. U.S. Int'l Trade Comm'n*, 851 F.2d 342, 344 (Fed. Cir. 1988) (“[T]his court has stated that the ITC's determinations regarding patent issues should be given no res judicata or collateral estoppel effect . . .”).

196. See *Bio-Tech. Gen.*, 80 F.3d at 1564.

197. *Id.*; see also *Tandon Corp. v. U.S. Int'l Trade Comm'n*, 831 F.2d 1017, 1019 (Fed. Cir. 1987) (holding that the Federal Circuit's appellate treatment of ITC decisions “does not estop fresh consideration by other tribunals”).

198. S. REP. NO. 93-1298, at 196 (1974), as reprinted in 1974 U.S.C.C.A.N. 7186, 7329.

199. Another argument is that the creation of the Federal Circuit rendered the 1974 language moot and that there is implied Congressional intent “to provide uniform interpretation of the patent laws and prevent forum shopping in patent cases.” Order No. 3, *In re Apparatus for Disintegration of Urinary Calculi*, USITC Inv. No. 337-TA-221, 1985 WL 303900 (June 6, 1985). However, this argument is weak because the legislative history behind the creation of the Federal Circuit gives no indication that Congress intended to change the treatment of ITC proceedings.

200. 831 F.2d 1017 (Fed. Cir. 1987).

201. *Id.* at 1019 (citing *Lannom Mfg. Co. v. U.S. Int'l Trade Comm'n*, 799 F.2d 1572, 1577–78 (Fed. Cir. 1986)).

202. Terril G. Lewis, *Collateral Estoppel as Applied to the Construction of Patent Claims*

Res judicata for § 337 decisions does not make sense, given that cash damages are unavailable in the ITC.<sup>203</sup> But Congress's rationale for denying collateral estoppel effect to ITC decisions is no longer valid, given that patent cases comprise a substantial portion of the agency's docket. Consequently, Congress should revise the provision to explicitly grant collateral estoppel effect to ITC proceedings.

### 1. Res Judicata

The doctrine of res judicata, or claim preclusion, states that "a party must raise in a single lawsuit all the grounds of recovery arising from a single transaction or series of transactions that can be brought together."<sup>204</sup> According to the Restatement (Second) of Judgments, the doctrine is based on the assumption that the jurisdiction of the original judgment did not bar the litigant from presenting "in one action the entire claim including any theories of recovery or demands for relief that might have been available to him under applicable law."<sup>205</sup>

The Restatement (Second) of Judgments notes that when "formal barriers" prevent a litigant from presenting the entire claim, "it is unfair to preclude him from a second action" where the rest of the claim may be presented.<sup>206</sup> Thus, it is unsurprising that federal courts do not apply res judicata to ITC proceedings. As the Federal Circuit has pointed out, the ITC offers exclusion orders, and not cash damages, for patent infringement.<sup>207</sup> Given the different forms of relief, the application of res judicata is not appropriate.

The ITC, however, is obligated to give res judicata effect to district court decisions.<sup>208</sup> The Federal Circuit has taken a "pragmatic approach," arguing that if a patent owner unsuccessfully attacked an alleged infringer for the same acts in a prior court proceeding, the patent

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(Part I), 83 J. PAT. & TRADEMARK OFF. SOC'Y 851, 877 (noting that after *Markman v. Westview Instruments, Inc.*, 517 U.S. 370 (1996), "it seems that the renewed emphasis on the *stare decisis* effect of a Federal Circuit claim construction will bind all lower tribunals regardless of whether collateral estoppel is appropriate, making the holding of *Tandon* moot in this context" (footnote omitted)).

203. See ITC FAQ, *supra* note 17, at 22.

204. *Bio-Tech. Gen. Corp. v. Genentech*, 80 F.3d at 1553, 1563 (Fed. Cir. 1996) (quotations omitted).

205. *Id.* (quoting RESTATEMENT (SECOND) OF JUDGMENTS § 26(1)(c) cmt. c (1982)).

206. RESTATEMENT (SECOND) OF JUDGMENTS § 26(1)(c) cmt. c (1982).

207. See *Bio-Tech. Gen.*, 80 F.3d at 1564 (holding that a prior ITC decision concerning patent infringement or validity "cannot have claim preclusive effect in the district court").

208. See *id.* at 1564 n.9 (citing *Young Eng'rs, Inc. v. U.S. Int'l Trade Comm'n*, 721 F.2d 1305, 1316 (Fed. Cir. 1983)); see also *In re Princo Corp.*, 478 F.3d 1345, 1353 (Fed. Cir. 2007) ("The district court's proceedings also potentially have a direct effect on the Commission's investigation because the district court's decision on infringement might be entitled to collateral estoppel effect in the Commission proceedings.").

holder should not be given the opportunity to do so again in the ITC.<sup>209</sup> Nevertheless, this doctrine rarely comes into play in ITC proceedings. Patent holders can avoid *res judicata* by filing in the ITC first, or by filing an ITC action with the district court action so that the federal court decision does not issue prior to the ITC final determination.

## 2. Collateral Estoppel

Under the doctrine of collateral estoppel, also known as issue preclusion, “once a court has decided an issue of fact or law necessary to its judgment, that decision may preclude relitigation of the issue in a suit on a different cause of action involving a party to the first case.”<sup>210</sup> According to the Supreme Court, the purpose of the collateral estoppel is to “relieve parties of the cost and vexation of multiple lawsuits, conserve judicial resources, and, by preventing inconsistent decisions, encourage reliance on adjudication.”<sup>211</sup> Collateral estoppel generally applies if: (1) there is identity of the issues in a prior proceeding, (2) the issues were actually litigated, (3) the determination of the issues was necessary to the resulting judgment, and (4) the party defending against preclusion had a full and fair opportunity to litigate the issues.<sup>212</sup>

Two-thirds of all ITC proceedings have an associated district court proceeding.<sup>213</sup> One would expect that in the interest of consistency and efficiency, the collateral estoppel would apply for federal decisions that follow ITC proceedings and vice-versa. This arrangement would reduce the incentive for parties to strategically engage in dual litigation.<sup>214</sup>

At present, however, an ITC proceeding cannot estop a district court proceeding. The legislative history from the 1974 Trade Act has prevented district courts from granting collateral estoppel effect to ITC decisions<sup>215</sup> or to Federal Circuit decisions that review of ITC

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209. *Young Eng'rs*, 721 F.2d at 1315.

210. *Allen v. McCurry*, 449 U.S. 90, 94 (1980) (citing *Montana v. United States*, 440 U.S. 147, 153 (1979)).

211. *Id.*

212. *See, e.g., Montana v. United States*, 440 U.S. 147, 153–54 (1979); *Jet, Inc. v. Sewage Aeration Sys.*, 223 F.3d 1360, 1366 (Fed. Cir. 2000); *In re Freeman*, 30 F.3d 1459, 1465 (Fed. Cir. 1994).

213. *See Chien, supra* note 64, at 70.

214. It is important to note that if a patent holder takes a position in the ITC that results in a determination in his or her favor, the doctrine of judicial estoppel will prevent the patent holder from advancing a contrary position in subsequent federal litigation. *See Mitchell v. Washingtonville Cent. Sch. Dist.*, 190 F.3d 1, 6 (2d Cir. 1999).

215. *See Texas Instruments, Inc. v. Cypress Semiconductor Corp.*, 90 F.3d 1558, 1568–69 (Fed. Cir. 1996) (holding that prior ITC patent actions do not lead to issue preclusion of federal court actions); *In re Convertible Rowing Exerciser Patent Litig.*, 721 F. Supp. 596, 603 (D. Del. 1989), *aff'd*, 903 F.2d 822 (Fed. Cir. 1990) (“[T]he legislative history of the Trade Reform Act of 1974 provides that ITC determinations should not estop other federal courts from reviewing the same patent.”).

decisions.<sup>216</sup> In the legislative history of the 1974 Act, Congress noted that it did not want ITC patent decisions to have collateral estoppel effect on subsequent federal court proceedings. In the 1974 House Report, Congress stated that the ITC is not empowered “to set aside a patent as being invalid or to render it unenforceable.”<sup>217</sup> Rather, the ITC can merely “take into consideration such legal defenses and . . . make findings thereon for the purposes [sic] of determining whether section 337 is being violated.”<sup>218</sup>

Congress also failed to clarify the extent to which the ITC is bound by the Patent Act. Prongs two through four of the collateral estoppel test<sup>219</sup> would generally be met in parallel litigation for patent infringement, where the ITC issues its decision first. Issues of claim interpretation, patent validity, and various defenses would need to be litigated for the patent holder to receive an exclusion order. The respondent would have a full and fair opportunity to litigate because the ITC engages in formal adjudication in accordance with the Administrative Procedure Act under § 337(c).<sup>220</sup>

The first part of the collateral estoppel test, however, requires that there exist “identity of the issues in a prior proceeding.”<sup>221</sup> *Kinik* illustrates that to some degree, Congress created a law outside the Patent Act to address patent issues in the ITC.<sup>222</sup> This provision precludes an “identity of the issues” in dual proceedings. Indeed, an argument can be made that under a proper reading of § 337 and the Administrative Procedure Act, the ITC has independent jurisdiction over patent cases and is eligible for deference under *Chevron U.S.A. v. National Resources Defense Council*.<sup>223</sup> In transforming § 337 into a

216. *See* Tandon Corp. v. U.S. Int’l Trade Comm’n, 831 F.2d 1017, 1019 (Fed. Cir. 1987) (“[O]ur appellate treatment of decisions of the Commission does not estop fresh consideration by other tribunals.”).

217. H.R. REP. NO. 93-571, at 78 (1974).

218. *Id.*

219. *See supra* note 212 and accompanying text.

220. 19 U.S.C. § 1337(c) (2006) (“Any person adversely affected by a final determination of the Commission under subsection (d), (e), (f), or (g) of this section may appeal such determination, within 60 days after the determination becomes final, to the United States Court of Appeals for the Federal Circuit for review in accordance with chapter 7 of Title 5.”).

Note that in order to have a “full and fair opportunity to litigate” a patent issue in the ITC, for estoppel purposes, a respondent in an ITC action would need the opportunity to raise all the defenses in the § 337 proceeding that it could in a district court action. This could be accomplished by making the change to § 337 suggested in Part V.A.4, which would make the Patent Act binding on ITC patent proceedings.

221. *Jet, Inc. v. Sewage Aeration Sys.*, 223 F.3d 1360, 1366 (Fed. Cir. 2000).

222. *See 2007 Senate Hearings, supra* note 144 (written statement of Christopher Cotropia, Associate Professor of Law, University of Richmond School of Law) (arguing that “Congress purposively created separate and different standards for the two causes of actions” with regard to process patents).

223. *See* Sapna Kumar, *Chevron Deference and the ITC* (University of Houston Law

patent enforcement provision but failing to grant the ITC's decisions preclusive effect, Congress did not take advantage of the vast expertise that the ITC has acquired in patent law. It did not realize that rendering patent determinations has become part of the ITC's mandate to regulate trade,<sup>224</sup> and that federal courts no longer have exclusive jurisdiction over all patent matters. Instead, Congress has allowed parallel proceedings to continue unchecked.

### 3. Granting Collateral Estoppel Effect to ITC Proceedings

Applying the Patent Act to § 337 proceedings is not sufficient to reduce dual litigation because it will not prevent patent holders from filing a district court action when they are unhappy with an ITC decision. The best solution is to grant ITC actions collateral estoppel effect on federal courts. This change would prevent parties from gaming the system. It would also prevent parties from bearing the unnecessary cost of re-litigating patent issues.<sup>225</sup>

By amending § 337 to make the Patent Act binding, proceedings in the ITC would generally meet all four requirements of the collateral estoppel test. But this action, alone, is not sufficient for collateral estoppel to apply, because the Federal Circuit denies issue preclusion to the ITC based on the statements made in the House and Senate Report for the Trade Act of 1974. It would therefore be necessary that Congress make an affirmative statement about the applicability of the collateral estoppel doctrine in its next trade bill.

One concern is whether granting collateral estoppel to an agency would violate the Seventh Amendment. The right to trial by jury applies for certain aspects of patent infringement cases.<sup>226</sup> If the issue of infringement is litigated in the ITC and given preclusive effect in federal court, then the respondents would be denied this right to a jury trial. Indeed, in dicta, the Federal Circuit has stated that "allowing prior ITC decisions on patent infringement questions to have preclusive effect would potentially deprive the parties of their Seventh Amendment right to a jury trial on the issue of infringement."<sup>227</sup>

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Center Working Paper).

224. *Kaisha v. Bombardier, Inc.*, No. SA CV 00-549, 2001 WL 1388911, at \*2 (C.D. Cal. Mar. 9, 2001).

225. See Hal D. Baird, Note, *Res Judicata Effect of United States International Trade Commission Patent Decisions*, *BYU J. PUB. L.* 127, 138 (1992) (noting that the lack of preclusive effect for ITC decisions "forces parties to bear tremendous and unnecessary economic and administrative burdens").

226. See *Markman v. Westview Instruments, Inc.*, 517 U.S. 370, 377 (1996).

227. *Texas Instruments Inc. v. Cypress Semiconductor Corp.*, 90 F.3d 1558, 1569 n.10 (Fed. Cir. 1996).

It is unlikely that such a Seventh Amendment problem would arise. In *Granfinanciera v. Nordberg*,<sup>228</sup> the Supreme Court held that Congress cannot assign adjudication of an existing private right to an administrative agency or court of equity.<sup>229</sup> But the Court went on to say that “Congress may fashion causes of action that are closely *analogous* to common-law claims and place them beyond the ambit of the Seventh Amendment by assigning their resolution to a forum in which jury trials are unavailable.”<sup>230</sup>

*Granfinanciera*, however, does not address whether a properly made determination from an agency or court of equity can bind a subsequent legal proceeding. In *Parklane Hosiery Co. v. Shore*,<sup>231</sup> the Supreme Court held that “an equitable determination can have collateral-estoppel effect in a subsequent legal action and that this estoppel does not violate the Seventh Amendment.”<sup>232</sup> The Fourth Circuit, in an unpublished decision, applied *Parklane Hosiery* and found no Seventh Amendment problems for giving preclusive effect to an ITC trademark decision.<sup>233</sup> The court noted that after an ITC investigation begins, a concerned party can always seek expedited proceedings in a district court and assert its right to jury trial claim prior to the ITC’s initial determination.<sup>234</sup> Likewise, in an unpublished Tenth Circuit decision, the court held that applying res judicata to a state agency decision did not violate the right to trial by jury.<sup>235</sup>

These decisions are consistent with the *Parklane* Court’s interpretation of the Seventh Amendment:

The Amendment did not bind the federal courts to the exact procedural incidents or details of jury trial according to the common law in 1791, any more than it tied them to the common-law system of pleading or the specific rules of evidence then prevailing. Nor were ‘the rules of the common law’ then prevalent, including those relating to the procedure by which the judge regulated the jury’s role on

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228. 492 U.S. 33 (1989).

229. *Id.* at 51–52 (citing *Atlas Roofing Co. v. Occupational Safety & Health Review Comm’n*, 430 U.S. 442, 457–58 (1977)).

230. *Id.* at 52.

231. 439 U.S. 322 (1979).

232. *Id.* at 335–36 (citing *Katchen v. Landy*, 382 U.S. 323, 334 (1966)).

233. *Baltimore Luggage Co. v. Samsonite Corp.*, No. 91-2171, 1992 WL 296368, at \*4 (4th Cir. Oct. 16, 1992).

234. *Id.*

235. *Slavens v. Bd. of County Comm’rs*, No. 91-8074, 1993 WL 307906, at \*4 (10th Cir. Aug. 13, 1993) (citing *Parklane Hosiery*, 439 U.S. at 337); *see also* *Consolidated Express, Inc. v. N.Y. Shipping Ass’n*, 641 F.2d 90, 95 (3d Cir. 1981) (“The defendants object that if the final hearing in this case is delayed while the [National Labor Relations] Board proceeding goes forward they may, if the Board’s decision is adverse, be deprived of trial by jury on some issues by virtue of collateral estoppel. That is true, but it is nothing of which defendants can complain.” (citing *Parklane Hosiery*, 439 U.S. at 333–37)).

questions of fact, crystallized in a fixed and immutable system . . . .<sup>236</sup>

The Seventh Amendment was instead “designed to preserve the basic institution of jury trial in only its most fundamental elements, not the great mass of procedural forms and details, varying even then so widely among common-law jurisdictions.”<sup>237</sup> Federal courts granting collateral estoppel effect to ITC decisions would likewise not undermine the basic right to trial by jury for patent infringement cases. It would affect only the subset of cases where jurisdiction exists in both the ITC and federal court, and where the plaintiff pursues dual litigation.

Another argument could be made that granting collateral estoppel effect to patent decisions would violate the district court’s exclusive and original jurisdiction over patent cases. But this contention is not correct. The language of 28 U.S.C. § 1338(a) (2006) reads: “The district courts shall have original jurisdiction of any civil action arising under any Act of Congress relating to patents, plant variety protection, copyrights and trademarks. Such jurisdiction shall be exclusive of the courts of the states in patent, plant variety protection and copyright cases.” If federal courts are required to grant preclusive effect to ITC patent decisions, this requirement will not alter the original jurisdiction of the courts. Case law for trademark decisions in the ITC have permitted preclusion, finding no issue with the first sentence of § 1338(a).<sup>238</sup> The second sentence merely prohibits state courts from hearing patent cases.<sup>239</sup> The ITC, as an agency, is clearly not affected.

## VI. EXCLUSION ORDERS

Exclusion orders are the primary reason that parties choose to litigate in the ITC. Unlike injunctions in federal court, which proscribe the conduct of the infringer, exclusion orders direct U.S. Customs to seize infringing goods at the border.<sup>240</sup> This remedy is by no means perfect. If the ITC issues a limited exclusion order, it directs Customs to seize only goods which bear certain serial numbers. An infringer can stay one step ahead of Customs and the ITC by creating new lines of

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236. *Parklane Hosiery*, 439 U.S. at 336–37 (quoting *Galloway v. United States*, 319 U.S. 372, 390–91) (1943)).

237. *Id.* at 337 (quoting *Galloway*, 319 U.S. at 392).

238. *See* Order No. 3, *In re Apparatus for Disintegration of Urinary Calculi*, USITC Inv. No. 337-TA-221, 1985 WL 303900 (June 6, 1985).

239. *See id.* (finding that 28 U.S.C. § 1338(a) (2006) “alone need not be construed as depriving the Commission’s decisions of res judicata effect since the ITC is not a state court”).

240. *See* *Yingbin-Nature (Guangdong) Wood Industry Co. v. U.S. Int’l Trade Comm’n*, 535 F.3d 1322, 1330 (Fed. Cir. 2008); Blakeslee, *supra* note 48 at 252.

infringing goods.<sup>241</sup> Nevertheless, exclusion orders provide patent holders with a mechanism for dealing with infringers that is more efficient than suing once infringing goods enter the marketplace.

Injunctive relief in federal court, moreover, is difficult to obtain. In *eBay Inc. v. MercExchange, L.L.C.*,<sup>242</sup> the Supreme Court held that to obtain permanent injunctive relief, a patent holder must 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>243</sup>

Justice Kennedy's concurrence, joined by three other justices, states that "the nature of the patent being enforced and the economic function of the patent holder present considerations quite unlike earlier cases."<sup>244</sup> The concurrence further notes:

When the patented invention is but a small component of the product the companies seek to produce and the threat of an injunction is employed simply for undue leverage in negotiations, legal damages may well be sufficient to compensate for the infringement and an injunction may not serve the public interest.<sup>245</sup>

The ITC issues injunctive relief, in the form of exclusion orders, under a more relaxed standard than in *eBay*. Although the ITC may deny exclusion orders or narrow their scope to avoid harm to the public welfare,<sup>246</sup> the ITC instead issues them whenever there is a finding of infringement, and it downplays policy concerns when determining their scope. The rationale for this approach, in part, is the assumption that the strong enforcement of patent rights through injunctive relief promotes innovation. But the ITC overlooks the direct harm that an exclusion order can cause to competitors and consumers.

The ITC's application of § 337 is far from ideal, but nevertheless, the greater problem lies with Congress. Section 337 fails to specify

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241. For a discussion of how companies can redesign goods to comply with ITC exclusion orders, see Steven E. Adkins & John Evans, *Several Healthy Steps Away: New & Improved Products in Section 337 Investigations*, 8 J. MARSHALL REV. INTELL. PROP. L. 309 (2009).

242. 547 U.S. 388 (2006).

243. *Id.* at 391.

244. *Id.* at 396 (Kennedy, J., concurring).

245. *Id.* at 396–97.

246. *See* 19 U.S.C. § 1337(d) (2006).

circumstances in which the ITC should not issue exclusion orders. Congress, moreover, provides inadequate guidance to the ITC—as well as to courts and the PTO—about how to promote innovation through the patent system. To remedy these shortcomings, Congress must recognize the role that the ITC is forced to play in formulating patent policy and take a holistic approach to promoting innovation through patents.

### A. *Widespread Availability*

#### 1. Denying Exclusion Orders on Public Policy Grounds

If the ITC finds that an imported article infringes a patent, then the default presumption under § 337 is that it will award an exclusion order.<sup>247</sup> However, if “after considering the effect of such exclusion upon 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,” the ITC can deny an exclusion order.<sup>248</sup> The Federal Circuit has held that the ITC has “broad discretion” in making remedy determinations under this provision.<sup>249</sup>

The ITC addresses two issues. It first considers whether there is a public health and welfare interest related to the invention that could be negatively affected by an exclusion order.<sup>250</sup> If so, the ITC balances “the damage to the patent holder’s rights against the adverse impact of the remedy on ‘the public health and welfare and the assurance of competitive conditions in the United States economy.’”<sup>251</sup>

But in practice, denials of injunctive relief after a finding of infringement are extremely uncommon, having occurred in only three

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247. *See id.*

248. *See id.*; *In re Baseband Processor Chips and Chipsets, Transmitter and Receiver (Radio) Chips, Power Control Chips, and Products Containing Same, Including Cellular Telephone Handsets*, USITC Inv. No. 337-TA-543, 2007 ITC LEXIS 621, at \*284 (June 19, 2007), *rev’d in part sub nom.*, *Kyocera Wireless Corp. v. U.S. Int’l Trade Comm’n*, 545 F.3d 1340 (Fed. Cir. 2008) (“Mindful of the potentially disruptive effect on the U.S. economy that a broad exclusion order could have, Congress provided the Commission with the discretion not to impose such a broad exclusion if the Commission found that it would not be in the public interest.”).

249. *Hyundai Elecs. Indus. Co. v. U.S. Int’l Trade Comm’n*, 899 F.2d 1204, 1209 (Fed. Cir. 1990) (“[T]he Commission has broad discretion in selecting the form, scope, and extent of the remedy, and judicial review of its choice of remedy necessarily is limited.” (quoting *Viscofan, S.A. v. U.S. Int’l Trade Comm’n*, 787 F.2d 544, 548 (Fed. Cir. 1986))).

250. *See Baseband Processor Chips*, 2007 ITC LEXIS 621, at \*293 (Pearson, Chairman & Pinkert, Comm’r, dissenting) (quoting *In re Inclined-Field Acceleration Tubes and Components Thereof*, USITC Pub. 1119, Inv. No. 337-TA-67 (Dec. 1980)); S. REP. NO. 93-1298, at 197 (1974), *as reprinted in* 1974 U.S.C.C.A.N. 7186, 7330.

251. *Baseband Processor Chips*, 2007 ITC LEXIS 621, at \*293 (quoting *Inclined-Field Acceleration*, Inv. No. 337-TA-67).

investigations in the thirty-five year history of the ITC.<sup>252</sup> The most recent instance of denial of an exclusion order was in 1984, when the ITC denied temporary relief on public policy grounds in *In re Fluidized Supporting Apparatus*.<sup>253</sup> The patents at issue covered beds for burn victims that were both superior to any on the market and in short supply because the patent holder was unable to produce enough beds to meet demand.<sup>254</sup>

The other two cases involved overriding patent rights in times of national crisis. *In re Inclined-Field Acceleration Tubes* was decided in 1980, during the Cold War.<sup>255</sup> The patent in question covered devices used in weapons development, for which there were no suitable replacements.<sup>256</sup> The ITC, in *In re Automatic Crankpin Grinders*, found that a shortage of a patented auto part was preventing car manufacturers from improving fuel efficiency during the 1979 energy crisis.<sup>257</sup>

Thus, short of a national crisis or a matter of life and death, the ITC will not deny an exclusion order after finding a violation of § 337. In contrast, post-*eBay*, federal district courts have denied injunctive relief merely because the plaintiff failed to show that it would otherwise suffer irreparable harm.<sup>258</sup> This disparity has likely contributed to the rise in ITC litigation, and consequently, the rise in parallel litigation.

## 2. Adjusting the Scope of Exclusion Orders

The ITC may choose to narrow an exclusion order based on public policy considerations or on the burden of enforcement. As a general matter, “[t]he Commission first determines what remedy is appropriate, including the scope of that remedy.”<sup>259</sup> It then, “based on consideration of the statutory public interest factors, determines whether any remedy at all should issue.”<sup>260</sup>

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252. *In re Foam Masking Tape*, USITC Pub. 3968, Inv. No. 337-TA-528, 2007 WL 4824257, at n.7 (Dec. 2007) (noting that the ITC “has declined to issue a remedy based on the public interest in only three investigations”).

253. USITC Inv. No. 337-TA-182/188, 1984 WL 273801 (Oct. 1984).

254. *Id.*

255. USITC Pub. 1119, Inv. No. 337-TA-67, 1980 WL 140675 (Dec. 1980).

256. *Id.*

257. USITC Pub. 1022, Inv. No. 337-TA-60, 1979 WL 61022 (Dec. 1979).

258. *See Praxair, Inc. v. ATMI, Inc.*, 479 F. Supp. 2d 440, 444 (D. Del. 2007) (finding that the plaintiff’s assertion that it would lose research opportunities, market share, and profit did not explain why cash damages were insufficient to justify injunctive relief). According to an empirical study by Chien, a prevailing patentee in the ITC has a 100% chance of being awarded a permanent injunction, compared to 79% in federal district court. Chien, *supra* note 64, at 99.

259. *In re Erasable Programmable Read-Only Memories, Components Thereof, Products Containing Such Memories, and Processes for Making Such Memories*, USITC Inv. No. 337-TA-276, 1989 WL 608791 (Apr. 28, 1989).

260. *Id.*

No explicit statutory basis exists for narrowing an exclusion order, but the Federal Circuit has held that the agency “has broad discretion in selecting the form, scope and extent of the remedy.”<sup>261</sup> For example, the ITC has exempted infringing products already on the market from an exclusion order.<sup>262</sup> In another investigation, the ITC issued a general exclusion order for disposable cameras, but made an exemption for importation for personal use, to prevent problems with Customs enforcement.<sup>263</sup>

The ITC most commonly tailors an exclusion order by excluding “downstream products”<sup>264</sup> which incorporate the infringing product. To make this determination, the agency uses the multi-factor *EPROMs* balancing test, in which it considers issues including, but not limited to:

[(1)] the value of the infringing articles compared to the value of the downstream products in which they are incorporated, [(2)] the identity of the manufacturer of the downstream products . . . , [(3)] the incremental value to complainant of the exclusion of downstream products, [(4)] the incremental detriment to respondents of such exclusion, [(5)] the burdens imposed on third parties resulting from exclusion of downstream products, [(6)] the availability of alternative downstream products which do not contain the infringing articles, [(7)] the likelihood that imported downstream products actually contain the infringing articles and are thereby subject to exclusion, [(8)] the

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261. *Viscofan, S.A. v. U.S. Int’l Trade Comm’n*, 787 F.2d 544, 548 (Fed. Cir. 1986). Note that Commissioners Pearson and Pinkert disagree with the majority view that “the statutory public interest factors do not really come into play in initially determining the scope of a remedy in a section 337 investigation,” *In re Baseband Processor Chips and Chipsets, Transmitter and Receiver (Radio) Chips, Power Control Chips, and Products Containing Same, Including Cellular Telephone Handsets*, USITC Inv. No. 337-TA-543, 2007 ITC LEXIS 621, at \*290 (June 19, 2007), *rev’d in part sub nom.*, *Kyocera Wireless Corp. v. U.S. Int’l Trade Comm’n*, 545 F.3d 1340 (Fed. Cir. 2008) (Pearson, Chairman & Pinkert, Comm’r, dissenting) (quoting *In re Erasable Programmable Read-Only Memories, Components Thereof, Products Containing Such Memories, and Processes for Making Such Memories*, USITC Pub. 2196, Inv. No. 337-TA-279 (Mar. 1989)). They instead find that “[t]he Commission has no authority to consider alternative remedies to a broad exclusion order unless it has first determined that such an order would not be in the public interest.” *Id.*

262. *See Baseband Processor Chips*, 2007 ITC LEXIS 621, at \*49.

263. *In re Lens-Fitted Film Packages*, USITC Pub. 3219, Inv. No. 337-TA-406, 1999 ITC LEXIS 202, at \* 25 (June 28, 1999).

264. “Downstream products” are products that incorporate the good that is at issue in the ITC proceeding. *See* Powell, et al., *Current Administration of U.S. Antidumping and Countervailing Duty Laws: Implications for Prospective U.S.-Mexico Free Trade Talks*, 1 NW J. INT’L L. & BUS. 177, 184 n.28 (1990). For example, a cellular telephone would be a downstream product that incorporates a baseband processor chip. *See Baseband Processor Chips*, 2007 ITC LEXIS 621, at \*5.

opportunity for evasion of an exclusion order which does not include downstream products, and [(9)] the enforceability of an order by Customs.<sup>265</sup>

The ITC generally considers which party each factor favors and then decides whether the downstream exclusion order should be granted.<sup>266</sup>

The ITC, however, consistently favors the patent holder in this analysis. For example, it typically refuses to balance the financial benefit to the complainant of excluding downstream products against the harm to the respondent and the public.<sup>267</sup> The ITC claims that such a comparison would reintroduce the injury requirement that Congress removed from § 337 in 1988.<sup>268</sup>

In calculating the costs and benefits of downstream exclusion, moreover, the ITC acts under the belief that exclusion orders “spur innovation.”<sup>269</sup> Even if the patent holder will not directly benefit from an exclusion of downstream products, the ITC assumes that the complainant benefits by having its patents enforced.<sup>270</sup> In *Baseband Processor Chips*, for example, a downstream order was issued that prohibited the sale of cellular phones that utilized an infringing chipset.<sup>271</sup> This order provided no direct financial benefit to Broadcom because

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265. Notice of Vacatur of Comm’n Cease & Desist Order & Issuance of Modified Cease & Desist Order, *In re Erasable Programmable Read-Only Memories, Components Thereof, Products Containing Such Memories, and Processes for Making Such Memories (EPROMs)*, USITC Pub. 2196, Inv. No. 337-TA-276, 1989 WL 608791 (Apr. 28, 1989), *aff’d sub nom. Hyundai Elecs. Indus. Co. v. U.S. Int’l Trade Comm’n*, 899 F.2d 1204, 1209 (Fed. Cir. 1990) (“This list is not exclusive; the Commission may identify and take into account any other factors which it believes bear on the question of whether to extend remedial exclusion to downstream products, and if so to what specific products.”).

266. *See, e.g., Baseband Processor Chips*, 2007 ITC LEXIS 621, at \*52–209 (evaluating each EPROMs factor and determining which party was favored).

267. *See id.* at \*103.

268. *Id.*

269. *Id.* (citing *Kewanee Oil Co. v. Bicron Corp.*, 416 U.S. 476, 480 (1974)).

270. *See id.* at \*103–07. Note, however, that the ITC will decline to issue a downstream exclusion order absent sufficient evidence that downstream products contain the infringing components. *In re Voltage Regulators, Components Thereof and Products Containing Same*, USITC Inv. No. 337-TA-564, 2007 ITC LEXIS 1108, at \*110 (Oct. 19, 2007).

271. *See Baseband Processor Chips*, 2007 ITC LEXIS 621, at \*103 n.231 (“For these reasons, we disagree with the analysis presented at the Commission Remedy Hearing by Professor Hausman, who stated that the relief to Broadcom was zero. (‘A goose egg. Zero. . . . We’re talking about billions of dollars lost to the public interest and zero gain incrementally to Broadcom.’). . . . This analysis does not take into account the value of the right to exclude granted by the patent right.” (quoting *Hearing, Baseband Processor Chips* (testimony of Dr. Jerry A Hausman))); ALJ Order, *Baseband Processor Chips*, 2006 WL 3920334 (Oct. 10, 2006) (holding that the third EPROM factor weighs against Broadcom, and stating that “the record reflects no substantive evidence that Broadcom’s sales will increase if the downstream products are covered by the exclusion order”).

it was not producing competing cellular phones and created a significant public interest loss.<sup>272</sup> The Commission nevertheless found that the intrinsic value of exclusion weighed in favor of granting the downstream order.<sup>273</sup>

Similarly, the ITC often justifies exclusion orders by relying on the broad claim that “the public interest favors the protection of U.S. intellectual property rights by excluding infringing imports.”<sup>274</sup> The ITC claims that denying an exclusion order would discourage investment in technological innovation, hurting the marketplace.<sup>275</sup>

To support its conclusion that exclusion has intrinsic value, the ITC in *Baseband Processor Chips* looked to case law and legislative history. It cited a 1974 Supreme Court decision, *Kewanee Oil Co. v. Bicron Corp.*,<sup>276</sup> which noted that patent laws “‘promote the Progress of Science and useful Arts’ . . . by offering a right of exclusion for a limited period as an incentive to inventors to risk the often enormous costs in terms of time, research, and development.”<sup>277</sup> It also cited the 1987 Senate Report, which states that “[t]he importation of any infringing merchandise derogates from the statutory right, diminishes the value of the intellectual property, and thus indirectly harms the public interest.”<sup>278</sup>

While patent enforcement likely does encourage innovation, the overuse of injunctions can be harmful to the public welfare. For example, Mark Lemley and Carl Shapiro describe how patent holders can use the threat of an injunction to negotiate an artificially high royalty from an infringer.<sup>279</sup> They note that this threat can “discourage

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272. *Id.*

273. *Baseband Processor Chips*, 2007 ITC LEXIS 1108, at \*103–04 (June 19, 2007).

274. *In re Laser Bar Code Scanners and Scan Engines, Components Thereof and Products Containing Same*, USITC Inv. No. 337-TA-551, 2007 ITC LEXIS 623, at \*34–35 (July 14, 2007) (citing *In re Two-Handle Centerset Faucets and Escutcheons, and Components Thereof*, USITC Pub. 3332, Inv. No. 337-TA-422, 2000 WL 1159298 (June 19, 2000)); *see also In re Light-Emitting Diodes and Products Containing Same*, USITC Pub. 3944, Inv. No. 337-TA-512, 2007 ITC LEXIS 1454, at \*38–39 (Aug. 2007) (“[C]ompetitive conditions favor protection of intellectual property over inexpensive copies . . . .”); *In re Power Supply Controllers and Products Containing Same*, USITC Inv. No. 337-TA-541, 2006 ITC LEXIS 600, at \*14–15 (Aug. 29, 2006) (noting in its public interest evaluation that “protection of intellectual property is favored”).

275. *Voltage Regulators*, 2007 ITC LEXIS 1108, at \*102, \*116–17.

276. 416 U.S. 476 (1974).

277. *Id.* at 480 (quoting U.S. CONST. art. I, § 8, cl. 8); *see also Baseband Processor Chips*, 2007 ITC LEXIS 621, at \*103 n.231.

278. *Baseband Processor Chips*, 2007 ITC LEXIS 621, at \*103 n.231 (quoting S. REP. NO. 100-71, at 128–29 (1987)).

279. Mark A. Lemley & Carl Shapiro, *Patent Holdup and Royalty Stacking*, 85 TEX. L. REV. 1991, 1994–2010 (2007); *see also* John M. Golden, “Patent Trolls” and Patent Remedies, 85 TEX. L. REV. 2111, 2148–49 (2007) (suggesting that courts apply a rebuttable presumption of injunctive relief and either stay an injunction where appropriate or deny an injunction when it

innovation by firms that design and manufacture complex products . . . [and] can even lead to circumstances in which no one can profitably produce a product with social value.”<sup>280</sup>

The ITC furthermore neglects the role of competition in promoting innovation. According to the Supreme Court: “The Patent Clause itself reflects a balance between the need to encourage innovation and the avoidance of monopolies which stifle competition without any concomitant advance in the ‘Progress of Science and useful Arts.’”<sup>281</sup> As the FTC has observed, “[a] failure to strike the appropriate balance between competition and patent law and policy can harm innovation.”<sup>282</sup> If the ITC wishes to promote innovation, it must consider the positive and negative effects that exclusion will have on competition, as § 337(d) mandates.

In awarding exclusion orders, the ITC must determine on a case-by-case basis whether the public will be harmed by the order. The agency’s speculation regarding the broader effects of strong patent enforcement should not override concrete evidence of harm. Even assuming there exists a general public benefit from the enforcement of patent rights, it does not follow that a specific exclusion order will promote the public welfare and spur innovation.

The Federal Circuit has taken some action to reign in the ITC. Sixteen third-party wireless companies affected by the downstream exclusion order in *Baseband Processor Chips* joined Qualcomm in appealing the decision to the Federal Circuit.<sup>283</sup> Applying a *Chevron* analysis to the ITC’s interpretation of § 337(d), the court held that the agency exceeded its statutory authority by issuing a limited exclusion order that blocked the imports of downstream manufacturers who were not named as respondents in Broadcom’s initial complaint.<sup>284</sup> The court noted that under the provision’s plain language, limited exclusion orders could only be applied to parties that the ITC found were violating § 337—i.e., only infringers that are named in the complaint.<sup>285</sup> This decision will make future ITC litigation more difficult, as patent holders will have to sue more parties at the outset to obtain complete relief or establish that a general exclusion order is appropriate.<sup>286</sup>

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would inflict “undue hardship” on the infringer or implicate special concerns of the public interest).

280. Lemley & Shapiro, *supra* note 278, at 2010.

281. *Bonito Boats, Inc. v. Thunder Craft Boats, Inc.*, 489 U.S. 141, 146 (1989) (quoting U.S. CONST. art. I, § 8, cl. 8)).

282. *See* FTC REPORT, *supra* note 1, at 3.

283. *See* *Kyocera Wireless Corp. v. U.S. Int’l Trade Comm’n*, 545 F.3d 1340 (Fed. Cir. 2008).

284. *Id.* at 1358.

285. *Id.* at 1356.

286. *See* Bas de Blank and Bing Cheng, *Where is the ITC Going After Kyocera?*, 17–24, 25 SANTA CLARA COMPUTER & HIGH TECH. L. J. (forthcoming 2009), available at

The ITC's fundamental problems can only be fixed by Congress. The ITC's inadequate balancing of policy considerations illustrates how Congress has failed to provide it with sufficient guidance. Section 337 provides little detail regarding when exclusion orders should be denied and no guidance regarding when exclusion orders should be narrowed. Without a clear statute, the ITC must speculate regarding how it can promote innovation.

### 3. Incentive for Dual Litigation

The guarantee of injunctive relief from the ITC upon a finding of infringement creates a strong incentive for patent holders to engage in dual litigation. After *eBay*, numerous law firms issued client alerts warning that litigants could no longer count on injunctive relief in federal court and advising that patent holders consider ITC litigation.<sup>287</sup> For example, the law firm Bingham McCutchen published an advisory declaring:

In contrast to the uncertain availability of permanent injunctions in district court, in Section 337 investigations exclusion orders are and will continue to be the standard remedy for a violation of the statute. This is likely to make Section 337 an even more attractive alternative to district court litigation, either by itself or in conjunction with a parallel district court action.<sup>288</sup>

Although there has been only a small drop in the rate of injunctions issued in federal court,<sup>289</sup> the heavy promotion of the ITC has raised awareness of the availability of dual litigation.

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<http://www.chtlj.org/symposiums/v25/papers>; Michael J. Lyons and Andrew J. Wu, *Exclusion of Downstream Products After Kyocera: A Proposed New Framework for General Exclusion Orders*, 10–12, 25 SANTA CLARA COMPUTER & HIGH TECH. L. J. (forthcoming 2009), available at <http://www.chtlj.org/symposiums/v25/papers>.

287. See, e.g., Eric J. Fues, *Implications of eBay v. MercExchange*, PATENT WORLD, June 2007, available at <http://www.finnegan.com/resources/articles/articlesdetail.aspx?news=14b0bd e3-79ca-4182-be7d-ba92c1b795ab>; Joseph R. Heffern & Jacob A. Gantz, *Outbidding the Supreme Court: The ITC as an Alternative Forum for Patent Infringement Injunctions Post-eBay*, LEGAL INTELLIGENCER, Apr. 23, 2007, at IP4, IP4, available at [http://www.dechert.com/library/Outbidding\\_the\\_Supreme\\_Court\\_04\\_07.pdf](http://www.dechert.com/library/Outbidding_the_Supreme_Court_04_07.pdf); Brian Busey & John L. Kolakowski, *ITC Section 337 Case Filings on Pace to Set Record*, LEGAL UPDATES & NEWS (Morrison & Foerster, L.L.P.), June 2006, [www.mofo.com/news/updates/files/update02194.html](http://www.mofo.com/news/updates/files/update02194.html).

288. *A Record Number of Section 337 Cases Filed at the ITC, as The Supreme Court's eBay Decision Makes Section 337 an Even More Attractive Alternative Than Ever to District Court Litigation*, *supra* note 63, at 4.

289. See Chien, *supra* note 64, at 98–99.

Further harm to innovation could arise if patent licensing companies—better known as “patent trolls”—take advantage of dual litigation. Due to the weakening of the domestic industry requirement, patent holding companies are beginning to take advantage of the ITC.<sup>290</sup> A company can thus meet the domestic industry requirement by showing that it is exploiting the patent at issue (satisfying the technical prong) and has made a substantial investment in licensing the patent (satisfying the economic prong).<sup>291</sup>

For example, the patent licensing company St. Clair Intellectual Property Consultants Inc.<sup>292</sup> filed a series of patent-related actions against Eastman Kodak Company in the ITC, California state court and U.S. District Court in Delaware.<sup>293</sup> St. Clair ultimately obtained a settlement agreement.<sup>294</sup> The *eBay* decision consequently gives patent trolls a greater incentive to pursue parallel litigation, allowing them to use the threat of an exclusion order as leverage for a settlement.

### B. Reforming Exclusion Orders

Broad exclusion orders served a valuable purpose in 1974. At that time, Congress needed to provide strong relief for foreign acts of unfair competition to acquire protectionist support for a trade liberalization bill. Congress gave newly-created ITC more power than its predecessor, but left in place safeguards to ensure § 337 protected U.S. businesses. Although the creation of the ITC paved the way for § 337 to be widely used by patent holders, Congress does not appear to have realized this consequence at the time.

Now, few, if any, non-IP cases are heard by the ITC under § 337. In the 2006 fiscal year, for example, sixty-six of the seventy active

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290. For example, the ITC investigation for Order No. 9, *In re Point of Sale Terminals and Components Thereof*, USITC Inv. No. 337-TA-524, 2004 WL 2341486 (Oct. 14, 2004) involved an “Intellectual Property holding company” named Verve, which provides “intellectual property-related consulting services, including patent portfolio assessment, patent donation and acquisition, strategic licensing, pre-issuance patent assessment and litigation support.” The company relied on licensing activities to fulfill the domestic industry requirement, but made misleading statements, leading to sanctions. *See* Order No. 63, *In re Point of Sale Terminals and Components Thereof*, USITC Inv. No. 337-TA-524, 2007 WL 506522 (Feb. 6, 2007); Order No. 16, *In re Point of Sale Terminals and Components Thereof*, USITC Inv. No. 337-TA-524, 2004 WL 2677985 (Nov. 17, 2004).

291. *See* 19 U.S.C. § 1337(a)(3) (2006).

292. Stuart Weinburg, *After eBay Ruling, Patent Injunctions No Longer Automatic*, MARKETWATCH, June 1, 2007, <http://www.marketwatch.com/m/story/4d1ce0e8-4cb5-4d35-b3b8-abelc9671f20/0>.

293. *See* Order No. 7, *In re Digital Cameras and Components Thereof*, USITC Inv. No. 337-TA-593, 2007 WL 1794141 (May 11, 2007).

294. Notice of Commission Determination Not to Review an Initial Determination Terminating the Investigation on the Basis of a Settlement Agreement, *In re Digital Cameras and Components Thereof*, USITC Inv. No. 337-TA-593, 2008 ITC LEXIS 1004 (June 9, 2008).

investigations had a patent infringement claim, and the remaining four cases involved trademark or trade secret violations.<sup>295</sup> Given this backdrop, different standards for obtaining injunctive relief in federal court and in the ITC are unwarranted.

The ITC claims that the differences are “reasonable in light of the long-standing principle that importation is treated differently than domestic activity.”<sup>296</sup> But in practice, § 337 now functions as a domestic patent enforcement provision. Consequently, the protectionist principle that gave rise to § 337 is no longer relevant. Exclusion orders harm U.S. companies as much as foreign ones, with domestic respondents appearing in 87% of all ITC cases.<sup>297</sup> Congress should place safeguards on these powerful remedies or consider abolishing § 337.

### 1. *eBay* Should Not Apply to the ITC

One possibility that commentators have suggested is to amend § 337(d) to require application of the four-factor *eBay* test for ITC cases that involve patent infringement.<sup>298</sup> This change would mitigate the strategic behavior of litigants, by limiting patent holders’ ability to get exclusion orders in the ITC. However, the first two factors of the test, which look at whether there is irreparable injury to the plaintiff and whether monetary damages are available,<sup>299</sup> should not be applied to the ITC.

The first part of the *eBay* test requires the patent holder to show that injunctive relief will cause irreparable injury.<sup>300</sup> As discussed above, the Trade Act of 1974 included a similar requirement, which required patent holders to show that continued infringement would “destroy or substantially injure” a domestic industry.<sup>301</sup> The requirement was considered to be easy to meet, with few parties denied relief solely on that ground.<sup>302</sup> Nevertheless, Congress removed the requirement in 1988, finding that it and other economic tests were not designed to deal with infringing imports.<sup>303</sup>

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295. U.S. INT’L TRADE COMM’N, YEAR IN REVIEW: FISCAL YEAR 2006, *supra* note 10, at 14.

296. See *In re* Baseband Processor Chips and Chipsets, Transmitter and Receiver (Radio) Chips, Power Control Chips, and Products Containing Same, Including Cellular Telephone Handsets, USITC Inv. No. 337-TA-543, 2007 ITC LEXIS 621, at \*102 n230 (June 19, 2007), *rev’d in part sub nom.*, *Kyocera Wireless Corp. v. U.S. Int’l Trade Comm’n*, 545 F.3d 1340 (Fed. Cir. 2008).

297. Chien, *supra* note 64, at 87–88. For ITC actions between 1995 and mid-2007, 14% of all cases had only foreign respondents, 15% had only domestic respondents, and 72% had both a foreign and domestic defendant. *Id.*

298. See Hahn & Singer, *supra* note 60, at 489.

299. See *eBay Inc. v. MercExchange, L.L.C.*, 547 U.S. 388, 391 (2006).

300. *Id.*

301. See *supra* note 105.

302. See GAO REPORT, *supra* note 103, at 28 (“Virtually all government and private sector officials with whom we spoke commented that the injury requirement was extremely low.”).

303. S. REP. NO. 100-71, at 127–29 (1987).

Adding an irreparable injury requirement is problematic if Congress's goal is to provide relief against infringers that operate beyond the reach of U.S. federal courts. One in three ITC complainants does not file parallel litigation in federal court.<sup>304</sup> Such a patent holder could be denied relief, despite being injured. This issue arises when U.S. courts do not have jurisdiction over one or more of the infringers, making the ITC the sole forum that can award relief. Moreover, from a pragmatic standpoint, it seems unlikely that Congress will be willing to reintroduce an injury requirement, given that patent interest groups are opposed to such a change.

The second part of the *eBay* test requires the patent holder to show that monetary damages or other remedies "available at law" are insufficient compensation.<sup>305</sup> It is not feasible for the ITC to apply this test. To make such a determination, the ITC would first have to determine whether personal jurisdiction would exist for all of the respondents. This change would greatly increase the complexity and length of ITC proceedings, and would force the agency to make decisions outside its area of competence. The ITC would then need to determine the proper amount of cash damages and determine whether such an award is inadequate compensation. Patent holders could be left without relief if the ITC denied an exclusion order and a court subsequently concluded that cash damages were inappropriate.

## 2. Issuance and Scope of Exclusion Orders

Congress should amend § 337 to articulate explicit conditions where an exclusion order may not be issued. The current language of the provision is both broad and vague, stating that the ITC will grant an exclusion order unless "it finds that such articles should not be excluded from entry" because of mitigating public interest or economic factors.<sup>306</sup> The ITC is never obligated to deny an exclusion order after finding infringement. Because ITC remedies are subject to review only for abuse of discretion, the Federal Circuit can do little to intervene.<sup>307</sup>

Congress should also clarify the effect of policy concerns on setting the scope of exclusion orders. Section 337 is ambiguous regarding when the ITC can narrow the scope of a limited exclusion order and which factors it should take into account in doing so. The only formal tailoring

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304. *See* Chien, *supra* note 64, at 92–93.

305. *eBay*, 547 U.S. at 391.

306. *See* 19 U.S.C. § 1337(d)(1) (2006).

307. *Hyundai Elecs. Indus. Co. v. U.S. Int'l Trade Comm'n*, 899 F.2d 1204, 1207, 1209 (Fed. Cir. 1990) (holding that remedy determinations are reviewed for abuse of discretion and noting that "the Commission has broad discretion in selecting the form, scope, and extent of the remedy, and judicial review of its choice of remedy necessarily is limited" (quoting *Viscofan, S.A. v. U.S. Int'l Trade Comm'n*, 787 F.2d 544, 548 (Fed. Cir. 1986))).

of limited exclusion orders requires the ITC to evaluate whether an order should include downstream products under the *EPROMs* test. As noted above, applying the *EPROMs* test is deferential to the patent holder, weighing the supposed intrinsic value of strong patent protection in favor of the complainant.<sup>308</sup>

To make these changes, Congress needs to focus on the third and fourth factors in the *eBay* test. The ITC does not adequately balance hardships between the parties nor does it require a finding that the public interest will not be disserved before issuing injunctive relief. The ITC claims that these factors are already taken into account under § 337(d),<sup>309</sup> but in practice, such considerations have not prevented issuance of an exclusion order in nearly twenty-five years.<sup>310</sup> The language in § 337(d) must be strengthened and clarified to be effective. Congress should prohibit the ITC from issuing general, limited, or downstream exclusion orders that would substantially harm technological innovation, public health and welfare, competitive economic conditions, or the production of competitive articles in the U.S.

Congress should also prohibit issuance of general, limited, or downstream exclusion orders when the economic benefit of the order for the complainant is outweighed by the joint harm caused to the respondents and to the public interest. Note that incorporating an economic balancing factor is different from reintroducing the economic harm requirement. The ITC would instead balance the harm to the public interest and the respondents with the economic benefits to the complainant. The patent holder would not have to show in the complaint that economic harm exists. Instead, the respondents or the staff attorney would have to establish that the harm outweighs the economic benefit.

This change would prevent the ITC from issuing exclusion orders where the patent holder does not derive a financial benefit. Currently, a company can use a § 337 action as leverage for a cash settlement or to hurt a competitor, even if the exclusion order is of no direct benefit to it. Although this change will not prevent these types of actions from initially being filed, it will prevent the issuance of harmful exclusion orders.

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308. *See supra* Part VI.A.2.

309. *In re* Baseband Processor Chips and Chipsets, Transmitter and Receiver (Radio) Chips, Power Control Chips, and Products Containing Same, Including Cellular Telephone Handsets, USITC Inv. No. 337-TA-543, 2007 ITC LEXIS 621, at \*102 n.230 (June 19, 2007), *rev'd in part sub nom.*, *Kyocera Wireless Corp. v. U.S. Int'l Trade Comm'n*, 545 F.3d 1340 (Fed. Cir. 2008), (“The remaining factors, those of balance of hardships and public interest, are analyzed by the Commission in its *EPROMs* factors and public interest analysis.”).

310. *See supra* Part VI.A.1.

With regard to downstream orders, these suggestions would augment the *EPROMs* test. The ITC could continue to deny downstream orders where the agency believes public policy weighs against it. The new language would merely identify circumstances where the agency cannot issue a downstream order.

If Congress makes these amendments to § 337, it would prevent the ITC from issuing exclusion orders that substantially harm the public, rather than making such decisions discretionary. It would also prevent the ITC from using innovation to justify decisions that simply favor the patent holder.

### C. *Promoting Uniform Innovation Policy*

Ideally, Congress should develop a uniform approach to promoting innovation through patent legislation. The ITC has shown that it is unable to adequately address public policy concerns. And although the Federal Circuit is in a position to do so, it has explicitly declined this role, stating that such considerations should be dealt with by the legislative branch.<sup>311</sup>

Congress took a first step when it passed the America COMPETES Act in 2007.<sup>312</sup> This legislation established a President's Council on Innovation and Competitiveness, to be staffed by the Secretary or heads of departments for agencies involved with science and innovation.<sup>313</sup> The purpose of the group was to develop an agenda which included monitoring the implementation of public laws for promoting innovation, including policies related to trade.<sup>314</sup>

But the America COMPETES Act has not been funded, calling into question Congress's commitment to advancing innovation. Beyond funding, there is an issue of whether Congress has the institutional capacity to address the problem. Stuart Benjamin and Arti Rai have proposed bypassing Congress by creating an executive branch innovation agency that can analyze pending agency actions and suggest regulatory reform.<sup>315</sup> As the authors acknowledge, however, such an agency would be unable to address problems caused by the statutes that Congress enacts.

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311. *In re Fisher*, 421 F.3d 1365, 1378 (Fed. Cir. 2005).

312. America Creating Opportunities to Meaningfully Promote Excellence in Technology, Education, and Science Act, Pub. L. No. 110-69, 121 Stat. 572 (2007).

313. See DEBORAH D. STINE, CONG. RESEARCH SERV., AMERICA COMPETES ACT: PROGRAMS, FUNDING, AND SELECTED ISSUES 45 (2008), available at [http://assets.opencrs.com/rpts/RL34328\\_20080122.pdf](http://assets.opencrs.com/rpts/RL34328_20080122.pdf).

314. 15 U.S.C. § 3718(b)(1) (2007).

315. See Benjamin & Rai, *supra* note 1.

Given the immense challenges of crafting uniform innovation policy, Congress should consider addressing the immediate problems of uniformity in the patent system by abolishing § 337. Such a move would likely garner international support, but would be fiercely opposed by the U.S. pro-patent lobby.<sup>316</sup> Nevertheless, this approach would be the most efficient way to address the wide array of problems that have arisen from patent litigation in the ITC.

Section 337 hinders innovation by failing to adequately balance the needs of patent holders with those of competitors and the public. It promotes excessive litigation, incoherent patent jurisprudence, and strategic behavior by litigants. It furthermore does not adequately protect domestic industry. While one can argue that the provision promotes domestic interests by limiting the import of foreign goods, nevertheless, U.S. companies are frequently named as respondents. Indeed, the traditional supporters of protectionism showed little enthusiasm for the changes made to the statute in 1988.<sup>317</sup>

The biggest and most unique advantage of § 337 litigation—exclusion orders—could be brought in under the Patent Act, subject to the balancing requirements in *eBay*. Although exclusion orders would become available to all U.S. patent holders, regardless of the existence of a domestic industry, the application of the *eBay* test should limit their use. Congress could furthermore grant district courts the ability to use in rem jurisdiction for the limited purpose of issuing exclusion orders targeting parties that cannot be brought into federal court.

This approach would eliminate the availability of fast, streamlined litigation. However, speed alone does not justify a two-track patent system. Rather, this problem highlights the shortcomings of the patent litigation system in its entirety, which should be addressed as a whole.

## VII. CONCLUSION

The ITC's broad patent enforcement and policymaking powers under § 337 pose a threat to the efficacy of the patent system. Ambiguity surrounding the applicability of the Patent Act—coupled with the ITC's lack of preclusive effect on district courts—jeopardizes the uniformity of the patent system. Patent holders frequently engage in parallel litigation and strategic behavior to maximize the value of their patents, placing a burden on respondents who are forced to defend themselves twice. This scenario, in turn, leads to inconsistent judgments

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316. The lack of feasibility for this solution has been pointed out by at least one scholar. See Michael D. Rostoker, *Impairing U.S. Trade through U.S. Trade Law*, 34 IDEA 169, 182 (1994).

317. 1987 Senate Hearings, *supra* note 120, at 52, 59 (statement of Rudy Oswald, Director, Economic Research Department, AFL-CIO); *id.* at 329 (statement of John M. Greer, Vice President, Graphic Communications International Union).

between the ITC and district courts, undermining the credibility of the agency.

Moreover, the current provision forces the ITC to make determinations of patent policy without guidance. The ITC's policymaking expertise lies in trade, not in promoting the progress of the useful arts. Yet the agency has broad discretion to remedy patent infringement through exclusion orders, leading to decisions—such as *Certain Baseband Processors*<sup>318</sup>—that hurt innovation. These problems will worsen as the ITC's docket grows, making it crucial that Congress harmonize federal and ITC patent law.

These issues highlight a bigger problem regarding Congress's regulation of the patent system. The ITC, PTO, and federal courts all have the power to interpret patents, and both the ITC and the courts have the power to enforce them. Yet Congress treats the ITC as an afterthought in the patent system, and not as a powerful agency whose actions have far-reaching effects. Congress needs to take a comprehensive approach to promoting innovation. Neglecting any one of the above entities—as Congress has repeatedly done—will lead to strategic behavior by patent holders and ultimately will hinder the technological progress that society depends on.

If Congress cannot undertake this reform, then it should abolish § 337. Congress could then amend the Patent Act to add exclusion orders as a remedy. Although such a change would make exclusion orders available to foreign patent holders with no domestic presence, district courts would be limited by *eBay*. The ITC would no longer be forced to speculate on how to promote the goals of the patent system, and could instead return to its intended purpose of protecting U.S. companies.

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318. See Part VI.A.