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Note

Blocking Blocks at the Border: Examining Standard-Essential Patent Litigation Between Domestic Companies at the ITC

*Matthew Norris**

The United States International Trade Commission (ITC) was created to protect domestic industry and American workers from illegal foreign trade practices.[1] Yet today, the ITC has become a hotbed of patent litigation, and consumer access to iPads, Xboxes, and other popular electronics produced by American companies like Apple and Microsoft hangs in the balance simply because these products incorporate required technologies.[2] Increasingly, domestic companies have forced the ITC to resolve cases that are contrary to its intended purpose by seeking relief for standard-essential patent infringement. Instead, these cases should be tried in federal court which is

* J.D. Candidate, 2014, University of Minnesota. Thanks to Professor Tom Cotter for his advice and guidance in writing this Note. Thanks also to Sen. Amy Klobuchar for the opportunity to clerk for the Senate Judiciary Committee, where I first encountered this topic, and to Craig Kalkut and Sammy Clark for being tremendous mentors throughout the summer. I also appreciate the tireless work of my colleagues at the *Minnesota Law Review* who helped whip this Note into shape. Finally, a big thanks to Section A of the Class of 2014, with whom I entered this crazy world called law school and with whom I will leave having gained so many good friends. Copyright © 2013 by Matthew Norris.

1. *See* Sapna Kumar, *The Other Patent Agency: Congressional Regulation of the ITC*, 61 FLA. L. REV. 529, 540 (2009) ("Congress created the ITC to gain protectionist support for trade reform.").

2. *See* Paul M. Bartkowski & Evan H. Langdon, *Standard-Essential Patents: An Increasingly Contentious Issue at the U.S. International Trade Commission*, CONTEMP. LEGAL NOTES, July 2012, at 1, 2 ("[T]he ITC often deals with high-tech consumer electronics subject to standards."); John Ribeiro, *ITC Clears Apple of Infringement of Three Motorola Patents, Holds Decision on Fourth*, PC WORLD (Aug. 26, 2012, 11:50 PM), http://www.pcworld.com/article/261464/itc_clears_apple_of_infringement_of_three_motorola_patents_holds_decision_on_fourth.html (reporting that exclusion orders for iPhones and Xboxes are pending before the ITC).

better suited to resolving these unique intellectual property disputes.[3]

A Microsoft Windows mobile phone, for instance, that could only talk to other Windows phones would be largely useless. To solve this problem and allow products from different companies to work together, standards setting organizations (SSOs) agree to certain technical standards, such as 3G which allows wireless phones to transmit and receive data.[4] Frequently, one or more companies have already developed the technology needed for the standard and own the patent.[5] In exchange for having its technology adopted as the standard, the patent owner agrees to license this technology to other companies, including direct competitors, on reasonable and non-discriminatory (RAND) terms.[6] These patents become known as standard-essential patents (SEPs).[7] However, this arrangement can lead to patent hold-ups when the SEP owner demands higher than market rates for using the patent despite its commitment to license on RAND terms.[8] As a result, some competitors will use the SEP without a license, leading to patent disputes.[9]

While patent disputes have traditionally been litigated in federal court, makers of high-tech consumer electronics are turning to the ITC with increasing frequency to resolve SEP

3. *See Oversight of the Impact on Competition of Exclusion Orders to Enforce Standard-Essential Patents: Hearing Before the S. Comm. on the Judiciary*, 112th Cong. 84 (2012) [hereinafter *Exclusion Orders*] (prepared statement of Edith Ramirez, Comm'r, Fed. Trade Comm'n) (arguing that federal district courts have the tools to address this issue).

4. 2 STEVEN Z. SZCZEPANSKI, ECKSTROM'S LICENSING IN FOREIGN AND DOMESTIC OPERATIONS § 8E:32 (updated by David M. Epstein, 2013).

5. *See* 5 ROBERT A. MATHEWS, ANNOTATED PATENT DIGEST § 34:53.50 (2012).

6. 2 SZCZEPANSKI, *supra* note 4, § 8E:32. It is customary for SSOs in the United States to use RAND terms while SSOs in other countries or regions frequently use fair, reasonable, and non-discriminatory terms or FRAND. *See Exclusion Orders*, *supra* note 3, at 96 (prepared statement of Joseph F. Wayland, Acting Assistant Att'y Gen., U.S. Dep't of Justice). The two terminologies are interchangeable, but since the focus of this Note is on domestic industry, RAND will be used throughout for the sake of consistency.

7. Press Release, Fed. Trade Comm'n, FTC Testimony Expresses Concern that Owners of "Standard-Essential" Patents May Obtain Injunctions Enabling Them to Hold Up Other Firms (July 11, 2012), *available at* http://ftc.gov/opa/2012/07/septestimony.shtm.

8. Daryl Lim, *Misconduct in Standard Setting: The Case for Patent Misuse*, 51 IDEA 559, 559 (2011).

9. Press Release, Fed. Trade Comm'n, *supra* note 7.

disputes and gain an advantage over their competitors.[10] The ITC was originally developed in the protectionist era of the 1920s and 1930s to shield domestic industry from unlawful foreign trade practices, not to enforce intellectual property rights.[11] Today, the ITC offers several features that make it attractive to patent litigants such as quick decisions (investigations are usually completed within 12–16 months) and administrative law judges that are experienced in patent cases.[12] The critical distinction between the ITC and federal court, though, is the ITC can only issue exclusion orders, which stop infringing products at the U.S. border, whereas federal courts can provide monetary damages in addition to injunctions.[13] This threat of an exclusion order can provide the SEP holder with significant leverage and increase the risk of hold-ups for SEPs. Leveraging the threat of exclusion orders in standard-essential patent disputes has also drawn the ire of both the FTC[14] and Department of Justice.[15] The ability to seek exclusionary relief at the ITC in these types of cases could have a detrimental effect on competition and consumer welfare, especially since it could compromise the standard-setting system that is critical to encouraging innovation.[16] In addition, these SEP cases are unique because they involve contractual obligations, and the ITC has rejected the availability of several affirmative defenses that are often applicable in federal court in contract disputes.[17]

Several high-profile ITC investigations in recent years have involved one American company seeking an exclusion order against one or more American companies for infringing

10. Bartkowski & Langdon, *supra* note 2 at 1, 2.

11. *See* Louis S. Mastriani & Beau A. Jackson, *Section 337 Investigations Before the U.S. International Trade Commission: The Evolving Domestic Industry Requirement and Its Implications for Global Intellectual Property Litigation*, 17 INT'L TRADE L. & REG. 52, 53 (2011).

12. IAN FEINBERG & GARY M. HNATH, FUNDAMENTALS OF PATENT LITIGATION 2012, at 6–7 (Practising Law Inst. ed., 2012).

13. Kumar, *supra* note 1, at 537.

14. *See Exclusion Orders*, *supra* note 3, at 78 (prepared statement of Edith Ramirez, Comm'r, Fed. Trade Comm'n).

15. *See Exclusion Orders*, *supra* note 3, at 95-96 (prepared statement of Joseph F. Wayland, Acting Assistant Att'y Gen., U.S. Dep't of Justice).

16. Bartkowski & Langdon, *supra* note 2, at 1.

17. *Cf. id.* at 3 (stating that in considering these defenses, "the Commission has indicated that the fact that an asserted patent is subject to a []RAND obligation does not preclude a finding that a respondent has violated section 337 with respect to that patent").

SEPs.[18] This Note examines why the ITC is an inappropriate forum for these complex battles and the resulting harm to American consumers and industry. Part I of this Note provides background on SEPs and discusses the ITC's history and purpose. Part II analyzes whether the ITC was intended to handle domestic patent disputes and whether it is equipped to do so. Part III argues that Congress should prohibit domestic companies from seeking exclusion orders for SEPs against fellow American companies at the ITC. Specifically, this Note contends the ITC was established to protect domestic industry, and that interest cannot be served when one American company seeks an SEP exclusion order against another American company. Rather, the federal court system is better equipped to conduct the careful balancing required in these cases to protect intellectual property rights and American consumers for maximum benefit to the U.S. economy.

I. STANDARD-ESSENTIAL PATENTS AND THE INTERNATIONAL TRADE COMMISSION

This Part introduces standard-essential patents and provides background on the International Trade Commission. Section A outlines the many benefits of SEPs both for businesses and consumers. It also explains how these patents can harm the market through hold-ups and the steps SSOs take to reduce this risk. Section B provides a summary of the ITC and its relevant statutes. It also gives a brief history of the Commission and explains why it is increasingly attractive to patent litigants.

A. STANDARDS AND STANDARD-ESSENTIAL PATENTS

Industry-wide standards are not a new concept.[19] In 1866, railroads adopted standard gauge rails throughout the United States to eliminate incompatibility between different rail networks and facilitate westward expansion.[20] Standards have

18. *See, e.g.*, *ITC: Microsoft Xbox Doesn't Violate Motorola Mobility Patent*, CHICAGO TRIBUNE, May 23, 2013, http://articles.chicagotribune.com/2013-05-23/business/chi-microsoft-motorola-mobility-antitrust-20130523_1_motorola-mobility-itc-judge-david-shaw-standard-essential-patents (detailing Motorola's battle to ban Microsoft's Xbox video gaming system); Ribeiro, *supra* note 2 (highlighting ITC investigations between Motorola and Apple and Motorola and Microsoft).

19. *See Exclusion Orders*, *supra* note 3, at 95 (prepared statement of Joseph F. Wayland, Acting Assistant Att'y Gen., U.S. Dep't of Justice).

20. *Id*.

become more prevalent as technology markets have grown over the decades.[21] In fact, it is not uncommon for today's technologically advanced products to require thousands of patented inventions that must work together.[22]

These industry-wide standards offer many benefits to companies and consumers. For one, they allow products from different companies to work together which increases the chance of market success.[23] "[T]hey facilitate the adoption and advancement of technology as well as the development of products that can interoperate with one another."[24] Standards can "create enormous value for consumers by increasing competition, innovation, product quality and choice."[25] These advantages often result in lower costs for consumers.[26] These cost savings are realized in two primary ways. First, standards can increase manufacturing volume which lowers cost through economies of scale.[27] Second, standards "increase price competition by eliminating 'switching costs' for consumers who desire to switch from products manufactured by one firm to those manufactured by another."[28] However, the benefits for consumers do not stop at cost. Standards also can help protect public health and safety and promote efficient resource allocation.[29]

The downside of industry-wide standards is they create "essential patents."[30] Once manufacturers have started selling products based on the standard, "switching to a [non-standardized] design can be extremely costly and commercially

21. *See* Lim, *supra* note 8, at 564 ("As high-technology markets proliferate, the importance of interoperability standards that permit products from different vendors to work together continues to grow.").

22. Press Release, Fed. Trade Comm'n, *supra* note 7.

23. *See* 2 SZCZEPANSKI, *supra* note 4, § 8E:32 .

24. Research in Motion, Ltd. v. Motorola, Inc., 644 F. Supp. 2d 788, 790 (N.D. Tex. 2008).

25. Certain Gaming & Entm't Consoles, Related Software, & Components Thereof, Inv. No. 337-TA-752, at 2 (June 6, 2012) (Third Party United States Federal Trade Commission's Statement on the Public Interest), *available at* http://www.ftc.gov/os/2012/06/1206ftcgamingconsole.pdf.

26. *See Research in Motion*, 644 F. Supp. 2d at 790 (explaining that standards lower cost by increasing product manufacturing volume and increasing price competition).

27. *Id*.

28. *Id*.

29. *See Exclusion Orders*, *supra* note 3, at 4 (statement of Joseph F. Wayland, Acting Assistant Att'y Gen., U.S. Dep't of Justice).

30. *Research in Motion*, 644 F. Supp. 2d at 791.

infeasible."[31] As more and more products adopt the standard, the cost of switching to an alternative technology increases,[32] and companies essentially become locked in to using the standardized technology.[33] When this occurs, royalty rates to use the SEP become based not on the patent's true market value but on the costs and delays of switching.[34] Therefore, once competitors are locked in, the SEP owner can "hold up" an entire industry by demanding extremely high prices for the license to use the standardized technology.[35] This hurts consumers by delaying the incorporation of standards into products and passing higher royalties through to customers by increasing the prices.[36]

To reduce this risk, SSOs adopt policies to control the licensing of SEPs.[37] Some SSOs "require members to reveal any patents or patent applications that relate to the standard."[38] There can even be penalties for non-disclosure.[39] Other SSOs "require members to commit to license their patented technologies on reasonable and nondiscriminatory terms."[40]

B. THE INTERNATIONAL TRADE COMMISSION

The U.S. International Trade Commission is an "independent, quasijudicial Federal agency with broad investigative responsibilities on matters of trade."[41] The ITC's mission is three-fold: "(1) administer U.S. trade remedy laws within its mandate in a fair and objective manner; (2) provide the President, [U.S. Trade Representative], and Congress with independent analysis, information, and support on matters of tariffs, international trade, and U.S. competitiveness; and (3) maintain the Harmonized Tariff Schedule of the United States

31. Lim, *supra* note 8, at 562 (quoting Mark A. Lemley & Carl Shapiro, *Patent Holdup and Royalty Stacking*, 85 TEX. L. REV. 1991, 2016 (2007)).

32. 2 SZCZEPANSKI, *supra* note 4, § 8E:32.

33. *Id*.

34. *Exclusion Orders*, *supra* note 3, at 6 (statement of Edith Ramirez, Comm'r, Fed. Trade Comm'n).

35. *See id*. at 6–7.

36. *See id.* at 7.

37. *See* Research in Motion, Ltd. v. Motorola, Inc., 644 F. Supp. 2d 788, 791 (N.D. Tex. 2008).

38. 2 SZCZEPANSKI, *supra* note 4, § 8E:32.

39. Lim, *supra* note 8, at 567.

40. 2 SZCZEPANSKI, *supra* note 4, § 8E:32 .

41. *About the USITC*, U.S. INT'L TRADE COMMISSION, http://www.usitc.gov/press_room/about_usitc.htm (last visited Nov. 2, 2013).

(HTS)."[42] It is headed by six commissioners appointed by the President and confirmed by the Senate.[43] The ITC's main statutory authority for the purposes of this Note originates in Section 337 of the Tariff Act of 1930 which "makes it unlawful, among other unfair acts, to import any article that infringes a patent, trade mark or copyright that is valid and enforceable in the United States."[44] In addition to Section 337 investigations, the ITC investigates anti-dumping and illegal subsidy claims, administers the tariff system, and performs industry and macroeconomic analyses.[45] Frequent litigants at the ITC include prominent multinational corporations such as Apple, Rolls-Royce, Microsoft, General Electric, Samsung, Pfizer, and Ford.[46]

Section 1337 gives the ITC jurisdiction over "[u]nfair methods of competition and unfair acts in the importation of articles" that "(i) . . . destroy or substantially injure an industry in the United States; (ii) . . . prevent the establishment of such an industry; or (iii) . . . restrain or monopolize trade and commerce in the United States."[47] In addition, Section 1337 bans the importation into the United States of any products that "infringe a valid and enforceable United States patent."[48]

1. The History of the ITC

Examining the ITC's history shows its formation and subsequent development resulted from protectionist sentiments in the first third of the 20th century.[49] Woodrow Wilson established the ITC's predecessor, the Tariff Commission, in 1916 as a regulatory agency to assist the President in trade-related decisions.[50] One of its roles was to "spot unfair trade practices and dumping, and conduct other, similar investigative functions."[51] Congress officially authorized the Commission's

42. *Id*.
43. Mastriani & Jackson, *supra* note 11, at 52.
44. *Id*.
45. *See id*. (explaining the authority of the ITC).
46. *Id*. at 53.
47. 19 U.S.C. § 1337(a)(1)(A) (2012).
48. *Id*.
49. *See* JOHN M. DOBSON, TWO CENTURIES OF TARIFFS: THE BACKGROUND AND EMERGENCE OF THE U.S. INTERNATIONAL TRADE COMMISSION 2 (1976).
50. WENDY L. HANSEN, REGULATORY THEORY AND ITS APPLICATION TO TRADE POLICY: A STUDY OF ITC DECISION-MAKING 1975–1985, at 3 (1990).
51. DOBSON, *supra* note 49, at 87.

creation in the Revenue Act of 1916.[52] Then in 1922, the Fordney-McCumber Tariff Act gave the Commission a more advanced role in investigating unfair trade practices.[53] The emphasis on protecting U.S. industry was paramount.[54] "The act defined as unfair any practice, the effect or tendency of which was to destroy or substantially injure a U.S. industry . . . ."[55] The Smoot-Hawley Act of 1934 reorganized the Tariff Commission and established more specific powers and detailed procedures for its unfair trade practice investigations.[56] Section 337 and the Commission's related responsibilities were first outlined in this Act.[57]

In the Trade Act of 1974, the Tariff Commission was renamed the International Trade Commission.[58] The Act added additional procedural requirements to conform with the standards of the Administrative Procedure Act, and it enlarged the Commission's responsibility for areas of relief under section 337.[59] Most importantly, it empowered the ITC to grant exclusion orders[60] on its own, a power previously limited to the President upon receiving a recommendation from the Commission.[61] Since 1974, there have been over 850 Section 337 investigations at the ITC.[62] While the ITC has traditionally handled other trade issues, like antidumping claims,[63] rather than intellectual property disputes, ninety-four percent of all Section 337 investigations in recent years have involved patent infringement.[64] Potential reasons for this will be discussed below.[65]

52. Taras M. Czebiniak, *When Congress Gives Two Hats, Which Do You Wear? Choosing Between Domestic Industry Protection and IP Enforcement in § 337 Investigations*, 26 BERKELEY TECH. L.J. 93, 99 (2011).

53. *See* 62 CONG. REC. 12,490 (1922) (statement of the Managers on the part of the House); DOBSON, *supra* note 49, at 94; HANSEN, *supra* note 50, at 3.

54. *See* DOBSON, *supra* note 49, at 94.

55. *Id*.

56. *See id*. at 34.

57. *Id*. at 102–03.

58. HANSEN, *supra* note 50, at 9.

59. DOBSON, *supra* note 49, at 129.

60. *See infra* Part I.B.2 for a description of exclusion orders.

61. DOBSON, *supra* note 49, at 129–30.

62. MARCIA H. SUNDEEN ET AL., UNFAIR COMPETITION AND THE ITC: A TREATISE ON SECTION 337 ACTIONS § 1:10 (2012).

63. *See* Joe Mullin, *ITC Annual Survey: A Gatekeeper's Power Persists*, CORP. COUNS., May 1, 2009, at 1.

64. Kumar, *supra* note 1, at 532.

65. *See infra* Part I.B.3.

2. Procedure and Remedies at the ITC

To litigate at the ITC, a claimant is first required to demonstrate the existence of an industry in the United States related to the matter before the Commission.[66] However, the Omnibus Trade and Competitiveness Act of 1988,[67] the *Coaxial Cable Connectors* ITC decision,[68] and the Federal Circuit's decision in *InterDigital Communications v. International Trade Commission*[69] have eased this domestic industry requirement in recent years.[70] In addition to establishing the existence of a domestic industry, the claimant must also establish importation and infringement of the asserted intellectual property right.[71] If the ITC decides the action has merit, it opens an investigation.[72]

Once an investigation is opened, the ITC refers it to one of six administrative law judges (ALJs) for an evidentiary hearing.[73] There is a short period of discovery—often less than five months—and then a hearing, typically only six or seven months after the ITC opens the investigation.[74] The ALJ then issues an Initial Determination, which is automatically considered by the six-member Commission.[75] The Commission has the option to decline review (in which case the Initial Determination becomes final), review and adopt the Initial

66. *See* Kumar, *supra* note 1, at 534 (stating that a claimant "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'" and that the ITC divides this requirement into a technical prong and an economic prong, of which the claimant must prove at least one)(quoting § 19 U.S.C. 1337(a)(2)).

67. 19 U.S.C. § 1337(a)(3) (2012); *see* Czebiniak, *supra* note 52, at 110–11 (explaining that the Act eliminated the requirement that the domestic industry be "efficiently and economically operat[ed]" and expanded the definition of "substantial investment").

68. Certain Coaxial Cable Connectors & Components Thereof & Prods. Containing Same, Inv. No. 337-TA-650, USITC Pub. 4283 (Nov. 2011) (Final).

69. 690 F.3d 1318, 1329 (Fed. Cir. 2012) (stating that licensing activities can fulfill the domestic industry requirement).

70. Czebiniak, *supra* note 52, at 105, 114; *see* Certain Coaxial Cable Connectors & Components Thereof & Prods. Containing Same, Inv. No. 337-TA-650, USITC Pub. 4283, 44 (Nov. 2011) (Final) (holding that litigation costs related to licensing the patent at issue may satisfy the domestic industry requirement).

71. Tom M. Schaumberg et al., *Advantages of a Section 337 Investigation at the U.S. International Trade Commission*, IP LITIGATOR, May–June 2006, at 24.

72. Kumar, *supra* note 1, at 536.

73. *Id*.

74. *Id*.

75. *Id.*

Determination, modify it, or reverse it.[76] Once the Commission rules, any order goes into effect after sixty days.[77] The President can disapprove and reverse it on policy grounds,[78] although this is very rare.[79]

If the ITC determines a violation has occurred, it has only one remedy—issuing an exclusion order directing U.S. Customs officials to stop infringing products at the border.[80] There are two types of exclusion orders. The more common is a limited exclusion order, which "prevents entry of a particular company's goods."[81] General exclusion orders "prohibit[] importation of all infringing goods, including those of third-parties."[82] To obtain a general exclusion order, the complainant must show (1) it is necessary to prevent circumvention of a limited exclusion order and (2) there is a pattern of violation or difficulty in identifying the infringing products' source.[83] Cease-and-desist orders can also be issued in limited circumstances to "prevent the sale of 'commercially significant' domestic inventories of infringing goods."[84]

A party litigating before the ITC can also simultaneously litigate the same patent infringement dispute in federal court, creating the possibility of inconsistent rulings if the ITC and the court disagree on whether the infringement occurred or on the appropriate remedy,[85] a problem that is exacerbated by the fact that ITC decisions are not accorded collateral estoppel effect.[86] In fact, in almost ninety percent of ITC investigations

76. *Id*. at 537.

77. *Id*.

78. 19 U.S.C. § 1337(j)(2) (2012).

79. *See* Kumar, *supra* note 1, at 537 n.43 (explaining that ITC decisions have only been overturned five times and not since the mid-1980s). *But see* Brian X. Chen, *Obama Administration Overturns Ban on Apple Products*, N.Y. TIMES BITS BLOG (Aug. 3, 2013, 4:23 PM) http://bits.blogs.nytimes.com/2013/08/03/obama-administration-overturns-ban-on-apple-products/ (reporting the Obama administration's veto of an ITC exclusion order, the first time an exclusion order has been vetoed since 1987).

80. Kumar, *supra* note 1, at 565.

81. Gary M. Hnath, *Section 337 Investigations*, *in* FUNDAMENTALS OF PATENT LITIGATION 2012, at 259, 263 (Ian Feinberg & Gary M. Hnath eds., 2012).

82. *Id*.

83. *Id*.

84. Kumar, *supra* note 1, at 538.

85. *See id*. at 538–39.

86. *See id.* at 540.

there are also related cases brought in federal district court.[87] Of twenty-two parallel cases from 1972 to 2006, nine resulted in conflicting decisions.[88]

3. Increasing Attractiveness of the ITC

The ITC is an increasingly attractive venue for companies. For instance, in 2003, 18 Section 337 complaints were filed.[89] That number increased to 36 in 2009 and up to 70 in 2011.[90] In fact, caseload at the ITC has increased five-fold over the past 15 years.[91] Part of the increase is attributable to the 1988 amendments to the ITC statute and recent decisions that broadened the definition of domestic industry.[92] While the ITC hears a variety of cases,[93] standard-essential patent claims from high-tech consumer electronics and electronic device companies are among the most frequent cases.[94] In a review of ITC cases, seventy-five percent of section 337 investigations and eighty percent of the most recent investigations involve electronic and computer-related industries.[95] These cases are particularly prevalent because "most products containing these technologies are manufactured abroad and imported into the United States."[96]

Several features of the ITC's statutory provisions and procedures make it attractive to patent litigants. First, the ITC

87. Christopher A. Cotropia, *Strength of the International Trade Commission as a Patent Venue*, 20 TEX. INTELL. PROP. L.J. 1, 24 (2011).

88. Kumar, *supra* note 1, at 539.

89. Hnath, *supra* note 81, at 265.

90. *Id*.; *see also* U.S. INT'L TRADE COMM'N, FY 2011 AT A GLANCE: OPERATION 2: INTELLECTUAL PROPERTY IMPORT INVESTIGATIONS (2011), *available at* http://www.usitc.gov/press_room/documents/YIR_OP4_final.pdf.

91. Colleen V. Chien, *Protecting Domestic Industries at the ITC*, 28 SANTA CLARA COMPUTER & HIGH TECH. L.J. 169, 171 (2011).

92. *See* SUNDEEN ET AL., *supra* note 62, at 14; Kumar, *supra* note 1, at 532; *see also supra* notes 67–70 and accompanying text.

93. *See* Joe Mullin, *International Trade Commission Survey 2010: Casting a Wider Net*, CORP. COUNSEL, June 18, 2010 (stating that companies that manufacture "quirky products" such as sandals, toys, and games used to, and occasionally still do, petition the ITC); Daniel D. Quick & Jonathan Redway, *Barring the Door: The International Trade Commission as a Means to Prevent Importation of Goods Utilizing Misappropriated Trade Secrets*, MICH. BUS. L.J., Spring 2012, at 39, 40 (describing examples of ITC cases dealing with industries other than consumer electronics).

94. *See* Bartkowski & Langdon, *supra* note 2, at 2; Mullin, *supra* note 93.

95. Cotropia, *supra* note 87, at 24.

96. *Id*. at 5.

issues its decisions quickly.[97] By statute, the ITC is required to "conclude any such investigation and make its determination . . . at the earliest practicable time after the date of publication of notice of such investigation."[98] A timeline of twelve to sixteen months from start to completion is typical.[99] That is about half the time of an average district court litigation.[100] Even traditional "rocket-docket" districts are being flooded with cases and experiencing slower case schedules, which makes the ITC even more attractive.[101] In addition to its speed, the ITC has in rem jurisdiction over the actual products, allowing it to reach foreign companies that are beyond the reach of federal courts.[102] Nationwide personal jurisdiction provides the ability to name all known companies importing infringing products in one proceeding and compel testimony from a third party anywhere in the United States.[103] Process is also easier to serve.[104] In fact, discovery can begin as soon as an investigation is instituted, so litigants do not have to wait for perfect service of foreign parties as in district court.[105] The ITC also provides for broad discovery with few limits on interrogatories, foreign discovery, or scope of discovery,[106] and respondents must produce requested information or default.[107] Another attractive feature is that the ALJs have extensive experience in patent cases[108] and the complex technologies involved.[109] However, the opportunity to obtain an exclusion order prohibiting an infringing competitor from even importing its products into the country is perhaps the ITC's most

97. *See* Hnath, *supra* note 81, at 264.

98. 19 U.S.C. § 1337(b)(1) (2012).

99. Hnath, *supra* note 81, at 264.

100. Mullin, *supra* note 63, at 1.

101. *See* Eileen McDermott, *The End of the Rocket Docket*, 212 MANAGING INTELL. PROP. 43, 45 (2011) (explaining that so called "rocket-dockets" like the Eastern District of Texas are backed up because they have attracted so many cases in recent years). *But see* Mark A. Lemley, *Where to File Your Patent Case*, 38 AIPLA Q.J. 401, 415–16 (2010) (arguing that "rocket dockets" still exist in some districts).

102. *See* Kumar, *supra* note 1, at 535; Mastriani & Jackson, *supra* note 11, at 53.

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

104. Hnath, *supra* note 81, at 264.

105. *See* Mastriani & Jackson, *supra* note 11, at 53.

106. Kumar, *supra* note 1, at 536.

107. Hnath, *supra* note 81, at 264.

108. *Id*. at 265; *see also* Kumar, *supra* note 1, at 536.

109. Barker & Brown, *supra* note 103, at 40.

appealing aspect for many litigants.[110] Preventing a competitor's product from reaching the market is especially valuable in the technology industry—the source of most SEP investigations at the ITC—because of the short product lifecycles.[111] As a result, the damage can be significant even if an exclusion order is overturned on appeal.[112] While the exclusion order has the benefit of preventing U.S. consumers from purchasing the competitor's product, it can also have an impact on global sales.[113] For instance, if the competitor's product is designed to be incorporated into an end product,[114] overseas buyers will not use the competitor's product if the end product could not be sold in the United States.[115]

For these reasons, American companies are turning to the ITC to litigate SEP disputes with other American companies.[116] As an example, since 2010, Motorola has been pursuing a high-profile case against Apple before the ITC over alleged SEP infringement, which could result in banning the importation of popular Apple products including iPhones, iPads, and Mac computers.[117] In another example, Motorola has pursued an

110. *See* Mastriani & Jackson, *supra* note 11, at 53 ("[T]he unique power of the Commission's remedies . . . is an important tactical asset for s.337 complainants.").

111. Ryan N. Herrington & Brendan P. Rogers, *Shock and Awe: The Increasing Popularity and Intrinsic Value of an ITC Investigation*, IP LITIGATOR, Jan./Feb. 2010, at 10.

112. *Id*. While exclusion orders are not enforced during appeal, customers—whether end consumers or other businesses looking to include the technology in their own products—will be hesitant to purchase or use a product facing an impending exclusion order because of the drastic consequences if the exclusion order is upheld.

113. *Id*.

114. As an example, if there is an ITC investigation regarding the technology used for a certain type of interactive programming guide and parental control technology for televisions, television or set-top box makers are unlikely to use that technology in their products to prevent their own products from being banned for incorporating the technology subject to exclusion order. *See* Eric Schweibenz & Thomas Yebernetsky, *ALJ Shaw Denies Motions in Certain Products Containing Interactive Program Guide and Parental Control Technology (337-TA-845)*, ITC 337 L. BLOG (Feb. 21, 2013), http://www.itcblog.com/20130221/alj-shaw-denies-motions-in-certain-products-containing-interactive-program-guide-and-parental-control-technology-337-ta-845/.

115. *Id*.

116. *See generally Exclusion Orders*, *supra* note 3, at 88-90 (prepared statement of Edith Ramirez, Comm'r, Fed. Trade Comm'n) (providing an overview of the use of the ITC in SEP cases and the FTC's concern over this practice).

117. *See* Complaint at 1–3, Certain Wireless Commc'n Devices, Portable Music & Data Processing Devices, Computers & Components Thereof, Inv. No.

ITC case against Microsoft alleging that the Xbox infringes on SEPs owned by Motorola, threatening the availability of the popular gaming console to American consumers.[118] In both cases, the Federal Trade Commission petitioned the ITC to not grant exclusion orders as it would be contrary to the public interest.[119] The complainants in SEP cases are not limited to only large public companies though. For instance, Linex Technologies, Inc., of Palm Beach Gardens, Florida, brought a case before the ITC alleging its SEPs, which limit fading of wireless internet signal strength in buildings, were being infringed by several domestic companies including Hewlett-Packard and Apple.[120] This case called into question the availability of every MacBook model and many HP products including PCs and servers.[121]

II. SUITABILITY OF THE ITC FOR DOMESTIC STANDARD-ESSENTIAL PATENT LITIGATION

This Part analyzes why the ITC is not an appropriate venue for SEP disputes between domestic companies. First, it examines the negative effects on competition and consumer welfare resulting from these cases. Next, it explains why domestic SEP litigation is contrary to the ITC's history and the statutory intent. This Part also examines whether federal courts have the tools needed to decide these cases and reach the

337-TA-740, USITC Pub. 2759 (Oct. 6, 2010) (outlining the background of the case and Motorola's claims); Ribeiro, *supra* note 2 (providing an update of the adjudication and highlighting the potential consequences).

118. *See* Complaint at 1, 6–7, Certain Gaming & Entm't Consoles, Related Software, & Components Thereof, Inv. No. 337-TA-749, USITC Pub. 2770 (Nov. 22, 2010).

119. *See* Certain Gaming & Entm't Consoles, Related Software, & Components Thereof, Inv. No. 337-TA-752 (Third Party United States Federal Trade Commission's Statement on the Public Interest), *available at* http://www.ftc.gov/os/2012/06/1206ftcgamingconsole.pdf.

120. *See* Complaint at 1, Certain Wireless Commc'n Devices & Sys., Components Thereof, & Prods. Containing Same, Inv. No. 337-TA-710, USITC Pub. 2802 (May 6, 2011); Susan Decker, *Apple, HP, Aruba Accused by Linex of Infringing Wi-Fi Patents*, BLOOMBERG (May 9, 2011, 1:46 PM), http://www.bloomberg.com/news/2011-05-09/apple-hp-aruba-accused-by-linex-of-infringing-wi-fi-patents.html; Alex Gasser, *Linex Files New 337 Complaint Regarding Certain Wireless Communication Devices and Systems*, ITC 337 L. BLOG (May 10, 2011, 1:30 PM), http://www.itcblog.com/20110510/linex-files-new-337-complaint-regarding-certain-wireless-communication-devices-and-systems/.

121. Steven Sande, *Apple Accused of Violating Patented Wi-Fi Antenna Designs*, TUAW (May 18, 2011, 2:00 PM), http://www.tuaw.com/2011/05/18/apple-accused-of-violating-patented-wi-fi-antenna-designs/.

outcome that maximizes benefits for American consumers and industry. Finally, this Part analyzes previously proposed solutions and explains why they are either too broad or are not guaranteed to remedy the situation.

A. DOMESTIC COMPANIES LITIGATING SEP DISPUTES AT THE ITC

Over the past decade, domestic companies have increasingly found themselves vulnerable to litigation at the ITC. For instance, the *Plastic Encapsulated Integrated Circuits* ruling extended jurisdiction over allegedly infringing imports by domestic companies.[122] After this decision, the ITC's jurisdiction even extends to U.S. manufacturers that simply offshore the assembly of products that are otherwise manufactured in the United States.[123] This means the ITC can issue exclusion orders against products that are nearly completely manufactured in the United States but are shipped abroad to apply "finishing touches" before being sold in the United States.[124] Furthermore, even if the product is manufactured in the United Sates, many domestic manufacturers include at least one imported component in their supply chain due to globalization.[125] This arrangement leaves these companies exposed to Section 337 investigations because these components can be subject to exclusion orders. While ITC jurisdiction traditionally extended primarily to products by foreign companies wholly manufactured in foreign countries and then imported into the United States, domestic respondents now appear in eighty seven percent of all ITC cases because of these expansions of the type of products that fall within the ITC's jurisdiction.[126]

As the number of domestic respondents at the ITC has grown, it is important to critically consider the ITC's suitability for SEP disputes between two domestic companies. One primary concern is that the ability to seek exclusionary relief at the ITC in these cases could jeopardize the standard-setting

122. SUNDEEN ET AL., *supra* note 62, at 13–14.

123. *See* Bryan A. Schwartz, *Beyond the Amendments: Federal and ITC Case Law Developments That May Determine the Long-Term Future of Section 337 Litigation*, 22 AIPLA Q.J. 491, 497–98 (1994).

124. *See id.*

125. Colleen V. Chien, *Patently Protectionist? An Empirical Analysis of Patent Cases at the International Trade Commission*, 50 WM. & MARY L. REV. 63, 89 (2008).

126. Kumar, *supra* note 1, at 575.

system, which would have negative effects on competition and consumer welfare by increasing switching costs.[127] Another reason the ITC may not be appropriate for these cases is that they involve contractual obligations between the parties due to the commitment to license SEPs on RAND terms. But, the ITC has rejected affirmative defenses of equitable estoppel, contract, implied license, and waiver that may be applicable in such contract disputes.[128] In fact, in an ITC investigation in 1987, the ITC "indicated that it was not the appropriate forum for patent litigation involving a contractual commitment to renegotiate an expired license in good faith."[129] This commitment is analogous to the commitment an SEP owner has to license the SEP to its competitors on RAND terms. Therefore, the ITC has admitted on its own accord that it is not the appropriate forum for domestic SEP disputes.

Recent federal court decisions asserting that the availability of injunctive relief is limited in domestic SEP cases further support the position that the ITC is not an appropriate forum for these disputes because exclusion orders are the ITC's only remedy. In *Apple, Inc. v. Motorola, Inc.*, Judge Richard Posner, sitting by designation, said standard-essential patent owners should not be entitled to injunctive relief unless the licensee refuses to pay a RAND royalty.[130] *eBay, Inc. v. MercExchange, LLC*, established a four-factor test for determining whether a patent owner is entitled to injunctive relief:

> A plaintiff 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.[131]

Judge Posner reasoned that by committing to license its SEP on RAND terms, the owner "implicitly acknowledge[s] that a royalty is adequate compensation for a license to use that patent."[132] Therefore, if Judge Posner's reasoning is accurate, an SEP plaintiff cannot meet the second part of the *eBay* test

127. Bartowski & Langdon, *supra* note 2, at 1.

128. *Cf. supra* note 17.

129. *Id.* at 8.

130. Apple, Inc. v. Motorola, Inc., 869 F. Supp. 2d 901, 913–14 (N.D. Ill. 2012).

131. eBay, Inc. v. MercExchange, LLC, 547 U.S. 388, 391 (2006).

132. *Apple*, 869 F. Supp. 2d at 914.

because the owner acknowledges monetary damages would not be inadequate by agreeing to license on RAND terms.[133] If injunctions are not an appropriate form of relief in these cases, then exclusion orders, which also prevent the sale of the infringing product, are not appropriate either. However, there is no other option at the ITC since the ITC cannot provide monetary damages.[134] The statutory regime governing the ITC, which mandates an exclusion order if a violation is found, overrides the common law principles of equity expressed in *eBay*.[135] The only conclusion is that these cases cannot be appropriately handled by the ITC.

B. DOMESTIC SEP DISPUTES ARE CONTRARY TO THE ITC'S PURPOSE

In addition to its inability to fashion remedies that are tailored to the unique features of domestic SEP cases, issuing exclusion orders in these cases is arguably contrary to the ITC's purpose. Congress established the ITC to protect domestic industry. The statutes governing the ITC reinforce this purpose and require the Commission to act for the benefit of American consumers. While the ITC does have one statutory provision that could arguably allow it some flexibility in deciding SEP cases to produce outcomes beneficial for American consumers and industry, it has rarely utilized this provision. As a result, the ITC cannot remain true to its history or statutory intent when deciding domestic SEP disputes.

1. The ITC's Protectionist History

The ITC's nearly century-long history reveals that its primary purpose has always been protecting domestic industry. Perhaps no one stated it as clearly as Rep. Lazaro who, when

133. *See id.* at 915 ("[]RAND royalty would provide all the relief to which a [plaintiff] would be entitled if it proved infringement . . . and thus it is not entitled to an injunction.").

134. *See* Hnath, *supra* note 81.

135. *See* Spansion, Inc. v. Int'l Trade Comm'n, 629 F.3d 1331, 1359 (Fed. Cir. 2010); Colleen V. Chien & Mark A. Lemley, *Patent Holdup, The ITC, and the Public Interest*, 98 CORNELL L. REV. 1, 14 (2012) (stating that the ITC has declined to follow *eBay* and that the Federal Circuit has approved of this approach). The Patent Act, which Article III courts apply when deciding these disputes, expressly retains the common law principles of equity expressed in *eBay*, while no such provision is included in the ITC statutes. Kumar, *supra* note 1, at 577. While the ITC says these factors are taken into account under the public interest factor of its statutory scheme, this has never prevented the ITC from issuing an exclusion order in nearly twenty-five years. *Id.*

addressing the creation of the Trade Commission in the 1922 Tariff Act, said on the House floor, "our duty as legislators is to look after the interests of America first."[136] His statement was followed by applause.[137] Statements like these have led scholars to conclude that "Congress created the ITC to gain protectionist support for trade reform."[138] In fact, even those who advocated for an apolitical Tariff Commission saw its purpose as protecting domestic industry.[139]

Since the Tariff Act of 1922, the Commission has been responsible for investigating unfair foreign trade practices against the United States.[140] The Commission's protectionist purpose is evident from the Tariff Act's language. The bill's title even identifies it as "[a]n Act . . . to encourage the industries of the United States."[141] This is a common aspect of the bills that created or granted authorization to the ITC—they all relate to protecting American industry.[142] The Tariff Act also charges the Commission with investigating acts "the effect or tendency of which is to destroy or substantially injure an industry . . . in the United States."[143]

Recent revisions to the statutes governing the ITC have maintained the Commission's original purpose. In the 1974 Trade Act, Congress expanded the ITC's powers to guard against unfair imports.[144] Once again, commentators pointed out the protectionist slant of the ITC statutes.[145] In 1986, the

136. 62 CONG. REC. 12,522 (1922) (statement of Rep. Lazaro).

137. *Id.*

138. Kumar, *supra* note 1, at 540; *see also* 62 CONG. REC. 12,712–13 (1922) (statement of Rep. Longworth) (stating that he is in support of protecting not only the industries in his district but industries nationwide).

139. *See* 62 CONG. REC. 12,522 (1922) (statement of Rep. Lazaro) (explaining that the Tariff Commission should be nonpartisan and committed to "reasonable protection").

140. *See* DOBSON, *supra* note 49, at 33.

141. Tariff Act of 1922, H.R. 7456, 67th Cong. (1922) (as passed by Senate, Sept. 20, 1922).

142. *See* Czebiniak, *supra* note 52, at 98–99 n.39 (presenting a list of the purposes of the acts which have created or amended the ITC statutes).

143. H.R. 7456, § 316(a).

144. *See* Kumar, *supra* note 1, at 544 (explaining that to protect domestic industry from unfair practices, Congress made the ITC more independent and gave it new powers).

145. *See, e.g.*, DOBSON, *supra* note 49, at 129 (citing press comments criticizing the 1974 Trade Act and the ITC for protectionism); John M. Dobson, *Six Decades of Stalemate: The Changing Mandate of the U.S. Tariff Commission*, 14 MIDWEST REV. PUB. ADMIN. 269, 276 (1980) [hereinafter *Six Decades*] ("[A] number of individuals both inside and outside the commission consider [the Trade Act of 1974] a protectionist law.").

ITC itself noted in a report that Section 337 "was originally intended as a trade statute to protect U S [sic] workers and firms from all types of unfair foreign trade practices."[146] Even the 1988 broadening of the definition of domestic industry, which has arguably allowed more foreign claimants at the ITC, was done with the intent "to protect domestic IP holders from infringement by foreign companies."[147]

This legislative history leads to the conclusion that Section 337, which governs the ITC and which domestic companies use to litigate SEP cases, is a trade statute to protect American industry, not enforce intellectual property rights.[148] This is an interpretation supported by international observers and federal courts. For instance, when the United States became a party to the Uruguay Round Agreements, which require countries to treat imports no less favorably than domestic products, foreigners complained that the ITC violated this requirement.[149] The Federal Circuit has said that federal courts have exclusive jurisdiction over patent cases while ITC authority is limited to investigating "unfair practices in import trade."[150] If the ITC was created to protect domestic industry, as the legislative history indicates, it is not the appropriate forum for settling domestic SEP disputes. As stated in the Tariff Act of 1922, the ITC was established to prevent acts which could "destroy or substantially injure an industry . . .in the United States."[151] This purpose cannot be carried out when one domestic company seeks an exclusion order against another American company for infringing an SEP. It seems highly unlikely that Apple, by infringing a Motorola patent needed for the iPhone to receive data by wireless transmission, is seeking to "destroy or substantially injure" the industry in which it generates $22 billion per quarter, more than all of Microsoft's

146. U.S. GEN. ACCOUNTING OFFICE, GAO-NSIAD-86-150, INTERNATIONAL TRADE: STRENGTHENING TRADE LAW PROTECTION OF INTELLECTUAL PROPERTY RIGHTS 22 (1986), *available at* http://archive.gao.gov/d4t4/130844.pdf.

147. Kumar, *supra* note 1, at 532.

148. *See* Mastriani & Jackson, *supra* note 11, at 53.

149. *See* Report of the Panel, *United States—Section 337 of the Tariff Act of 1930*, L/6439 (Nov. 7, 1989), GATT B.I.S.D. 36S/345 at 14 (1990); Report of the Panel, *United States—Imports of Certain Automotive Spring Assemblies*, L/5333 (May 26, 1983), GATT B.I.S.D. 30S/107 at 4 (1984).

150. *See* Kumar, *supra* note 1, at 559.

151. Tariff Act of 1922, H.R. 7456, 67th Cong. § 316(a) (1922) (as passed by Senate, Sept. 20, 1922).

revenue streams combined.[152] Given these absurdities, the ITC should not be deciding domestic SEP disputes.

2. ITC Decisions in Domestic SEP Disputes Are Inconsistent with Policy Goals Expressed in the ITC Statutes

The ITC's protectionist history is reflected in the policy goals expressed through the drafting of the statute. In many cases, the ITC's role in deciding SEP disputes between two domestic companies is contrary to policy goals. "[T]he ITC exists to protect US industry from unfair trade practices . . . ."[153] Consistent with this principle, the ITC's statutory language makes clear that access to the ITC for patent cases is "only justified in cases where infringing imports may harm a domestic industry."[154] The ITC, by statute, only commences an investigation if "an industry in the United States, relating to the articles protected by the patent . . . exists or is in the process of being established."[155] This requirement would not be included in the statute if the ITC's purpose is something other than protecting domestic industry. The statute also requires the ITC to consider the "competitive conditions in the United States economy" before issuing an exclusion order.[156] Again, this requirement indicates the goal of ITC action is the advancement of the U.S. economy.

Another policy decision reflected in the ITC statutes is a much more relaxed standard for issuing exclusion orders than the standard courts use for issuing injunctions, based on the rationale that this strong patent rights enforcement spurs innovation.[157] However, in cases where domestic companies are litigating over an SEP, this relaxed standard can actually hinder innovation by making it more difficult or even impossible for companies to incorporate into their products standardized technologies that are necessary to compete in the marketplace. Because of the ease of obtaining exclusion orders, the SEP's owner can demand outrageous licensing fees knowing

152. *See* Tim Worstall, *Apple's iPhone Is Now Worth More Than All of Microsoft*, FORBES, Aug. 19, 2012, http://www.forbes.com/sites/timworstall/2012/08/19/apples-iphone-is-now-worth-more-than-all-of-microsoft/.

153. Barker & Brown, *supra* note 103, at 39.

154. Chien, *supra* note 91, at 177.

155. 19 U.S.C. § 1337(a)(2) (2012).

156. *Id*. § 1337(d)(1).

157. *See* Kumar, *supra* note 1, at 566 (stating that the ITC standard for issuing injunctive relief is more relaxed than in *eBay* on the assumption that strong enforcement through injunctive relief encourages innovation).

that the competitor is faced with three undesirable options: (1) pay the licensing fee and make little profit or even lose money selling the product, (2) refuse to obtain a license and have the product seized at the border by Customs Officials pursuant to an ITC exclusion order, or (3) never bring the product to the marketplace. Most companies faced with these choices will simply choose not to bring the product to the marketplace. As a result, the ITC's relaxed standard actually hinders innovation in these cases.

Another frequent justification for ITC exclusion orders is that "the public interest favors the protection of U.S. intellectual property rights by excluding infringing imports."[158] However, this justification does not exist for domestic SEP cases. In fact, the Supreme Court has said "[i]mport restrictions . . . rest on different considerations and different rules of constitutional law from domestic regulations."[159] Along those same lines, the Court has argued:

> A restriction which would give to the plaintiff such a potential power for evil over an industry which must be recognized as an important element in the amusement life of the nation . . . if sustained would be gravely injurious to that public interest, which we have seen is more a favorite of the law than is the promotion of private fortunes.[160]

Taken together, these statements from the Court indicate there are different factors that must be considered in the domestic realm than in the international realm. Infringement of U.S. intellectual property by foreign companies harms the public interest by stealing revenue from U.S. companies. In domestic SEP disputes, any revenue generated from selling infringing product remains in the U.S. economy. The dispute is over whose "private fortune" will benefit and whose will suffer. According to the Supreme Court, our law in general favors consumers' "amusement" over how to divide profit between two U.S. companies.[161]

Thus, it is more important that consumers have access to iPads and Xboxes than to have them stopped at the border

158. *Id.* at 571 (quoting In re Laser Bar Code Scanners & Scan Engines, Components Thereof & Prods. Containing Same, Intl. Trade Comm'n Inv. No. 337-TA-551, 2007 ITC LEXIS 623, at *34–35 (June 14, 2007) (citing Two-Handle Centerset Fausets & Escutcheons, & Components Thereof, Inv. No. 337-TA-422, USITC Pub. 3332 (June 19, 2000))).

159. United States v. 12 200-Ft. Reels of Super 8mm. Film, 413 U.S. 123, 125 (1973).

160. Motion Picture Patents Co. v. Universal Film Mfg. Co., 243 U.S. 502, 519 (1917).

161. *See id.*

because two U.S. companies cannot agree on a reasonable licensing rate for a standardized technology. However, the ITC statutes, which are tailored for infringement by foreign companies as explained above, are not designed to allow the ITC to engage in this pattern of analysis.

Finally, since one of the factors the ITC must consider when issuing an exclusion order is the existence of U.S. jobs in the industry, one of the ITC's main purposes is to protect American jobs.[162] However, in domestic SEP disputes, this purpose is difficult to carry out. From a manufacturing perspective, most consumer electronics, even those produced by U.S. companies, are manufactured outside the United States.[163] Therefore, the exclusion order is not keeping Americans employed in the manufacture of the goods. In fact, an exclusion order has the potential to destroy American jobs. If an American company cannot manufacture a product due to an exclusion order or the threat of an exclusion order, the support jobs here in the United States, such as product design and marketing, will likely disappear. Once again, in this setting, the ITC is actually acting against the goals and principles established in its statutory scheme.

3. The ITC's Public Welfare Exception

The ITC arguably does have within its statutes a provision that would allow it some flexibility in issuing exclusion orders in domestic SEP cases. Section 337 requires the ITC to consider the "public health and welfare" and the "competitive conditions in the United States economy" before issuing an exclusion order.[164] This provision could allow the ITC to conduct the analysis advocated in the previous sections when deciding SEP cases.[165] In fact, the Department of Justice and the FTC have urged the ITC to apply the public welfare exception in domestic SEP disputes.[166] However, the ITC has rarely exercised this

162. *See* 19 U.S.C. § 1337(a)(3)(B) (2012).

163. *See* Cotropia, *supra* note 87, at 5.

164. 19 U.S.C. § 1337(d)(1).

165. *See supra* Part II.B.1–2 (arguing that special considerations must be taken into account when two domestic companies are litigating over an SEP).

166. *See Exclusion Orders*, *supra* note 3, at 102 (prepared statement of Joseph F. Wayland, Acting Assistant Att'y Gen., U.S. Dep't of Justice) ("As the ITC has observed, these public interest factors are not meant to be given mere lip service, but rather public health and welfare and the assurance of competitive conditions in the United States economy must be the *overriding considerations* in the administration of this statute.") (internal citations omitted); *id.* at 91 (prepared statement of Edith Ramirez, Comm'r, Fed. Trade

exception, with ALJs using it only four times in recent decades.[167] None of these instances involved SEPs or related issues.[168] Considering the ITC declines to use what statutory authority it does have to handle domestic SEP cases more appropriately, even in the midst of appeals from fellow government agencies, the ITC is simply not the appropriate forum for handling cases where domestic companies are litigating over an SEP.

C. FEDERAL COURTS HAVE THE APPROPRIATE TOOLS TO DECIDE THESE CASES

As explained above, the ITC's statutes and legislative intent make it ill-equipped to resolve domestic SEP disputes in a manner consistent with public policy. In contrast, the federal court system is well-tailored to handle these cases for several reasons. First, federal courts are not limited to exclusion orders or injunctions—the federal court counterpart. Scholars argue that "[t]he [I]TC's overuse of injunctive relief has led to decisions that harm domestic companies and threaten innovation."[169] Banning products often discourages innovation and makes it unprofitable to produce products.[170] For these reasons, it is advantageous to have these cases settled in a venue that has other remedies available.

Second, if there is a domestic SEP case where a ban of an infringing product truly serves the public interest, federal

Comm'n) ("The FTC believes that the ITC has the authority under its public interest obligations to resolve all of these questions, and to deny an exclusion order if the holder of the RAND-encumbered SEP has not complied with its RAND obligation.").

167. Herrington & Rogers, *supra* note 111, at 12.

168. The circumstances in which the ITC denied or limited an exclusion order on public interest grounds were: (1) preventing the exclusion of an "automobile engine component that improved fuel economy" during an energy crisis, (2) protecting the public health interest by permitting the use of foreign products for atomic research that were superior to the domestic alternative, (3) not banning "specialized hospital beds for burn patients when the domestic producer could not supply alternative beds within a reasonable time," and (4) not banning certain infringing semiconductor chips for wireless communication devices needed by first responders in emergencies. *See Exclusion Orders*, *supra* note 3, at 87 n.28 (prepared statement of Edith Ramirez, Comm'r, Fed. Trade Comm'n); Herrington & Rogers, *supra* note 111, at 12.

169. Kumar, *supra* note 1, at 533.

170. *See id*. at 571–72.

courts have the ability to issue an injunction.[171] Both district court injunctions and limited exclusion orders can prevent the infringing product that is the subject of litigation from entering the market.[172] Thus, except in the rare case where a general exclusion order is appropriate, federal courts are able to offer an SEP owner effectively the same remedy as the ITC if it is warranted. The key difference between the ITC and the federal courts is that the ITC *must* issue an exclusion order if a patent is infringed while courts must exercise discretion when issuing an injunction.[173] This is because the ITC does not have to follow the precedent established by the Supreme Court in *eBay, Inc. v. MercExchange, LLC*, which requires plaintiffs seeking a permanent injunction in patent cases to satisfy a four-factor test before a court will issue an injunction.[174] In contrast, the ITC statute requires issuing an exclusion order *anytime* there is infringement.[175] The ITC says it is not required to follow *eBay* because Section 337 "represents a legislative modification of the traditional test in equity [encapsulated in the *eBay* test] . . . [and] it is unnecessary to show irreparable harm to the patentee in the case of infringement by importation."[176] Domestic SEP cases at the ITC are not substantively different from an SEP patent case brought in federal court, so it is irrational to apply the four-part *eBay* test in federal court and not at the ITC.

In addition to discretion in granting injunctions, federal courts offer an opportunity to consider a wider array of remedies and defenses than the ITC. In terms of remedies, federal courts can award monetary damages in addition to or in

171. *See* 35 U.S.C. § 283 (2012) (stating that federal courts may grant injunctions consistent with the principles of equity to prevent a violation of patent rights).

172. *See* Richard G. Allison, Note, *Section 337 Proceedings Before the International Trade Commission: Antiquated Legislative Compromise or Model Forum for Patent Dispute Resolution?*, 5 N.Y.U. J.L. & BUS. 873, 883 (2009).

173. *See* Chien, *supra* note 91, at 172 (showing that according to statute, the ITC "shall" issue an exclusion order if there is a violation while district courts "may" grant injunctions to prevent patent violations).

174. *See* eBay, Inc. v. MercExchange, LLC, 547 U.S. 388, 391 (2006); FED. TRADE COMM'N, THE EVOLVING IP MARKETPLACE: ALIGNING PATENT NOTICE AND REMEDIES WITH COMPETITION 239 (2011).

175. *See* Chien, *supra* note 91, at 172.

176. FED. TRADE COMM'N *supra* note 174, at 240 (quoting Certain Baseband Processor Chips & Chipsets, No. 337-TA-543, slip op. at 62–63 n.230 (Int'l Trade Comm'n, June 19, 2007) (second alteration in original)).

place of an injunction.[177] As explained by Judge Posner, oftentimes in domestic SEP cases, monetary damages are the more appropriate remedy.[178] Patent misuse is also available as an equitable defense in federal court permitting a defendant to allege the owner of a RAND-encumbered patent is misusing it if the owner fails to license on RAND terms.[179] If the court agrees the SEP is being misused, the court can suspend the patentee's ability to enforce its patent.[180] This defense is not available at the ITC as the Commission has explicitly rejected the patent misuse defense along with other affirmative defenses of license, estoppel, and contract.[181] Because of the many complicated public policy issues at stake in domestic SEP disputes, the additional remedies and defenses available in federal court are critical to resolving the matter in a fashion that maximizes the benefit to the U.S. economy and consumers.

D. PREVIOUSLY PROPOSED SOLUTIONS ARE NOT APPROPRIATE REMEDIES

With the shortcomings of the ITC's ability to handle domestic SEP cases evident, several solutions have been proposed. Some argue that the ITC needs to focus on the third and fourth factors in *eBay*, balancing the hardships between the two companies and determining whether the public interest would be served by preventing the infringing product from reaching the marketplace.[182] However, the ITC has consistently refused to apply *eBay*, and as a result, it does not have the extensive experience that federal courts do in conducting the careful balancing called for by the *eBay* test. In addition, given the ITC's purpose, the *eBay* balancing is arguably not appropriate for ITC investigations involving international infringers for which the ITC's strict enforcement mechanisms are well-tailored.[183] Others have advocated for amending Section 337 to redefine "domestic industry" as excluding non-

177. *See Exclusion Orders*, *supra* note 3, at 78 n.1 (prepared statement of Edith Ramirez, Comm'r, Fed. Trade Comm'n).

178. *See* Apple, Inc. v. Motorola, Inc., 869 F. Supp. 2d 901, 914–15 (N.D. Ill. 2012) (discussing the application of injunctive relief and noting that neither party was entitled to it in this SEP case).

179. *See* Lim, *supra* note 8, at 559–60.

180. *Id.* at 582.

181. *See* Certain Wireless Commc'ns Equip., Articles Therein, & Prods. Containing the Same, Inv. No. 337-TA-577, 2006 WL 2925369, at *1 (Int'l Trade Comm'n Oct. 3, 2006).

182. *See* Kumar, *supra* note 1, at 577.

183. *See infra* Part III.

manufacturing patentees to prevent ITC suits by foreign companies that purchase patents but do not manufacture or sell the product.[184] However, this solution does not go far enough to remedy the situation for the benefit of American consumers and industry because not all domestic SEP cases would be covered under the proposed revisions. Still others have said the ITC should more frequently use the public interest analysis already outlined in Section 337.[185] But this solution gives too much discretion to the ITC. Exclusion orders and the threat of exclusion orders are being used in ways that Congress did not intend when creating the ITC or revising its responsibilities, yet the ITC has consistently refused to exercise the public interest analysis to prevent outcomes that could significantly hinder competition and industries in America. Similarly, Chien and Lemley have recently proposed a number of ways the ITC can exercise the discretion found in its statutory scheme to prevent undesirable outcomes, such as delays in implementing exclusion orders, changes in how long companies may import excluded products if they post a bond, and better shaping of remedies for infringement.[186] For SEP cases where exclusion orders are inappropriate,[187] there is no need or reason to rely on the hope that the ITC will simply better exercise its discretion. Congressional action is needed to change the situation rather than hoping the ITC will reverse decades of precedent on its own. Finally, some proposals have looked to changes in the standard setting process to prevent patent holdups in the first place.[188] This approach could be unwieldy, though, as SSOs are largely self-governing. Getting the countless SSOs across industries and across the globe to act in concert would be near impossible.[189] The result would be a patchwork of standard setting processes that would never

184. *See* Allison, *supra* note 172, at 882.

185. *See Exclusion Orders*, *supra* note 3, at 102 (prepared statement of Joseph F. Wayland, Acting Assistant Att'y Gen., U.S. Dep't of Justice) (arguing that the public interest factors contained in Section 337 should be given special attention).

186. *See* Chien & Lemley, *supra* note 135, at 33–43.

187. Indeed, Chien and Lemley argue that exclusion orders are generally not appropriate in SEP cases. *Id.* at 41.

188. *See* Lim, *supra* note 8, at 566–67 (reporting methods that have been considered, including "rules generated and enforced by SSO members," equitable estoppel, and implied waiver).

189. *Cf. id.* at 568–70 (discussing the complexity of standard setting and noting the diversity of actors involved).

completely eliminate the issue. Therefore, a new solution properly tailored to the problem at hand is required.

III. CONGRESS SHOULD PROHIBIT DOMESTIC SEP CASES FROM REACHING THE ITC

"Section 337 provides little detail regarding when exclusion orders should be denied and no guidance regarding when exclusion orders should be narrowed."[190] It is time for Congress to start giving the ITC some guidance. Because the ITC "is a creature of statute and is limited in its discretion to decide upon and issue relief,"[191] Congressional action is necessary to prohibit the ITC from hearing standard-essential patent disputes between domestic companies.

The simple fact is the ITC is too constrained to handle SEP disputes between domestic companies. Patents exist to promote innovation.[192] In fact, introductions of new products and processes—the kind that are protected by patents—are responsible for 75 percent of the U.S. economy's growth since World War II.[193] The Supreme Court has also "consistently held that the primary purpose of our patent laws is not the creation of private fortunes for the owners of patents but is to promote the progress of science and useful arts."[194] In addition, strong arguments can be made that the patent system is designed to promote consumer welfare.[195] Together, these varying public interests require a careful balancing act between protecting innovation and creating a barrier to it.[196] Nowhere is the balancing more difficult than domestic SEP cases where domestic companies are litigating over a patent for a standardized technology that is supposed to be licensed on RAND terms. These cases simply have too many moving pieces for the ITC's all-or-nothing approach. They need the careful

190. Kumar, *supra* note 1, at 573.

191. Bartkowski & Langdon, *supra* note 2, at 9.

192. Marshall Leaffer, *Patent Misuse and Innovation*, 10 J. HIGH TECH. L. 142, 142 (2010).

193. *See Exclusion Orders*, *supra* note 3, at 94 (prepared statement of Joseph F. Wayland, Acting Assistant Att'y Gen., U.S. Dep't of Justice).

194. Motion Picture Patents Co. v. Universal Film Mfg. Co., 243 U.S. 502, 511 (1917) (internal quotation marks omitted).

195. *See Exclusion Orders*, *supra* note 3, at 79 (prepared statement of Edith Ramirez, Comm'r, Fed. Trade Comm'n) (suggesting that patent protection promotes consumer welfare by stimulating the creation of new, better, lower-cost products and processes).

196. *See id.*

balancing which Section 337 does not enable the ITC to consider.

In contrast, the federal courts have the tools to address these domestic SEP cases. Requiring domestic SEP cases to be litigated in the federal courts would not dramatically increase the courts' workload since almost 90 percent of ITC investigations have district court counterparts.[197] Many cases litigated in both venues result in conflicting rulings,[198] likely because the federal courts are able to take into account additional factors the ITC is statutorily barred from considering. "[B]y allowing parallel proceedings and indeed almost encouraging them, Congress has created the real possibility of inconsistent results between the [ITC] and district court proceedings."[199] The simple solution is for Congress to pass legislation amending Section 337 to bar ITC jurisdiction over domestic SEP cases.

Congress should remove the ITC's jurisdiction to hear domestic SEP cases for another reason—exclusion orders are not an appropriate remedy in these cases. As Judge Posner has indicated, injunctions are not usually appropriate in domestic SEP cases,[200] and if an injunction is not appropriate, an exclusion order is not an appropriate remedy either. But, the ITC's hands are tied. If the Commission finds the SEP has been infringed, it must issue an exclusion order. The ITC has also said that it is not necessary to show irreparable harm under Section 337.[201] This is certainly the standard that *should* be required if the ITC is going to permit one domestic company to prevent another domestic company from importing its products into the United States. The risk of harm to consumers, industry, and the U.S. economy is too great for any other standard to be used. As a result, the ITC is simply not fit to resolve these cases, and Congress should amend Section 337 to remove ITC jurisdiction. Some may argue limiting access to exclusion orders could lessen the incentive for companies to innovate by removing one of their tools for protecting their intellectual property. In this sense, the approach advocated here would actually be worse for American industry and the

197. Cotropia, *supra* note 87, at 24.

198. *See* Kumar, *supra* note 1, at 539.

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

200. *See* Apple, Inc. v. Motorola, Inc., 869 F. Supp. 2d 901, 914–18 (N.D. Ill. 2012) (discussing why injunctive relief is inappropriate in such a dispute).

201. *See* FED. TRADE COMM'N, *supra* note 174, at 240.

U.S. economy, but there is still a perfectly suitable remedy for domestic companies to protect their SEPs—federal court. While companies prefer the ITC because of its speedier resolutions[202] and the prospect of a total product ban, among other reasons, it is exactly those reasons that make ITC litigation such a danger to the U.S. economy in domestic SEP cases. In fact, ITC litigation in domestic SEP cases actually does more to hinder innovation than encourage it because of the threat it poses to the standards-setting system. In this sense, the approach advocated in this Note maximizes the benefits for the U.S. economy and American industry by removing a looming threat to innovation while leaving in place a more appropriate means of resolving these disputes—federal court—so as not to remove all intellectual property protection which would indeed discourage innovation.

Unlike other solutions, this approach is narrowly tailored to remove ITC jurisdiction over domestic SEP cases while allowing the ITC to keep jurisdiction of international SEP cases. While it can be argued that exclusion orders are not appropriate in any SEP case, there should be more lenience when a foreign company is involved because of the difficulty of getting the infringing foreign company into federal court. Since the U.S. patent system's principal purpose is to encourage innovation,[203] procedures need to be in place to prevent legitimately harmful patent infringement to preserve that incentive to innovate. Though monetary damages or a compulsory license may be the more appropriate remedy even in an international SEP case, the claimant may not be able to get effective relief in district court if the infringer is a foreign company. For instance, in *Pfizer, Inc. v. Aceto Corp.*, the court said U.S. patent laws do not apply to a foreign manufacturer that "does not itself [or through a legally related entity] import the allegedly infringing product into the United States."[204] However, the ITC would be able to issue an exclusion order that could stop these products at the border. The ITC's authority to resolve SEP disputes should be maintained for situations like this. Domestic SEP cases do not involve these jurisdictional concerns though, so given overwhelming public interest against exclusion orders in these cases, the ITC should not be able to decide them.

202. *See supra* note 12 and accompanying text.
203. Leaffer, *supra* note 192, at 142.
204. *See* Pfizer, Inc. v. Aceto Corp., 853 F. Supp. 104, 105 (S.D.N.Y. 1994).

Admittedly, one challenge of this approach is properly defining "domestic company." Establishing domicile, citizenship, residence, and habitat of foreign corporations varies depending on the purpose and type of law, making an exact definition difficult to discern.[205] Given the complexities, a firm definition is not established in this Note. Any definition should match the policy goals established for the ITC. Specifically, it should be tailored to protect American companies and the U.S. economy from being victimized by illegal trade practices by foreign companies. The simple answer appears to be limiting the definition to companies that are legally organized in the United States.[206] However, this could be easily circumvented by foreign companies establishing wholly owned subsidiaries in America. Therefore, it would seem that the definition of domestic company should exclude companies organized in the United States that are wholly owned subsidiaries of companies organized outside the United States. The problem with this definition is that some wholly owned subsidiaries, such as Samsung Electronics America and Samsung Semiconductor, Inc., are essentially full-fledged companies in and of themselves.[207] Rather than simply a legal means of funneling profits back to Samsung Electronics Co. Ltd. in South Korea, these subsidiaries employ many Americans and engage in significant research and development here in the United States.[208] The existence of these types of wholly owned subsidiaries that contribute substantially to the U.S. economy seems to argue for the inclusion of some wholly owned subsidiaries of foreign companies, but careful line drawing would be needed to determine whether the subsidiary's contribution to the U.S. economy and industry is significant enough to match the ITC's policy aims of protecting the domestic economy and industry and thus earn exemption from

205. *See* 17 WILLIAM MEADE FLETCHER, FLETCHER CYCLOPEDIA OF THE LAW OF CORPORATIONS § 8300 (2006) (explaining the various aspects with respect to domicile, citizenship, residence, and habitat of foreign corporations).

206. *See* 8 WILLIAM MEADE FLETCHER, FLETCHER CYCLOPEDIA OF THE LAW OF CORPORATIONS § 4025, at 453 (2010) ("[T]he legal existence, the home, the domicile, the habitat, the residence, and the citizenship of the corporation is generally deemed to be in the state by which it was created.").

207. *About Samsung*, SAMSUNG, http://www.samsung.com/us/aboutsamsung/samsung_electronics/us_divisions/ (last visited Oct. 31, 2013).

208. *Cf. id.* (describing the wide variety of activities taking place in Samsung's wholly owned subsidiaries that have their headquarters in the United States).

being subject to ITC jurisdiction in SEP disputes.[209] For all these reasons, the most appropriate definition of "domestic company" seems primed for further discussion in the future.

The approach advocated in this Note of removing domestic SEP cases from ITC jurisdiction while still permitting international SEP cases is consistent with the ITC's statutory purpose and legislative history—to protect domestic companies from illegal trade practices, especially if the ITC is the only means of doing so. The ITC has adjusted to major and minor statutory changes in the past.[210] Therefore, Congress amending Section 337 to prohibit ITC jurisdiction over domestic SEP cases would be just the latest in a string of necessary statutory revisions to keep the Commission consistent with its intended mission.

CONCLUSION

As domestic companies increasingly turn to the ITC to settle disputes with fellow American companies over standard-essential patent licensing, the likelihood increases that popular consumer electronics will be stopped at the border simply because they incorporate a technology necessary to comply with industry standards. Given the fact that the ITC must issue an exclusion order in these cases if it finds infringement, the ITC is unable to resolve these domestic SEP cases in a manner that is consistent with its protectionist legislative history and its statutory purpose to protect domestic industry. Solutions currently proposed are not appropriate because they are either too broad or are not guaranteed to remedy the issue in a manner that maximizes the benefit of American consumers and industry. However, if Congress amends Section 337 to prohibit ITC jurisdiction over domestic SEP disputes, these cases will be forced into the federal court system which has the tools to decide these cases appropriately and is familiar with handling cases where balancing the interests of the parties and the public good is required. At the same time, the ITC should remain a venue for international SEP cases because its unique procedures are well-tailored to offer domestic patent holders relief in these cases. This narrow tailoring will ensure the ITC

209. This question is especially important in light of a recent high-profile case in which the Obama administration overturned an ITC exclusion order banning certain models of the iPhone, which was in Samsung's favor. *See* Chen, *supra* note 79.

210. *See Six Decades*, *supra* note 145, at 269.

continues to prevent foreign companies from unfairly infringing on U.S. patents while protecting American consumers and industry—the primary purpose of the ITC.