

COMMENTARY



ITC Opinion Leaves Domestic Industry Questions Unanswered

As a follow up to our [April 2016 Alert](#), on February 13, 2017, the International Trade Commission (“ITC” or “Commission”) issued the public version of its final opinion in *Electric Skin Care Devices, Brushes and Chargers Therefor, and Kits Containing Same*, ITC Inv. No. 337-TA-959 . The Commission determined to issue remedial orders based on a violation of Section 337. Of note, the Commission vacated, but took no position on, the Administrative Law Judge’s (“ALJ”) holding that research and development (“R&D”) related expenditures cannot be counted toward meeting the domestic industry requirement under subsections (A) or (B) of the statute. While vacating the holding was significant, the lack of guidance concerning the use of R&D expenditures under subsections (A) or (B) creates undesirable and unnecessary uncertainty in an important area concerning proving claims at the ITC.

The Domestic Industry Requirement

Section 337 requires that an industry in the United States (i.e., domestic industry) be established or be in the process of being established with respect to the articles protected by a patent. See 19 U.S.C. § 1337(a)(2). For a patent-based claim, the domestic industry requirement consists of a technical prong

and an economic prong. See, e.g., *Certain Computers and Computer Peripheral Devices, and Components Thereof, and Products Containing Same*, Inv. No. 337-TA-841, Commission Opinion at 26 (Jan. 9, 2014). The “technical prong” of the domestic industry requirement is satisfied when it is determined that the complainant practices at least one claim of each patent at issue. *Id.*

The “economic prong” is defined in Section 337(a)(3), and provides the following criteria for determining the existence of a domestic industry:

[A]n industry in the United States shall be considered to exist if there is in the United States, with respect to the articles protected by the patent ... concerned—

- (A) significant investment in plant and equipment;
- (B) significant employment of labor or capital; or
- (C) substantial investment in its exploitation, including engineering, research and development, or licensing.

19 U.S.C. § 1337(a)(3). Subsections (A), (B), and (C) of Section 337(a)(3) are provided in the disjunctive; accordingly, a complainant need only demonstrate that any one of the three criteria is met to satisfy the economic prong.

The Case

On February 18, 2016, the complainant filed a motion for summary determination on the existence of a domestic industry and violation of Section 337 with respect to various defaulting respondents. The ALJ found that a domestic industry exists and that a violation of Section 337 occurred with respect to the importation of the accused infringing products.

With respect to the domestic industry issue, the ALJ determined the complainant provided sufficient evidence of expenditures relating to facilities and personnel utilized for manufacturing under subsection (A) and (B), but held that the R&D-related expenditures should not be counted toward meeting the requirement for significant investment in plant and equipment (subsection (A)) or significant employment of labor or capital (subsection (B)). *Id.* at 24-26. The ALJ further explained that “non-manufacturing expenses would need to be backed out of the calculation of qualifying investments under subsection (A) and (B),” and that such R&D related expenses could only apply under subsection (C).

The ALJ supported her strict categorization of domestic industry expenditures using tenets of statutory construction. She explained that, because subsection (C) was enacted after subsections (A) and (B), “there would have been no need to enact subsection (C) explicitly to include [R&D expenditures] as ones giving rise to [a] domestic industry...subsection (C) cannot be superfluous; therefore, expenses for [R&D] cannot be allocated to [subsections (A) or (B)].” *Id.* at 25.

As explained in our April 2016 Alert, the ALJ’s domestic industry holding appears to contradict Commission precedent. For example, in *Certain Marine Sonar Imaging Devices, Including Downscan and Sidescan Devices, Products Containing Same, and Components Thereof* (“*Marine Sonar Imaging*”), the ITC found that a domestic industry existed under subsection (B) in light of expenditures on employees engaged specifically in research and development. *Marine Sonar Imaging*,

Inv. No. 337-TA-921, Comm’n Op. at 58-64. And while the Commission relied upon R&D expenses to satisfy subsection (B), the Commission admittedly never made an express finding or statement specifically addressing whether R&D related expenditures should count toward satisfaction of subsection (B) in *Marine Sonar Imaging*.

In the 959 Investigation Final Opinion, the Commission affirmed the portion of the ALJ’s initial determination finding that the economic prong of domestic industry is met under subsection (A) and (B) based on the complainant’s manufacturing expenses. Opinion at 8. But, the Commission vacated the ALJ’s holding that R&D expenses cannot be counted towards satisfaction of subsection (A) and (B) of the domestic industry requirement. Unfortunately, the Commission took no position on the ALJ’s reasoning with respect to the R&D expenses and did not address whether the ALJ’s R&D holding conflicts with ITC precedent.

Ramifications

By declining to clarify this issue in the 959 Investigation, the Commission has left open an evolving question concerning domestic industry and contributed to uncertainty in this area. A holding that R&D-related expenditures can only satisfy subsection (C) of the domestic industry requirement could have significant ramifications for entities seeking protection in the ITC. Satisfaction of subsection (C) is generally more difficult to prove as there is an additional nexus requirement. Whereas investments relating to a product covered by the asserted patent are sufficient to satisfy subsections (A) and (B), to meet subsection (C) the investments must also specifically relate to the technology covered by the patent. Often, manufacturing companies seeking protection in the ITC do not track expenditures by technology even though the investments are no less substantial. The additional requirement of subsection (C), without clarification from the Commission, could potentially keep entities that invest significant capital in U.S. research and development from obtaining relief in the ITC.

Lawyer Contacts

For further information, please contact your principal Firm representative or one of the lawyers listed below. General email messages may be sent using our "Contact Us" form, which can be found at www.jonesday.com/contactus/.

Blaney Harper

Washington

+1.202.879.7623

bharper@jonesday.com

David Maiorana

Cleveland

+1.216.586.7499

dmaiorana@jonesday.com

William Devitt

Chicago

+1.312.269.4240

wdevitt@jonesday.com

Richard Fieman

Washington

+1.202.879.3856

rifieman@jonesday.com

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