

Winning Strategies for IP Enforcement at the U.S. International Trade Commission

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[Cold Open]

Jon Bachand (00:02)

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Voiceover (00:36)

Welcome to the Knobbe Martens IP+ podcast where we bring you engaging conversations with the people at the forefront of IP. Now let's go to the host of today's episode.

Jon Bachand (00:50)

Welcome to this episode of Knobbe IP+. Today we are going to be talking about intellectual property investigations at the International Trade Commission, commonly referred to as the ITC. What is the ITC? What is a Section 337 investigation? Who should consider the ITC when enforcing IP rights? Why may we be seeing more ITC investigations going forward? And what do you do if you find yourself involved in an ITC case.

My name is Jon Bachand and I'm the co-chair of Knobbe Martens' International Trade Commission practice. I am joined today by my fellow co-chair Sheila Swaroop who also leads Knobbe's Litigation group. Hello, Sheila.

Sheila Swaroop (01:30)

Hey, Jon, how are you? I am super excited to have this conversation with you today and hope that listeners find it helpful and informative. Jon, you and I have worked together now for almost 20 years and have litigated many ITC cases together. So I know this will be good for us to tackle some

of the frequently asked questions that we get from clients about how the ITC works. And we hope that this podcast will be a great resource for those that are trying to learn a little bit more about the nuts and bolts of the ITC.

Jon Bachand (02:01)

It will, so let's start with the most basic question. What exactly is the International Trade Commission?

Sheila Swaroop (02:08)

So, the International Trade Commission or ITC for short, it's an independent federal agency that has a number of trade-related roles. For purposes of IP practitioners, the most important is that the ITC handles what's called Section 337 investigations, which investigate acts of unfair trade, particularly importation of products that infringe U.S. intellectual property rights. The ITC is headed by six commissioners who are nominated by the president. It's a bipartisan agency. And currently there's two Democrats and one Republican serving as commissioners. So, there are a number of vacancies right now on the ITC. In addition to the commissioners, the ITC has over 350 staff members, including a group of six administrative law judges, or we call them ALJs for short, who oversee these Section 337 investigations. So, they hold evidentiary hearings and provide recommendations to the commissioners.

And so, Jon, that brings us to another question that we often get that I'll throw over to you. The ALJs that are part of the International Trade Commission, do they have particular expertise or experience with patent law?

Jon Bachand (03:20)

That is something that has changed through the years. Certainly they get a lot of on-the-job training, but in 2018 there was an executive order. And before that, to be qualified to be an ALJ at the International Trade Commission, you actually needed to have prior experience as an administrative law judge. For example, you could be at an agency like the Social Security Administration. So, some of the people did go that pathway who had patent backgrounds, who knew a lot about IP, but now that that requirement no longer exists, it's really opened up the pool of applicants to be ALJs. And as a result, most of the currently serving ALJs, including the chief judge, have technical degrees and also had prior experience with patent law before joining the ITC, which is really great for clients, I think.

Okay, next question. So all the judges have experience with patent law, but Sheila...do Section 337 investigations involve other types of intellectual property?

Sheila Swaroop (04:16)

Yes, they do. While the, I would say, the overwhelming majority of Section 337 cases involve claims for unfair acts based on patent infringement, the ITC also does investigate other acts of unfair trade in the context of intellectual property. So that would include trademark infringement, copyright infringement. There are cases for trade secret misappropriation that can be brought at the ITC, as well as claims for unfair competition and false advertising. So there is a wide variety of unfair acts that can be addressed through the ITC, with patent infringement being sort of the predominant one.

So next question that we do get a lot, Jon, is why would a company file or seek an investigation at the ITC? Are money damages available? Can a company get an injunction? What can be achieved at the ITC?

Jon Bachand (05:12)

So, there's no real monetary damages that can be awarded by the ITC in a typical investigation. A real leverage you get from the ITC is injunctive-style relief, mainly what we refer to as an import ban, also called an exclusion order that prevents importation of infringing products. You can also get a cease-and-desist order.

The cease-and-desist order prevents further distribution of products that have already been imported in the United States. The ITC can't issue a nationwide injunction because it can't stop the sales of products that were never imported. So, if a product was made entirely in the United States, the ITC doesn't have the ability to enjoin the sale of that product.

Now, Sheila, one question that comes up is whether the ITC can address a situation where there are multiple importers of the same or similar infringing product. Does an IP holder have to file multiple ITC investigations in that situation?

Sheila Swaroop (06:09)

Yeah, that's a great question, Jon. And we do get that a lot when there's, for example, widespread counterfeiting or dupes of products being made overseas and brought into the U.S. So in that situation, the ITC does allow for a company to name multiple defendants, or they're called respondents in an ITC investigation, if the same intellectual property rights are at issue. And so one of the remedies that the ITC offers is something called a general exclusion order which is essentially an import ban against infringing products that applies to the products regardless of source. And so the requirements for a general exclusion order are, there's a little, few more additional requirements beyond a targeted exclusion order that's focused on a particular company for. So for a general exclusion order, you need to show a widespread pattern of unauthorized use and that a general exclusion order is necessary to kind of prevent a circumvention of the exclusion

order. So again, that's typically in the context where there's widespread copying knockoff type products.

So, Jon, when we were talking about the ITC, you know, we talked about the fact that, you know, this import ban, this injunctive-type relief is available, but monetary damages are not. And so, one question again, we get a lot from clients and potential clients is, "If I can't recover monetary damages at the ITC, why is the ITC an appropriate forum to seek relief and to assert intellectual property rights?"

Jon Bachand (07:40)

Sure, and typically in most patent cases you would also file a district court suit around the same time that typically is stayed where you could get monetary damages from that district court suit. But why go to the ITC at all? Why not just go to the district court? And I think there's two big reasons. First, speed. ITC cases are designed to be conducted very quickly with a statute requiring a target date and the ITC generally moving quickly from institution to the final determination. The second, as we discussed before, it's the type of relief you can get. You can get an order that blocks importation of that product. So, all infringing articles are blocked and that can be a real commercial game changer for a company who wants to enforce their IP.

Sheila Swaroop (08:24)

But Jon, injunctions are also available in district court, right? That's a remedy for patent infringement. So, you know, why is it helpful to get an exclusion order from the ITC if you can simply go to district court to get an injunction?

Jon Bachand (08:40)

Sure, so an exclusion order at the International Trade Commission is a statutory remedy. If you prove you're entitled to the remedy, you can get it unless there are compelling public interest reasons for it not to issue. An injunction at the district court has to really weigh a lot of equitable considerations and include other factors, for example, can monetary damages compensate the IP holder? And in certain circumstances, it's been much more difficult for IP holders to get injunctions at the district court, especially preliminary injunctions. So, you have to go through the full case, which could take two and a half, three years or even longer. And at the end of all of that, you might not end up with the injunction at all. So, if you're really looking to get a competitor off the market and they are importing the good, the ITC gives you a better chance of success compared to a district court action.

Sheila Swaroop (09:34)

Jon, one thing we always hear from clients is that they have heard that ITC investigations move very, very fast. So, when we say they move fast, what are we talking about here?

Jon Bachand (09:46)

So, the ITC tries to resolve the investigations as quickly as possible and how fast they move can depend on the commission, how busy the commission is, but it's typically you'll have a hearing within a year of filing of the complaint, which compared to the district court where it could be easily two and a half years before you have a trial is very quick. And then you'll have a final decision from the commission between 15, 19 months from the filing of the complaint.

Okay, so here's the next question, that I think will lead to a lot of additional questions, Sheila. What's the domestic industry requirement?

Sheila Swaroop (10:19)

Well, Jon, you know, you and I love talking about domestic industry. So, the domestic industry is a requirement that is unique to the ITC. And it's a threshold requirement that sets it apart from other forums for adjudicating intellectual property rights. And so at the ITC, in order to get relief, to get the exclusion order or the cease-and-desist order, the IP rights owner needs to show that there's a domestic industry and particularly for patent-based cases, needs to show a domestic industry related to articles protected by the patent and the patent would need to show that the domestic industry either exists or it's in the process of being established. And the reason for this requirement is that the ITC is a trade forum and is doing this investigation again to protect domestic industry from unfair acts of importation. And so, want to make sure that there is a domestic industry here in the U.S. in order for those remedies to be in place.

Jon Bachand (11:21)

How do you show a domestic industry exists or is in the process of being established?

Sheila Swaroop (11:25)

Sure, so there's typically kind of two requirements to establishing a domestic industry. And you'll hear practitioners and the ALJs often talk about a technical prong and an economic prong to domestic industry. So for the technical prong, there needs to be a showing that the IP owner has—actually practices the IP being asserted. And so, often, for example, in a patent case, you need to show that the patent that you have is actually being practiced in the United States either by yourself or by an authorized licensee. So that's the technical prong. The second aspect is the economic prong in which the IP rights owner needs to show significant or substantial investment in the U.S. And that can be shown in a number of different ways, there's kind of three prongs to the statute. You can show significant investment in plant and equipment, significant employment of labor or capital, or substantial investment and exploitation of the patent, including engineering, research and development, or license.

Jon Bachand (12:30)

Okay, so you mentioned significant investment in plant and equipment first. Second, you mentioned significant employment of labor or capital. Then you mentioned substantial investment in exploitation. Do you need all three or can just one satisfy the economic?

Sheila Swaroop (12:46)

Yeah, any one of those prongs can satisfy the economic prong of domestic industry.

Jon Bachand (12:51)

So, if the ITC is to protect the domestic industry, can you end up being named as a respondent in a complaint if you're an American business?

Sheila Swaroop (13:00)

Yeah, that's a question that we do get a lot. And the answer is yes. Even if you're a U.S. business, if you are importing products into the United States, that act of importation is what gives rise to an ITC complaint. So certainly a U.S. company can be named at the ITC if they are importing products into the United States.

Jon Bachand (13:23)

Okay, sort of a similar question, because of the domestic industry requirement, is the ITC something only American businesses can use to file a complaint in?

Sheila Swaroop (13:33)

Another question that we get a lot, and the answer is no. The ITC is not limited to U.S. businesses. Companies that have U.S. intellectual property rights and can meet the domestic industry requirement by showing the necessary levels of investment in the United States can seek relief at the ITC. And we have seen that a number of times, of non-U.S. companies with U.S. intellectual property rights and bringing claims at the ITC. Yes.

Jon Bachand (14:02)

Sometimes you end up in situations where the IP right holder is a foreign company and the named respondent is an American company. So it kind of turns things on its head, but certainly those foreign companies still need to show the domestic industry. Now, do you have to manufacture the domestic industry product in the United States to meet the domestic industry requirements?

Sheila Swaroop (14:23)

The answer is no, there's no requirement for U.S. manufacturing. And you know, as we went through, there are a number of different types of investments and activities that can qualify for

domestic industry. So manufacturing is one of them, but that's not a requirement to be able to make the domestic industry shown.

Jon Bachand (14:40)

That is probably a good segue into a big case that came out a little more than a year ago that changed domestic industry at the ITC. Sheila, let's talk *Lashify*.

Sheila Swaroop (14:50)

Okay, and before we talk *Lashify*, as a reminder to our listeners, my name is Sheila Swaroop and I'm joined by Jon Bachand. And today we are talking about Section 337 Investigations at the ITC.

So, let's get talking about *Lashify*. And if there's one person in the world who I know loves talking about fake eyelashes, it is you, Jon Bachand. So, Jon, tell us: How did *Lashify* expand domestic industry for U.S. intellectual property owners?

Jon Bachand (15:21)

Thank you Sheila, I do really enjoy fake eyelashes. So, in *Lashify*, the Federal Circuit rejected the ITC's long standing approach that categorically discounted certain post-manufacturing activities like sales, marketing, warehousing, quality control and distribution as insufficient on their own to satisfy the economic prong under section 337.

In *Lashify*, the Federal Circuit read the statutory text and said, look, if there's significant employment of labor or capital in the U.S. with respect to the protected articles, you can meet the requirement, but the statute does not limit the types of labor or capital that do qualify. So the court explicitly stated there's no carve out for sales, marketing, warehousing, quality control, or distribution, and no requirement that those uses must be accompanied by significant employment for other functions like manufacturing. So before *Lashify*, the ITC typically refused to consider any expenditures by a company, even if they were in the United States, if it was the type of expenditure that would be made by what they would call a mere importer. So, you know, even if you're importing something from overseas, you might still have to do some warehousing. You might still have to do some marketing. And the ITC previous to *Lashify* said, we're not gonna count that. After *Lashify*, they have to count it.

Sheila Swaroop (16:46)

Great. And so I think you've sort of touched on this, but how does *Lashify* impact the availability of the ITC for U.S. intellectual property rights owners?

Jon Bachand (16:56)

The *Lashify* decision really opens the door to a lot of modern businesses who may design, market, warehouse, and distribute products in the United States, but they manufacture abroad. *Lashify* suggests those companies may now be able to qualify if their labor capital showing in the United States is significant in a holistic sense, where before it was very unlikely somebody who was just using those activities to try to qualify would meet the economic prong requirement. So now meeting the economic prong requirement is very abstract.

Let's talk some dollars and cents, Sheila. So, a question we get a lot from clients or different people who are thinking about the ITC as an option is, how much investment is significant or substantial? Is there a threshold dollar amount? Is it \$1 million, \$2 million, \$5 million, \$10 million, \$20 million, Sheila? How much is enough?

Sheila Swaroop (17:50)

Yeah, that is a great question. And the ITC really does analyze domestic industry on a case-by-case basis. And it's very industry-specific. They look at both the qualitative and quantitative significance of the investments that are being put forward for the domestic industry showing. So, for example, an investment of a million dollars by a small startup might be considered to be significant or substantial, but that same amount may not meet the standard if it's a much larger company that's seeking to make the showing and the *Wuhan* case from the Federal Circuit talked about that a little bit. There is not a lot of public data in terms of the actual dollar numbers about what the ITC has ruled in the past to be significant or substantial. And so really it is a qualitative and quantitative analysis that the ITC does.

Jon Bachand (18:39)

What do you recommend companies do if they find themselves the subject of an ITC complaint?

Sheila Swaroop (18:45)

That's a great question. And the interesting thing with ITC cases is that when they're initially filed, there's typically a 30-day waiting period before the investigation is instituted by the ITC. And so, during that time, it's important to gear up and for respondents to get ready for an ITC complaint. Once the investigation is instituted, there is an obligation to respond. And so, if there is no response, the commission could enter a default judgment and there would then be enforcement of the remedies, like such as an exclusion order, through Customs. So, it is important to gear up for responding to an ITC investigation and be ready to defend yourself as a company. So, there's ways to defend by raising defenses in the ITC investigation. There's a possibility to think about whether there's a way to redesign your product to avoid the IP at issue and to be able to continue to import maybe a redesigned product.

The other thing is many ITC cases often involved a parallel district court action and companies are entitled by statute to a pause of the district court action while the ITC case is pending. So it's important to think about that too and consider that option.

Jon Bachand (19:58)

And what are the typical defenses you see for patent cases at the commission?

Sheila Swaroop (20:02)

Sure. So, all of the typical patent defenses that you would see in district court, so non-infringement, invalidity, unenforceability. And we've also talked about domestic industry as a unique requirement at the ITC. So certainly, challenging domestic industry, whether it be a challenge to the patentee's ability to satisfy the technical prong or the economic prong is also a potential defense here at the ITC.

And so, Jon, we talked about some other proceedings. There can be district court cases, office proceedings, in addition to ITC proceedings. What effect does an ITC case have on other parallel proceedings?

Jon Bachand (20:43)

Thanks, Sheila. And that question really depends on the type of IP being asserted. So the Federal Circuit has previously stated, based on some very clear legislative history, that there's no preclusive effect for parties in a patent case. So, if at the ITC you're a patent holder, you bring suit at the ITC, and your patent is found to be invalid, so they're not going to put the exclusion order into place, that doesn't mean your patent is considered invalid for a parallel district court proceeding. If you're found to infringe in front of the ITC, it doesn't automatically mean you are bound by that in the district court action, no preclusive effects. But some courts have indicated the same is not true in other IP cases. So, if you're a trade secret case, or a trademark case, there might be preclusive effects in those instances. So you have to be very careful about what arguments you're making at the ITC. Also, typically the district court will request the record from the ITC and it can be used in the district court proceedings, since a lot of discovery has already taken place.

Sheila Swaroop (21:54)

Jon, as we get close to wrapping up, I've heard there's been a recent rule about disclosure of interested parties at the ITC. Can you update us on that?

Jon Bachand (22:04)

Sure, so the big one that we saw recently was on April 30th. The ITC published a notice of proposed rulemaking that would require parties to disclose all corporate owners and any person or

entity, not including counsel, representing the party in the investigation that provides funding specifically for the Section 337 investigation or whose approval is necessary for litigation decisions or settlement decisions in the investigation, and state the nature of the terms and conditions relating to that approval.

Sheila Swaroop (22:37)

Jon, thanks for that update on the recent rule change. We'll continue to monitor those developments and hope to be back soon with another podcast. Thanks for listening.

Voiceover (22:52)

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