Protect Domestic Industry, Not Private Interests

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The International Trade Commission now stands as the favored venue for companies, domestic and foreign alike, to obtain injunctions while avoiding the requirements imposed by *eBay v. MercExchange*, 547 U.S. 388 (2006) – the decision setting forth the current test to determine whether an injunction based on patent infringement should be issued. But the ITC was not intended to be an intellectual property court. Section 337 of the Tariff Act of 1930, which permits the ITC to investigate alleged unfair import practices (i.e., importing products that infringe U.S. patents), too frequently fails to protect domestic jobs and industry. Congress enacted Section 337 (and its predecessor) to prevent domestic industry from being damaged or destroyed by unfair trade practices abroad. Although Section 337 still serves this purpose in certain instances, many times the issuance of an exclusion order harms U.S. industry, albeit not that of the complainant. Section 337 should be amended to allow for an exclusion order only when it will cause more benefit than harm to domestic industry, considering that of complainants, respondents and even third parties.

Industry has changed since the enactment of Section 337. At the time, U.S. industry largely consisted of manufacturing. Not surprisingly, from its inception to the 1980s, in nearly all instances the commission applied Section 337 to protect domestic manufacturing. As the core of the economy began to shift away from manufacturing, Congress and the commission expanded domestic industry to include activities not strictly limited to manufacturing, including research and development, licensing, or anything that entails significant employment or capital. Congress also eliminated the injury requirement, aligning with the then-prevailing view that any patent infringement necessarily causes injury sufficient to justify injunctive relief.

Today most manufacturing occurs abroad, including products designed and sold by domestic companies. And many foreign companies maintain a relatively significant domestic presence – e.g., research facilities or employees servicing products sold in the U.S. Although Section 337 and its interpretation have evolved, the statute fails to adequately account for the extent to which domestic industry relies on foreign manufacturing. If one accepts the premise that the ITC, and Section 337 in particular, aims to further domestic industry, the landscape of modern industry creates a dilemma.

Take for example Domestic Company, which performs all design and development of its computers in the U.S., but manufactures them abroad and then imports them into the U.S. for sale. Foreign Competitor conducts all of its development and manufacturing abroad, yet also maintains a presence in the U.S. to service and repair the machines it sells here. Foreign Competitor holds a patent on a type of camera integrated into both companies' computers, and files a complaint with the ITC seeking to exclude Domestic Company's importation of computers. Because Foreign Competitor's service and repair efforts satisfy the domestic industry requirement, Domestic Company's importation of computers will be barred. This is true even if Domestic Company employs 5,000 people (related to the computers) in the U.S., and Foreign Competitor has only 100 employees here. Would an exclusion order in these circumstances benefit domestic industry? The answer is plainly no, at least in this author's opinion.

A similar problem arises if Foreign Competitor was instead a small domestic designer of the camera. Assume it designs and develops the camera in the U.S., and manufactures the components abroad. Again, its domestic presence satisfies the domestic industry requirement, but would U.S. industry be better served by an exclusion order? At the very least it would be a draw.

The nature of this dilemma did not come about recently. But the Supreme Court's *eBay* opinion, along with numerous decisions by the Federal Circuit limiting damages, pushed many disputes to the ITC previously handled in the federal courts.

To address this issue, Section 337 should be amended to require a complainant to show that U.S. industry would be better served by an exclusion order. A complainant's own domestic industry may suffice, but the impact on respondents' domestic industry, and even that of third parties, must also be evaluated. A nonexhaustive list of factors for consideration includes: extent of the complainant's domestic industry; scope of damage or injury to that domestic industry by the importation of products at issue; impact to domestic industry at large, including that of respondent, in the event of an exclusion order; and importance of patented technology in the imported items. By weighing these factors, the commission can ensure that domestic industry is actually protected.

Such an approach to domestic industry will also address the concerns of many regarding nonpracticing entities. If a nonpracticing entity engages only in the acquisition of patents to obtain licensing fees through litigation, it may maintain some level of domestic industry, but the target companies likely contribute much more significantly to U.S. industry.

Importantly, would-be complainants in Section 337 investigations would not be left without recourse in the event that the balancing test weighs against them. They may still bring actions in federal court, and obtain injunctions if they can satisfy the requirements under *eBay*. And in the rare occasion that a respondent lacks sufficient U.S. presence for a federal court to maintain jurisdiction, the complainant should have little problem demonstrating that the injury to its domestic industry outweighs the harm to domestic industry at large.

The ITC has already taken a step in this direction with more serious consideration of the public interest factors – public health and welfare, competitive conditions in the U.S., production of like or directly articles in the U.S., and U.S. consumers. Some parties already use these factors as a conduit to argue that U.S. industry would not be best served by the issuance of an exclusion order, but they do not expressly require the commission to make such a finding prior to the issuance of an exclusion order.

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