

Pursuing Patent Infringement Litigation at the U.S. International Trade Commission and in Federal District Court

A PRIMER FOR SEMA MEMBERS

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TABLE OF CONTENTS

A. Introduction..... 1
B. Brief description of ITC Section 337 Investigations..... 3
C. A comparison of patent infringement litigation at the ITC and in federal district court.... 4
D. Conclusion15

A. Introduction

Imagine for a moment a SEMA member who discovers that his product, which embodies technology protected by a U.S. patent, is being infringed by imported products manufactured in East or South Asia. The SEMA member’s product has become popular in the United States, making it an attractive target for infringers; and, because the patented technology is not highly sophisticated, copying it is relatively easy. When the SEMA member begins investigating the source of the infringing products, he learns that it is being shipped to the United States by several

Asian trading companies. Information about identity of the infringing manufacturers is more difficult to come by, but it appears that several unrelated manufacturers are involved. Moreover, because of his product’s popularity and because of the low barriers to entry, the SEMA member realizes that other foreign manufacturers will readily begin manufacturing infringing products as well if the market opportunity presents itself.

The present article is addressed to SEMA members that hold U.S. patents and that find – or fear they may one day find – that imported products are infringing their patents. It describes how patent infringement litigation works at the U.S. International Trade Commission (“ITC”) and compares the advantages and disadvantages of bringing patent infringement litigation in a federal district court versus the ITC, particularly in the scenario sketched out in the paragraph above. (The ITC is an independent, quasi-judicial federal agency that determines import injury to U.S. industries caused by various unfair trade practices.) The goal of this article is to provide

SEMA members whose patents are being, or may one day be, infringed with a framework for weighing their litigation options.

U.S. Customs and Border Protection (“CBP”) offers a first line of defense against the importation of certain types of products that infringe U.S. intellectual property rights. A holder of a registered U.S. trademark or copyright can, after “recording” his mark or copyright with CBP, call upon CBP to prevent the importation of goods that infringe the holder’s registered intellectual property rights; and CBP is under a statutory mandate to do so. (Recordation is a simple and relatively inexpensive way to register a trademark or copyright with CBP which then allows the agency to enforce the IP rights.) In contrast, a U.S. patent holder cannot make the same request of CBP, for CBP has no authority to enforce a U.S. patent at U.S. ports of entry unless the ITC issues an exclusion order directing it to do so.

A company that believes that its U.S. patent is being infringed by goods that are imported into the United States from abroad has two litigation options to remedy the infringement. It can bring suit in a federal district court or at the ITC.

In district court, the patent holder has the opportunity to seek both an injunction against the future importation and sale of the infringing goods and monetary damages for the harm that it has suffered from past sales of the infringing goods in the United States. However, the patent holder must enforce such a court-issued injunction itself through further litigation in the district court. Moreover, if the foreign manufacturer who is the source of the infringing goods has no corporate presence in the United States, it is effectively judgment-proof; and any judgment for monetary damages that the patent holder obtains against such a defendant will be worthless.

Alternatively, the aggrieved patent holder can bring suit at the ITC under 19 U.S.C. § 1337 (“Section 337”) a) if the infringing goods are being imported from abroad (*i.e.*, rather than produced in the United States) and b) if the patent holder meets certain standing requirements. The ITC has the authority to issue broad injunctive relief (but not monetary damages), which, depending on the type of injunction issued, is enforced either by CBP or by the ITC itself. For this and other reasons, which are discussed below, the ITC is attracting more and more patent holders seeking protection against infringing imports. From FY 2000 to FY 2008, new Section 337 cases filed at the ITC nearly quadrupled (from 11 to 43), while cases active during the fiscal year more than tripled (from 25 to 88, including both original investigations and ancillary proceedings).

B. Brief description of ITC Section 337 investigations

Under Section 337, the ITC, at the request of an aggrieved U.S. intellectual property rights holder, conducts investigations into alleged unfair practices in import trade. Most Section 337 complaints involve allegations of patent or trademark infringement. Parties to a Section 337 investigation include the complainant(s), the respondent(s) (*i.e.*, defendant(s)), and an attorney from the ITC’s Office of Unfair Import Investigations (OUII), whose responsibility is to represent the public interest, an important task because the remedies available in section 337 investigations could affect nonparties or U.S. consumers or both.

Section 337 investigations are conducted in accordance with the Administrative Procedure Act. After the Commission has instituted an investigation, the matter is assigned to one of the ITC’s administrative law judges (“ALJ”), who, after an extensive investigative process (“discovery”), holds a formal, evidentiary hearing. The ALJ, after considering the evidentiary record and the arguments of the parties, makes an initial determination, including

findings of fact and conclusions of law. The Commission may review and adopt, modify, or reverse the ALJ's initial determination. If the Commission does not review the judge's decision, it becomes the Commission's final determination.

If the Commission determines that there is a violation of section 337, it may issue remedial orders that would exclude the products from entry into the United States and/or order entities to cease and desist from certain actions. Those orders are effective when issued and become final 60 days after issuance unless disapproved for policy reasons by the U.S. Trade Representative within that 60-day period.

C. A comparison of patent infringement litigation at the ITC and in federal district court

Because so much production in the high performance automotive aftermarket is carried out abroad, there is a good chance that the infringement of a SEMA member's patent will involve imported goods, potentially giving the SEMA member access to the ITC. While the federal district courts have original jurisdiction over all patent infringement matters, no matter where the goods originate, the ITC is a specialized forum whose jurisdiction under Section 337 extends only to imported merchandise alleged to infringe a U.S. patent (or other U.S. intellectual property right) under its general mandate to regulate trade in goods entering the United States in international commerce. Because Section 337 is a trade statute (it is Section 337 of the Tariff Act of 1930, as amended), the remedies it provides are expressly designed to keep infringing articles of international commerce out of the United States, and its ALJs and Commissioners are well-versed in the intricacies of unfair international trade and in the remedies for it.

The choice between litigation in federal district court and at the ITC is a complicated one that involves many competing considerations and that depends heavily on the facts of the

particular case. What follows is a discussion of some of the factors that litigants normally consider in selecting a forum.

Subject matter jurisdiction: As noted above, the ITC does not have jurisdiction over infringing goods produced in the United States. The only litigation option open to a SEMA member whose goods are being infringed by domestically produced goods is litigation in federal district court.

Speed: One of the most important considerations for a U.S. patent holder whose sales are suffering because of competition from infringing products is speedy relief. The sooner the bleeding can be stopped, the sooner the patent holder's cash flow will recover. In this respect, the ITC, which is a true "rocket docket," compares very favorably with the federal district courts, even with the speediest jurisdictions. In an ITC action, the administrative law judge's first task is to set a "target date," the date by which the ITC will issue its final ruling in the case. This target date dictates the schedule for the entire litigation, and the delays and requests for extensions that are common in federal district court are rarely tolerated/granted at the ITC. In FY 2009, for example, cases at the ITC reached trial in an average of 8.5 months and a final decision in an average of 15.5 months. In contrast, in 2008, the average time to trial in federal district courts was 2.1 years, a figure that has remained constant since 1995. Even the speediest districts in the United States, the Eastern District of Virginia and the Western District of Wisconsin (.88 and 1.01 years to trial respectively), are not as quick as the ITC. The rapid pace of ITC cases, where responses to discovery requests are normally due in ten calendar days, not only results in speedier relief but puts heightened litigation pressure on respondents, often precipitating settlement or a default.

Litigating effectively against foreign respondents/defendants: In a typical scenario involving infringement of a U.S. patent by foreign-manufactured goods, the infringers will include both foreign and domestic entities – foreign producers and exporters and domestic importers and sellers. In district court, the requirement that the court obtain personal jurisdiction over defendants can place difficult obstacles in the way of a plaintiff that wishes to bring suit against a foreign entity. A federal district court must obtain personal jurisdiction over all defendants in accordance with the constitutional standards governing minimum contacts with the forum. An indispensable step in obtaining such jurisdiction is service of the complaint on the defendant. In the case of foreign defendants, the plaintiff normally must serve the defendant using the procedures established by the Hague Convention or equivalent procedures in the foreign country. This is a time-consuming and all-too-often futile exercise. In contrast, the ITC serves the complainant's complaint on respondents by domestic and international courier, and service is completed when the complaint is received. In addition, issues of proper venue that can require a change of district court or can prevent a plaintiff from suing all defendants in a single action simply do not arise at the ITC, which is the sole venue for any infringement action brought under Section 337.

District courts rarely have rules designed to reduce the difficulties associated with taking discovery of foreign defendants. The ITC's rules, on the other hand, facilitate the taking of discovery outside the United States, and foreign respondents that fail to cooperate in discovery risk being defaulted.

Standing: The ITC has a standing requirement that has no counterpart in the federal district courts. To have standing at the ITC to bring an action and receive relief, the complainant must demonstrate that it has made a substantial monetary investment *in the United States* in

activities connected with the patent: manufacturing, research and development, or engineering (“the domestic industry requirement”). A complainant can also satisfy the domestic industry requirement through activities related to licensing the patented technology. Indeed, the ITC has just ruled that litigation costs related to obtaining a license can count towards fulfilling the domestic industry requirement. The threshold is low, and it is rare that a complainant fails to satisfy the domestic industry requirement, but it is not non-existent. For example, merely selling or marketing foreign-produced products in the United States will not satisfy the domestic industry requirement.

Injunctive Relief: Since the U.S. Supreme Court's 2006 decision in *eBay v. MercExchange*, it has become more difficult to win injunctions against patent infringers in federal district court litigation.¹ Even where a plaintiff *is* successful in obtaining a district court injunction against the importation and sale of infringing goods, the plaintiff must petition the court to enforce violations of the injunction and does not have access to CBP for that purpose. In contrast, the ITC has the authority to impose three types of injunctive relief: a general exclusion order, a limited exclusion order, and a cease-and-desist order.

ITC general exclusion order: The injunctive relief provided by a general exclusion order is extraordinary, and has no counterpart in the federal district courts. A general exclusion order is an order permanently excluding from entry into the United States any imported products infringing the complainant’s intellectual property. A general exclusion order’s exceptional reach

¹ Before *eBay*, a successful plaintiff in patent infringement litigation could normally count on being granted injunctive relief as a matter of course. In *eBay*, the Court held, in accordance with traditional principles of equity, a plaintiff seeking a permanent injunction must demonstrate “(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.” *Ebay, Inc. v. MercExchange, L.L.C.*, 126 S.Ct. 1837, 1839 (2006).

comes from the fact that it is an *in rem* order, not an *in personam* order. That it, it operates against things (infringing products) rather than against persons (infringers). As such, it is effective against non-parties to the Section 337 action as well as against respondents. It operates to bar the importation of infringing goods:

- (a) where it is difficult to establish *in personam* jurisdiction over some or all of the infringers (particularly over foreign entities),
- (b) where infringers are expected to engage in circumvention (*i.e.*, to continue to attempt to import infringing goods),
- (c) where new infringers can be expected to emerge in the future, and
- (d) against non-parties.

Moreover, the general exclusion order is enforced by CBP, which monitors and excludes from entry into the United States attempted imports of infringing products. After there is a first attempt to import merchandise in violation of the general exclusion order, the Commission has the authority to instruct CBP to seize and forfeit any further attempted entries of infringing goods by the same entity.

ITC limited exclusion order: Where the ITC finds that a patent has been infringed but the facts do not warrant the extraordinary relief of a general exclusion order, it will instead issue a limited exclusion order covering all respondents, foreign and domestic, named in the complaint that have been found to infringe the complainant's patent. The limited exclusion order extends to the respondent's principals, stockholders, officers, and controlled or majority-owned affiliates. As with a general exclusion order, a limited exclusion order is administered by CBP and the ITC can authorize the seizure and forfeiture of goods imported in violation of the limited exclusion order.

ITC cease-and-desist order: The ITC can also issue a cease-and-desist order against any domestic respondent holding (or, in the case of a defaulting respondent, presumed to hold) a

significant inventory of infringing products in the United States. The cease-and-desist order enjoins the respondent from selling infringing, imported merchandise in the United States, including (but not limited to) imported merchandise that has already entered the United States when the investigation reaches its conclusion. Violations of the ITC's cease-and-desist orders are enforced by the ITC.

The ITC is authorized to impose on any person who violates its cease-and-desist order “a civil penalty for each day on which an importation of articles, or their sale, occurs in violation of the order of not more than the greater of \$100,000 or twice the domestic value of the articles entered or sold on such day in violation of the order.”² In the recent past, the ITC has not hesitated to impose the maximum penalty – amounting to tens of millions of dollars – against respondents that continue to deal in infringing merchandise after the issuance of the cease-and-desist order.

Injunctive relief available in district court: In order to obtain injunctive relief against continuing infringement of its patents in federal district court, the prevailing plaintiff must show that it will suffer “irreparable harm” if an injunction is not granted. This is a difficult standard to meet. In addition, the plaintiff enforces the injunction itself and must look to the district court for relief if a defendant violates the injunction. Finally, the injunctive relief available from a district court is *in personam*, meaning it is operative only against parties to the litigation. There is no equivalent in district court to the ITC's general exclusion order.

Monetary damages: Monetary damages are available in federal district court upon suitable proof. However, the prospect of successfully collecting a monetary judgment against a foreign respondent with no presence in the United States (*i.e.*, the foreign manufacturer of the

² However, these monetary penalties go to the government, not to the complainant.

infringing merchandise) is, in most cases, illusory. Such foreign entities are likely to be judgment-proof in U.S. courts, since they have no assets that could be seized by a U.S. court to satisfy a monetary judgment; and executing a monetary judgment issued by a U.S. court in a foreign country is difficult and expensive at best, and, in certain countries, including China, prohibited by local law.

Monetary damages are *not* available at the ITC. However, respondents, pressured by the fast pace that drives up litigation costs and makes it difficult to mount a well-prepared defense, often settle

(a) to avoid further litigation costs and the imposition of a general exclusion order, and, most important,

(b) to obtain immunity from a follow-on district court action seeking monetary damages; and such settlement agreements between complainant and respondent typically include the settling respondent's paying monetary compensation to, and/or taking a royalty-bearing license from, the complainant.

In addition, many ITC complainants file a parallel action for monetary damages in federal district court at the same time that they file their ITC complaint. In nearly all cases, the concurrent district court litigation is stayed during the pendency of the Section 337 investigation. Such dual-path litigation gives the complainant potential access to the monetary damages following the completion of the Section 337 investigation and, thereby, imposes additional settlement pressure on respondents.

Temporary relief: In a federal district court action, it is possible for a plaintiff to obtain a preliminary injunction or temporary restraining order upon a proper showing. The ITC's rules

provide for temporary relief (in the form of a temporary exclusion order or a temporary cease-and-desist order or orders) at the outset of a Section 337 investigation; and, at least in theory, the legal standard is the same as for temporary relief in district court. In practice, however, the ITC virtually never approves requests for temporary relief. The hardship that this works on complainants is mitigated by the speed of the ITC's proceedings.

Special Expertise / Jury Trial: The ITC has special expertise in the technical and legal issues involving products imported in violation of U.S. law, and this expertise will prove particularly valuable in any follow-on enforcement action involving complex importation scenarios intended to circumvent the ITC's relief. Moreover, the ITC's ALJs have special expertise in patent infringement litigation. These two types of expertise will not necessarily be found in a district court.

Section 337 actions are bench trials tried before an ALJ without a jury. In federal district court, it is, of course, possible to request a jury trial, and trying an infringement case before a jury is sometimes perceived to favor the plaintiff.

Stays: A popular defense strategy in patent litigation is to request a re-examination of the patent-in-suit by the U.S. Patent and Trademark Office. While actions in federal district courts are routinely stayed during patent re-examination proceedings, the ITC almost never stays a Section 337 investigation during re-examination proceedings. This difference favors complainants at the ITC and defendants in federal district court.

Discovery deadlines: The same types of discovery (interrogatories, document requests, requests for admissions, site inspections) are available at the ITC as under the Federal Rules of Civil Procedure. The major difference is the rapidity with which the discovery phase moves at

the ITC. Responses to discovery requests and to discovery-related motions are normally due in 10 days, and extensions are granted sparingly and with reluctance. In contrast, deadlines in federal district court litigation are longer, extensions are more readily granted, and the mechanism for seeking relief from a failure of the opposing party to cooperate in discovery are less highly developed.

Discovery against Foreign Respondents / Defendants: At the ITC, the rules facilitate discovery against foreign respondents, who are held to the same strict deadlines as domestic respondents. However, under the ITC's jurisprudence, a foreign deponent can insist that his/her deposition be conducted abroad. Failure of a respondent to cooperate in discovery is grounds for sanctions up to and including default. In federal district courts, discovery against foreign defendants can be difficult and, in some countries, is barred by the law of the foreign jurisdiction.

Presidential Review: When the ITC issues a remedial order, the President has sixty days in which to reject and rescind the order under his authority to set foreign policy. In practice, the President virtually never vetoes an ITC remedy. However, the ITC's remedial orders will not be implemented until the expiration of the 60-day approval period following the issuance of such orders. During the 60-day review period, respondents may continue to import but must post a bond in the amount specified by the ITC (typically 100% of the entered value of the merchandise). If the determination becomes final, the bond may be forfeited to the complainant. In federal district court, there is no similar restriction on the relief issued by the court.

Counterclaims: In federal district court, a defendant may assert (and maintain) counterclaims against the plaintiff; and such counterclaims, which are litigated simultaneously

with the original claims, often become a powerful defensive tool. In contrast, at the ITC, there is a *de facto* prohibition against a respondent bringing a counterclaim. While an ITC respondent may *assert* a counterclaim in a Section 337 action, it must immediately transfer the counterclaim to a federal district court with jurisdiction over the matter; and the complainant has the opportunity to ask the district court to stay the counterclaim action until the conclusion of the Section 337 action. In other words, in most cases the ITC complainant’s claims will be litigated first and in isolation from any counterclaims.

Preclusion: A decision by the ITC concerning infringement or validity has no claim preclusive effect on later district court litigation concerning the same patents and infringement allegations. This means that a party that has received an unfavorable ruling on infringement or validity at the ITC can relitigate the issue in federal district court. As a practical matter, ITC decisions have a strong persuasive effect in subsequent federal district court litigation.

The converse is not true. If a patent infringement or invalidity claim has already been litigated in federal district court and would be barred by principles of res judicata if brought there again, the same claim would also be barred in a Section 337 proceeding.

Cost: Patent infringement litigation is very expensive. The American Intellectual Property Law Association, which publishes an annual economic survey, reports the *median* costs of patent infringement litigation in district court in 2009 as follows:

	Less than \$1 million at risk	\$1-\$25 million at risk	More than \$25 million at risk
Costs through end of discovery	\$350,000	\$1,500,000	\$3,000,000
Inclusive of all costs	\$650,000	\$2,000,000	\$5,000,000

It is sometimes said that ITC litigation is substantially more expensive than district court litigation. This is not the case. It is true, however, that the litigation costs in an ITC action will be incurred over a shorter period of time than in district court.

In estimating the cost of a Section 337 action, the figures in the *AIPLA Report* should be **discounted** to reflect that

- a) the issue of monetary damages will not be litigated;
- b) service on foreign respondents is virtually cost-free; and
- c) complainants will not encounter the same obstacles to discovery of foreign respondents as in district court.

The *AIPLA Report* figures should be **increased** to reflect that the issues of importation and domestic industry will be litigated. On average, the costs of ITC litigation are roughly equal to, or slightly less than, comparable district court litigation.

While statistics are not available, there is a general perception that a) the fast pace of ITC litigation and b) the fact that a disproportionate number of respondents are foreign result in high settlement and default rates in Section 337 actions; and the costs of such actions are, in consequence, dramatically lower than if the action were defended through trial.

There is, moreover, one instance in which ITC litigation can be dramatically less expensive than district court litigation of comparable scope. Because respondents in a Section 337 investigation cannot contest venue or personal jurisdiction, it is possible to join all known violators in a single Section 337 investigation. In a Section 337 action with multiple, unrelated respondents, the savings will be very significant as compared with federal district court, where achieving comparable relief would require filing multiple actions.

D. Conclusion

Where a SEMA member faces infringement of its patent from a single infringer with assets in the United States which can be attached to satisfy a monetary judgment and where speed is not a consideration, a district court action may be preferable to an ITC Section 337 investigation. At the other end of the spectrum, where a SEMA member faces infringement of its patent from multiple, hard-to-identify infringers, most located outside the United States, and where the impact of the infringement on the SEMA member's sales is so severe as to make speedy relief imperative, the ITC will likely be the more advantageous forum. In factual situations lying between these two extremes, the aggrieved SEMA patent holder should consider the possibility of filing concurrent ITC and federal district court actions. As noted above, the federal district court action will nearly always be stayed while the ITC action proceeds to its conclusion. It is the exception rather than the rule that a patent holder who files concurrent ITC and district court cases against the same set of respondents/defendants must litigate both to a conclusion. More often, the resolution of the ITC case through settlement or the issuance of remedial orders against respondents with no U.S. presence also resolves the district court action.