

Client Alert

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ITC Rolls Out Pilot Program for Early Termination of Section 337 Investigations

By G. Brian Busey and Jack R. Smith

On June 24, 2013, the United States International Trade Commission (“ITC” or “Commission”) unveiled a new pilot program aimed at providing expedited Section 337 investigations without the burden and cost of a full-length investigation.¹ In special cases identified by the Commission at institution of the investigation, the assigned Administrative Law Judge must issue an initial determination (“ID”) within 100 days of institution that can lead to early termination. The first investigation to be subject to such an expedited evidentiary hearing, *Certain Products Having Laminated Packaging, Laminated Packaging, and Components Thereof*, Inv. No. 337-TA-874, examined the economic prong of domestic industry. However, the ITC Notice indicates that additional “potentially dispositive issue[s],” such as importation and standing might be appropriate for an expedited evidentiary hearing.²

BACKGROUND AND MOTIVATION

The pilot program appears to signal the Commission’s desire to limit the ability of non-practicing entities (NPEs)³ to successfully use Section 337. The ITC Notice also coincides with the Obama administration’s announcement of regulatory and legislative efforts to curb allegedly abusive patent litigation brought by NPEs.⁴ Some aspects of Section 337 investigations, including the broad injunctive type relief afforded by ITC exclusion orders and the speed of ITC investigations, have apparently made the ITC attractive to NPEs.⁵

The White House Task Force on High-Tech Patent Issues explicitly recognized this in June, and has now recommended legislative changes that, if implemented, could have a significant impact on Section 337 practice.⁶ However, the special requirements for relief under Section 337 compared with those of the federal district court likely have tempered the interest of NPEs in the ITC. For example, NPEs may have difficulty demonstrating the economic prong of domestic industry, particularly where they rely only on licensing activities that have received special scrutiny from the Commission.⁷ Many technology companies that are frequently named as respondents in

¹ “Pilot Program Will Test Early Disposition of Certain Section 337 Investigations,” News Release 13-059, USITC, Released June 24, 2013 (hereinafter “the ITC Notice”).

² The ITC Notice at ¶¶ 4-5.

³ Alternatively referred to as Patent Assertion Entities (PAEs) and “patent monetization entities.”

⁴ “Fact Sheet: White House Task Force on High-Tech Patent Issues Legislative Priorities and Executive Actions,” Office of the Press Secretary of the White House, Released June 4, 2013 (hereinafter “the Task Force Fact Sheet”), at 1.

⁵ “ITC Requires Early Evidentiary Hearing in Investigation Initiated by NPE,” Morrison & Forester Client Alert, March 29, 2013 (hereinafter “March 29, 2013 Morrison & Forester Client Alert”) at 1.

⁶ The Task Force Fact Sheet at 2 under “Legislative Regulations.”

⁷ 78 Fed Reg. 19, 007 (Mar. 28, 2013). In order to obtain relief for a violation of Section 337, a complainant must establish that a “domestic industry” with respect to the asserted intellectual property exists or is in the process of being established. See 19 U.S.C. § 1337(a)(2). To satisfy the domestic industry requirement, the complainant must show that it has made significant investments in plants and equipment or labor or capital in connection with products protected by the intellectual property right or substantial investments in exploiting the intellectual property right, such as through engineering, research and development or licensing. See 19 U.S.C. § 1337(a)(3).

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ITC investigations have complained in the past that there was no realistic mechanism by which to dispose of Section 337 investigations before incurring the costs of a 337 investigation through the evidentiary hearing, often occurring 8-9 months into an investigation.

As reported in an earlier client alert,⁸ recently the Commission instituted a procedural modification apparently aimed at addressing similar problems in *Certain Products Having Laminated Packaging, Laminated Packaging, and Components Thereof*, Inv. No. 337-TA-874 (*Laminated Packaging*). In *Laminated Packaging*, the Commission ordered in its notice of investigation an expedited evidentiary hearing to determine whether or not the complaint satisfied the economic prong of domestic industry. The Commission action will result in a potentially dispositive ID by the ALJ within 100 days of the institution of the investigation, which is currently scheduled to be issued July 5. If the domestic industry requirement is not satisfied, the investigation will be suspended pending Commission review.⁹

THE PILOT PROGRAM

The recently announced pilot program essentially applies the modified procedural schedule tested in *Laminated Packaging* to other cases before the ITC. At least initially, the program will proceed as follows.¹⁰

- At the institution of the investigation, the Commission identifies a potentially dispositive issue (e.g., the economic prong of domestic industry, standing, or importation) that should be subject to an early 100-day ID.
- The ALJ issues a procedural schedule including expedited fact finding and an evidentiary hearing. Ordinarily, the hearing will result in an ID within 100 days of the institution of the investigation. However, the ALJ will have discretion to grant extensions for “good cause.” The ALJ sets the time frame for the fact finding accompanying the modified schedule (e.g., the serving of exhibits, rebuttal exhibits, prehearing statements, etc.) so that the ID can be made in the 100-day time frame.
- If the ALJ determines that the complainant has not satisfied the economic prong of domestic industry, then the ALJ will stay the proceeding pending Commission review of the ID.
- Litigants may then petition for review of the ID within 5 days of service and reply to such petitions for review. If the Commission elects not to review the ID within 30 days and/or agrees with the ID, the ID becomes the final determination of the Commission.

REMAINING QUESTIONS

The program demonstrates the Commission’s commitment to early disposition on appropriate grounds of potentially costly 337 proceedings. But there are a number of issues surrounding the program that likely will only be resolved via its implementation and application in specific cases:

1. *Impact on ITC’s Overall Schedule.* The ITC Notice acknowledges that “resolving issues in pilot program investigations may be challenging for the ALJs.”¹¹ Given the substantial caseload of ITC ALJs, a series of expedited 100-day evidentiary hearings may adversely affect target dates in other 337 investigations. In particular, ALJs may be forced to delay IDs or other aspects of the fact finding when schedules conflict. If

⁸ March 29, 2013 Morrison & Forester Client Alert.

⁹ *Laminated Packaging*, Inv. No. 337-TA-874, Order No. 8 — Attachment A (May 1, 2013).

¹⁰ The ITC Notice explicitly indicates that the following described procedure may be modified “in light of [the Commission’s] experience with the [pilot] program,” at ¶ 14.

¹¹ The ITC Notice at ¶ 12.

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such problems become evident during the pilot program, the Commission may need to adjust the program's time frames.

2. *Challenge for Litigants.* The 100-day expedited proceedings impose additional challenges on respondents and complainants alike. The Commission expects complainants to "have a well-developed plan for obtaining any necessary discovery immediately upon institution."¹² Although complainants have the luxury of taking substantial time to prepare their cases before filing, respondents will not have similar time to prepare for expedited proceedings. In some cases, respondents may not be even be represented by counsel on the institution of the investigation. They may face other logistical hurdles that substantially limit their ability to raise issues concerning a complainant's case in the extremely short period provided for expedited proceedings.
3. *Mechanism for Identifying Expedited Cases.* Although the ITC Notice indicates that the Commission will identify issues suitable for an expedited proceeding, it does not indicate the mechanism for identifying the cases. *Laminated Packaging* seems to indicate that the Commission's role in this process need not be exclusive. Specifically, two respondents' public-interest statements filed before the institution of the investigation¹³ appear to have raised the domestic industry issue with the Commission. It appears that respondents that are represented by counsel can and should approach the Commission Staff to raise defenses that may be suitable for expedited consideration.
4. *Issues Suitable for Expedited Proceedings.* Another question concerns exactly which kinds of issues can be reliably and fairly addressed in the 100-day time frame. The Commission clearly expects that issues of domestic industry, standing, and importation can reasonably be addressed.¹⁴ But other issues that may be equally dispositive, such as licensing or patent exhaustion defenses, may or may not be addressed in expedited proceedings. It remains to be seen how broadly the Commission will select issues for inclusion in the pilot program.

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¹² *Id.*

¹³ March 29, 2013 Morrison & Foerster Client Alert at 2.

¹⁴ The ITC Notice at ¶ 12.