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ITC's Broad Definition Of 'Domestic Industry'

Law360, New York (May 31, 2011) -- To prove a violation of 19 U.S.C. § 1337 (Section 337) in a patent-based action and to obtain an order excluding infringing goods from importation, a complainant must demonstrate that a domestic industry exists or is in the process of being established. 19 U.S.C. § 1337(a)(2) and (a)(3).

The domestic industry requirement has an economic prong and a technical prong, which respectively require "a threshold level of domestic activities or investments with respect to protected articles" and "that these [domestic] activities relate to the intellectual property at issue."[1]

The International Trade Commission's recent opinion in Video Game Systems and Controllers is notable because it continues the trend of enabling patentees to rely on a broad category of activities to satisfy the economic prong of the domestic industry requirement.[2] Specifically, in Video Game Systems and Controllers, the commission squarely held that, as a matter of law, the language of 19 U.S.C. § 1337(a)(2) and (a)(3)(C) is "broad enough to cover 'investments' made before issuance of the patent," and may even include certain patent prosecution activities.[3]

Video Game Systems and Controllers: The Decision Below

Before the administrative law judge, respondent Nintendo sought summary determination that complainant Motiva was unable to satisfy the economic prong of the domestic industry requirement. In its motion, Nintendo argued that Motiva "could not carry its burden to establish a domestic industry under Section 337(a)(3)(C) because the activities of Motiva and its principals occurred four years before the complaint was filed, and nearly all of the activities occurred before the patents issued."[4]

Thus, the "only issue addressed by the [ALJ's decision on summary determination] is whether, based on these activities, Motiva can, as a matter of law, satisfy the domestic industry requirement under Section 337(a)(3)(C)."[5]

The ALJ granted Nintendo's motion, finding that, among other things, "Motiva's engineering and research and development activities shall not be considered in the domestic industry analysis, because they ended prior to the issuance of either of the patents-in-suit, and therefore, cannot be an investment in the asserted patents' exploitation."[6]

The ALJ granted Nintendo's motion also because he "declined to consider Motiva's efforts to attract investments, manufacturers or licensees."[7] The ALJ also "declined to consider Motiva's patent prosecution activities, including the inventors' time and associated legal costs, expenses and fees."[8]

The Commission's Opinion

The ITC granted review of the ALJ's decision and, on review, vacated and remanded. Specifically, the commission relied on the language of the statute and the legislative history in holding that it may consider "engineering and research and development investments that precede the issuance of the patent in determining whether a domestic industry exists or is in the process of being established."[9]

The commission found that it was error to decline to consider "activities that occurred before the issuance of the asserted patents" because the relevant statutory language is "broad enough to cover 'investments' made before issuance of the patent."[10]

Pointing generally to "nascent industries" as an example, the commission observed that Section 337(a)(2) permits such industries to make a showing that a domestic industry is "in the process of being established."[11] According to the legislative history, a patent owner can show that a domestic industry is in the process of being established by demonstrating that it "is taking the necessary tangible steps to establish such an industry in the U.S." and that there is a "significant likelihood that the industry requirement will be satisfied in the future."[12]

Besides allowing patent holders to show that a domestic industry is "in the process of being established," however, Section 337(a)(2) also allows patent holders to show that a domestic industry already "exists."

In this regard, the ITC concluded that "in determining whether a domestic industry exists or is in the process of being established, it may be appropriate to credit engineering and research and development investments that predate the issuance of a patent" where the complainant presents evidence of investments in, for example, "production of prototypes, technical collaboration with potential manufacturers and other efforts to engage potential investors, manufacturers or licensees, so long as these investments relate to the invention claimed in the later-granted patent(s)."[13]

Also, the commission appeared to open the door to crediting certain qualified patent prosecution activities in consideration of whether the economic prong is satisfied. While noting the well-established principle that mere ownership of a patent is insufficient to satisfy the statutory domestic industry requirement, the commission announced that "depending on the facts and evidence, a complainant may not be able to show that patent prosecution activities are related to its engineering, research and development, or licensing 'exploitation' activities for the asserted patents within the meaning of Section 337(a)(3)(C)."[14]

This statement suggests that some complainants may in fact be able to make such a showing based on their qualified patent prosecution activities and thereby may satisfy the statutory domestic industry

requirement based on those activities.[15]

Conclusion

The ITC held in Video Game Systems and Controllers that activities and investments made before issuance of the patent, including certain patent prosecution activities, may be credited towards satisfaction of the domestic industry requirement.

This holding is the latest decision in which the commission has concluded that Congress's enactment of a broad domestic industry requirement allows for substantial investments in a concomitantly broad category of activities upon which patent holders may rely to satisfy that requirement. The commission's decision even further enhances the attractiveness of the ITC as an alternative to federal district court for patent holders to obtain relief.

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[1] Certain Video Game Systems and Controllers ("Video Game Systems and Controllers"), Inv. No. 337-TA-743, Commission Opinion, Slip Op. at 6 (Apr. 14, 2011).

[2] See, e.g., Certain Coaxial Cable Connectors and Components Thereof and Products Containing Same, Inv. No. 337-TA-650, Commission Opinion at 43-44 (Apr. 14, 2010) (holding that certain patent infringement litigation activities that are related to licensing may qualify as "investments" under section 337(a)(3)(C)).

[3] Video Game Systems and Controllers, Slip Op. at 6 (emphasis added); see also id. at 8.

[4] Id., Slip Op. at 2.

[5] Id., Slip Op. at 3.

[6] Id., Slip Op. at 3.

[7] Id., Slip Op. at 3.

[8] Id., Slip Op. at 4.

[9] Id., Slip Op. at 7.

[10] Id., Slip Op. at 6.

[11] Id., Slip Op. at 6.

[12] Id., Slip Op. at 6-7 (quoting S.Rep. 100-71 (1987) at 130 and H.Rep. 100-40 (1987) at 157).

[13] Id., Slip Op. at 7.

[14] Id., Slip Op. at 8.

[15] This was acknowledged by one Commissioner, who dissented from the statement. See id., Slip Op. at 8 n.1 (“disagree[ing] with the suggestion that patent prosecution expenses could, depending on the evidence, count as investments in the exploitation of a patent”).